

"Do You Still Have the Right People (in the Right Job)?"

by Joe Hadzima

(This article originally appeared in the "Starting Up" column of the Boston Business Journal.)

It's People, People, People. I can't say enough about the importance of people to an entrepreneurial venture. I have seen many more promising companies crash and burn because of people issues than because of failure of technology, lack of financing, or any of the other things that can trip up a new venture. Attracting, retaining, and motivating good people should be at the top of the entrepreneur's "to do" list. By the way, "people" in this context includes your "outside team members": Board members, investors, accountants, lawyers, etc.

Although not trivial, it is usually relatively easier to put together the initial team of good people, and past *Starting Up* columns have discussed a variety of issues there. Today I want to fast forward in the life of the venture to when things are really cooking along quite nicely. At this point you have to take a big step back and look critically at your team as it exists now, and how it needs to be structured in the future.

Last week, I was in a Board Meeting for a client of mine which has been around for about 10 years, but which has grown rapidly in the last two years to about 100 people and \$20M in revenues. The company is in a hot technology market segment and a public offering is a real possibility. (Those of you who are at a little earlier stage keep reading, this could be you in no time). The bulk of the time at the Board Meeting was spent on people issues. The outside Board members asked each senior manager to review the current and future staffing needs, and to create a "now" and "later" organization chart for their areas of responsibility. Although it was quite time consuming, the Board pressed each manager to define the strategic needs of his or her area and to discuss the backgrounds and skill sets of the current team as they related to meeting these needs. Here is a summary of what emerged:

1. The Company had a good group of talented, hard-working, and very loyal employees; after all they had grown the business to \$20M.
2. Many of these employees had grown significantly in their abilities and were tackling new responsibilities with energy and enthusiasm.
3. This "home grown" talent was in many cases inadequate for what had to be achieved.
4. It was time to bring in the second generation of managers and there was no time to lose because the Company was targeting an IPO in 9 to 12 months.

The Company had reached that point in the growth of a business in which you need to bring in the "I have done this before" managers. This is not the time to reinvent the wheel because the failure to execute crisply in the next year could very likely result in the loss of business partners and customers, and make an IPO all but impossible. As this Company moves from a "few Chiefs, many Indians" structure to a layered management structure, it will undergo some severe organizational stress. Bringing in the second generation of management may require you to tell the loyal, hard-working, early stage people that their career tracks are limited or have to be redirected. It is tough to do this to someone who took early stage risk, did all-nighters for long stretches of time, etc. This is why you have to make sure that the early stagers have an adequate stock position in the company. Speaking of stock, how will you attract the quality second-generation management types? The Securities and Exchange Commission looks very carefully at stock and option grants in the 12 months before the IPO. If the price of these grants does not ramp up toward the expected IPO price, the SEC may make the company reprice the stock grants and take charges to earnings, which can kill an IPO. This ramp up requirement will limit this Company's ability to use "cheap stock" to attract good people. With the lag time to find and recruit quality managers, it will most likely be a minimum of three to six months before most of them can be on the job. There won't be much time to integrate them into the business, continue to grow the business, and still hit a 9 to 12 month IPO target.

As the Company gets closer to the IPO the senior management team, which has been the driving force behind the Company's growth and which has the contacts with the strategic partners, will be diverted into financing issues and IPO. This will leave a management gap at just the time when extra attention will be required to manage the assimilation of the new people and channel the resulting "culture shift." Hey nobody said this stuff was easy.

Has this Company waited too long to address this set of issues? Not really, or if so, only by three to six months. It has only been in the past year that this Company's growth path has accelerated into the IPO potential zