

Building a Successful Team

Kit Needham
Assistant Dean for Entrepreneurship Initiatives
Director, Project Olympus

Carnegie Mellon University
Swartz Center for Entrepreneurship



The background of the slide features a network diagram with numerous small, light-brown circular nodes connected by thin, curved lines of the same color. The lines create a complex web of connections across the slide. On the far left, there is a vertical strip with a dark blue, red, and green plaid pattern.

Fly solo or as a co-founder?

Do Form a Team



Do Form a Team

Too much for one person to do



- Investors prefer teams
- Need various expertise
- Helps keep momentum



Do Form a Team

- 60% of successful startups have 2-3 founders
- Raise more money
 - 30% more investment in early years
- Faster customer growth
 - 3x faster growth vs single founder ventures
- Better odds of success
 - More knowledge
- Better experience
 - Share effort, stress, ...
- Challenges of shared decision making
 - Choose wisely!



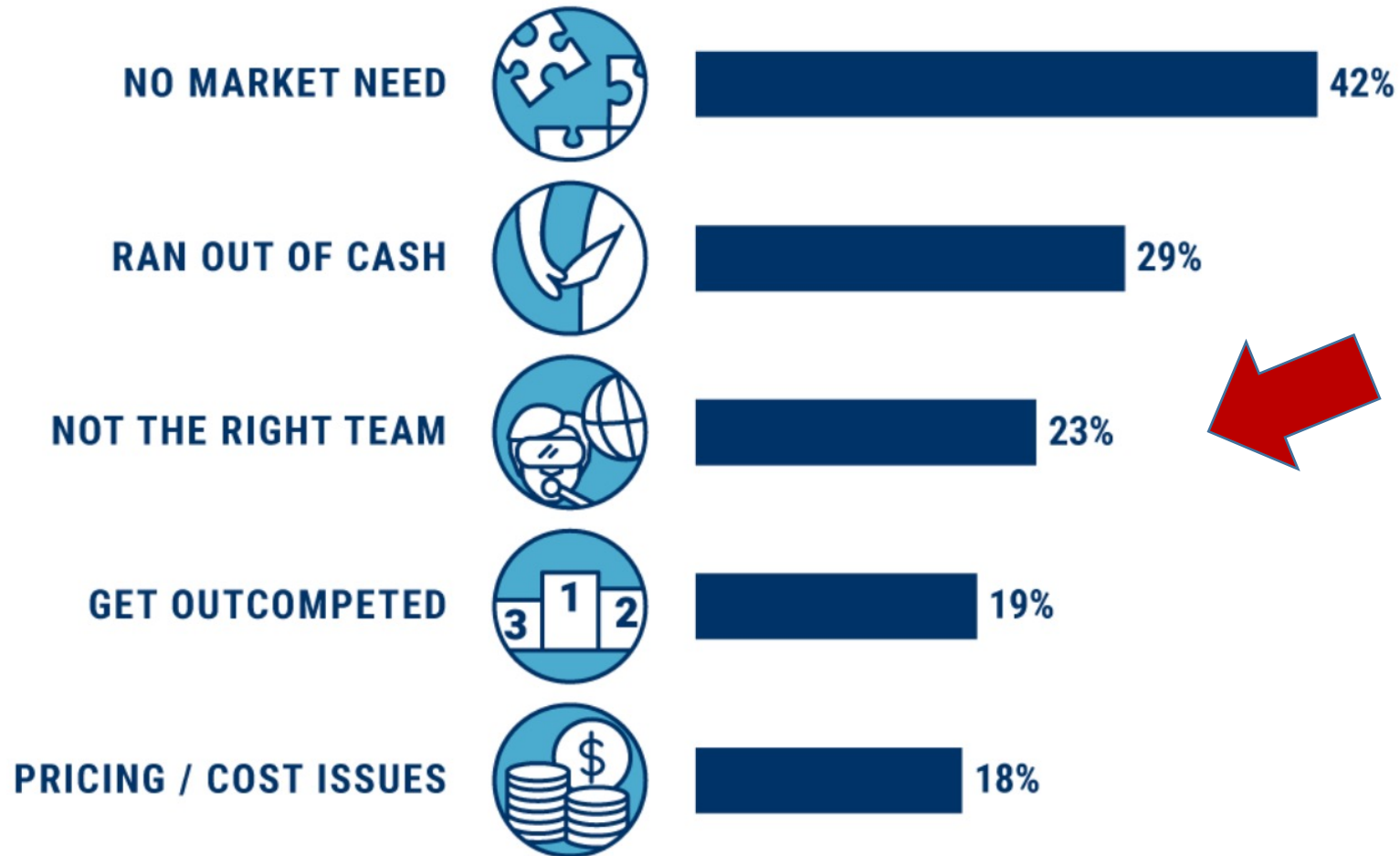
Who is part of your team?

- Co-founders
- Contractors vs Employees vs Interns
- Advisors
- Board of Directors
- Service Providers/Partners

Founder responsibilities broad and deep

- Product roadmap and development
- Business development
- Sales and marketing
- HR, company culture
- Raising and managing cash
- Lead extraordinary amount of change

Top 5 Reasons Startups Fail



<https://www.cbinsights.com/research/startup-failure-reasons-top/>

Key Criteria You should Consider

- Skills
 - Tech, business, people, etc.
- Networks
 - Distinct networks allow you to draw on wide range of expertise, introductions
- Personal
 - Values/ethics
 - Personal goals
 - How well you communicate together
- Company
 - What should the company be?
 - Product vision
 - Criteria for success

Good founders disagree agreeably

- It is OK to have some big/complex disagreements
 - In fact, it is guaranteed that this will happen
- Can you and your partner have productive disagreements?
 - Did these turn nasty/personal?
 - Did you gain respect (or, at least, appreciation) of each other?
 - Do you still hang out afterward?



Friends, partners, or both?

- Do friends make good partners?
- Can you be friends with your partners?
 - Should you be?

Suggestions

A sound Founder's Agreement early on addresses these problems.

- Specifies ownership, how to separate, vesting
 - Similar to a prenuptial agreement. Absolutely necessary.
- When would you put an agreement in place?
 - What are the problems with timing of doing this (early or late)?
- Details beyond the scope of this talk
 - Lots of good resources, use experts (attorneys) when executing
- Template/tutorial from U Penn Law School [here](#)

Absent that: Discussions in writing

Founders vs. Early Employees

- Founders “own” the business
 - Employees earn options (right to purchase, years from now)
- Founders make all the big decisions
 - Early employees observe/suggest, but don’t decide
- Early employees get larger options than later employees
 - More risk means more reward potential



Growing Beyond Founders

Employee Or Not?

Why does it matter

- Many laws apply to employees but not other types of workers
 - W2 with payroll tax withholding and reporting
 - Workman's Compensation insurance
 - ERISA/Benefits
 - Employment Discrimination
 - Labor Laws

Treatment of worker may change

Start as Contractors

Not an employee

- Hired to do specific job(s)
- Invoices you for work performed or according to deliverables/set schedule
- Still need NDA, non-compete, assignment of IP
- Issue 1099 at end of year

Benefits

- Avoids legal issues related to employees
- Avoids payroll and social security expense
- Hiring/firing is much easier

Unpaid Interns/Trainees

Six criteria must be met per DOL (WHD):

1. Activities similar to training in an educational setting (but may include operation of employer facilities)
2. Experience is for the benefit of the intern
3. Intern/Trainee does not displace regular employees, but works under close supervision of existing staff
4. Employer derives no immediate advantage from work of intern/trainee (and occasionally operations actually may be impeded)
5. Intern/Trainee not necessarily entitled to job at conclusion of internship/training
6. Understanding that position is unpaid.

Hiring mistakes are very expensive

- Takes a large amount of time to get it right
 - Mistakes take a toll on staff, \$, timeline. Be picky!
 - Get rid of bad employees quickly, learn from your mistakes
- Use your network
 - Referrals are often the best candidates
- Understand candidate's motivation
 - Get rich vs change the world



Hiring Levels and Speed

- Hiring speed is important
 - Too fast: you lay people off, get a bad reputation, run out of cash
 - Too slow: you burn people out, risk company's growth
- Company's needs will change over time
 - Ideally, hire people who can change/grow with the company

Onboarding of Employees

- **Founders:** Agreement in place (Founders Agreement, Bylaws or Operating Agreement)
- **All:** NDA and invention assignment agreements in place
- **Visas:**
 - Think carefully about time/cost/legal entanglements
 - Consult attorney and/or CMU's Office of Intl Education (OIE)
 - Founders generally not eligible for H-1Bs

***Attend Spring Starting a Business with an F-1 visa
Office Hours with Immigration Attorneys***



Advisors, Boards and Service Providers

The role of Directors and Advisors are different

- *Directors support your obligation towards proper corporate governance.*
- *Advisors provide support without any fiduciary responsibilities or liabilities*



What is an advisor/advisory board?

*An individual or group of individuals
who help management move their business
forward.*

Why do I need an advisor?

- *Functional support*
- *Emotional support*
- *Access to financial investors*
- *Access to customers*

Why do advisors do it?

- *Goodness of their heart – they believe in you*
- *Stay involved in the field or a business at your stage*
- *Cash money and/or equity*
- *Create a job for themselves*

Advisors/Mentors vs Advisory Team

- Advisors/Mentors/Coaches
 - Volunteers who give you advice on an as-needed basis
 - No fiduciary responsibility
 - Diverse background – legal, PR, domain, financial
 - Not paid – think of them as mentors/coaches/experts
- Advisory Team
 - Volunteers who give advice on a regular basis
 - Can give investors confidence
 - May get equity but generally under 1% and vests over time
 - No fiduciary responsibility

Keeping Advisors Informed and Engaged

- One-on-one meetings (time-consuming but best for sensitive or complicated issues)
- Periodic Advisory Team meetings
 - Requires more organization
 - Helps to avoid 'mentor whiplash'
- Email Updates
 - Every two-four weeks
 - Include other founders and employees
 - 3-4 bullet points
 - Can include an "ask"
- "Managing" your advisors

What is a Board of Directors?

- *A fiduciary obligation required by your Articles of Incorporation.*
- *Explicitly represent the interests of your shareholders.*
- *Have a real exposure to corporate liability.*



Why do you need a Board?

- *Legal requirement for Incorporation.*
- *Adult supervision - keep you out of the weeds as you make key decisions.*
- *Fundraising and Business Development support.*

Why do folks join your Board?

- *Contractual right to a Board seat*
 - *You as the entrepreneur*
 - *A financial investor*
- *Independent*
 - *Provides key access to interesting opportunity*
 - *Mission orientation*
 - *Get cash money and/or equity*

Board of Directors

- Boards
 - Fiduciary responsibility (e.g. legal)
 - Obligated to do what is best for the company and shareholders
 - Keep it small
- Board responsibilities
 - Hire and fire the CEO
 - Approve strategic direction
 - Assess benefits and risks of the company's activities
 - Help with raising funds
 - Help find customers

Service providers

- Accountants, attorneys, bankers etc. are NOT employees
 - Generally should not be board members
- Attorneys formally incorporate the company
 - Also provide boiler-plate docs, patent/IP work
 - Remember: they work for the company, not you
 - You will eventually need a personal attorney
- Payroll is almost always outsourced



Growing Beyond Founders

Where to Find Team Members

- Customer Discovery Interviews
- CONNECTS - (check the Bulletin)
- Other CMU events – (check the Bulletin)
- Events on campus – (check the Bulletin)
- Want ads - (check the Bulletin)
- Events off campus - Hack-a-Thons, TiE, Ascender, IW/AL/ALG coffee hours and events, etc.
- CMU classes and clubs

The background features a network graph with numerous nodes and connecting lines. On the left side, there is a vertical bar with a red, green, and blue plaid pattern.

Where to Find Team Members

- Handshake (CMU and Pitt)
- Classmates and Friends
- Entrepreneur clubs
- Startup Job Fair (Spring – paying positions only)
- Other universities
- Faculty, TAs
- Network, network, network

Common Questions

“I am talking with other students about joining my team to work on my business idea.”

“Should I get them to sign a Non-Disclosure Agreement (NDA)?

A Non-Compete?”

Suggestions

No. NDAs and non-competes are not necessary at this stage.

- **Need to learn how to describe your idea without giving away 'the secret sauce'**
- **Ability to execute on the idea is far more important than the idea itself.**



Common Questions

“I found someone who is interested in my idea and willing to help.”

***“How do I know if she is a good fit?
What do I look for?”***



Suggestions

“Date before you marry”

- **Pick a project that needs to be done**
- **Agree on the time frame and deliverables**

“How did that work out?”

Common Questions

“I met someone who may be a good fit and wants to know if becoming a co-founder is possible. ”

“What should I do/say before I decide to invite this person to join my venture?”

Suggestions

“Date before you marry” still applies

“Co-founder status may be available for the right fit. Lets work together for awhile....”

- **Pick a project that needs to be done**
- **Agree on the time frame and deliverables**

“How did that work out?”

Handling Equity

- **Equity does not have to be equally divided.**
 - **Investors like having a decision maker**
 - **OK to retain controlling interest if you are the initiator and prime driver.**
- **Important to have equity ‘earned’ over time (3-4 years) or by milestones (called ‘vesting’)**
- **“Founders Pie” CONNECTS (Workshop Archives) and Olympus’ website (Entrepreneurial Resources)**
- **Careful about giving equity to ‘one-timers’ and short termers**



Common Questions

“I want to bring other students onto the team but not all are bringing equal contributions (and I have no funding).”

“What are my choices to offer them?”

Suggestions

Choices:

- **Equity**
- **Cash: Immediate or deferred**
- **Experience**
- **Academic Credit (depends on program)**
- **References**



Common Questions

“We want to bring others on to the team, but not as founders.”

“I want some volunteers to be interns over the summer and have some candidates.”

“Do we need them to sign anything?”

Suggestions

Yes. They need to sign an agreement:

- **IP Assignment: What they produce is owned by you or the company and can be transferred**
- **Non-disclosure (can't tell other companies or competitors what you are doing)**
- **Non-compete (they can't use what they've learned to set up or work for a competing business).**

(Olympus has some templates you can use).

Suggestions

- **F-1 visa students: May be best to apply for CPT if available for your curriculum and/or apply for OPT after graduation.
See OIE!!!!**
- **Note: F-1 students generally cannot be paid.**

Come to the Spring ‘Start Smarts’:

“Starting a Business on an F-1 Student Visa”

“Hiring and Firing”



Kit Needham

kit@cmu.edu

cmu.edu/olympus





Appendix

Advisor Compensation

Advisor Performance Level	Stage		
	Idea Stage	Startup Stage	Growth Stage
Standard	_____ (0.25%)	_____ (0.20%)	_____ (0.15%)
Strategic	_____ (0.50%)	_____ (0.40%)	_____ (0.30%)
Expert	_____ (1.00%)	_____ (0.80%)	_____ (0.60%)

Both parties must initial in one box to designate the Advisor Compensation. Percentages shall be based on the number of outstanding shares of Common Stock of the Company, calculated on a fully-diluted basis of all outstanding and convertible or issuable securities as of the date the Board of Directors approves the foregoing equity compensation. The exact number of shares shall be provided in the definitive document which shall supersede this provision.

Type of Security:

_____ Option to purchase Common Stock or

_____ Restricted Common Stock

Both parties must initial in one box to designate the Type of Security.

Total Number of Shares of Common Stock:

_____ shares so long as Advisor satisfies the Performance Level of Service as checked above*

If the Company's capitalization structure is currently unknown, fill in 'TBD' above.

From the
Founders
Institute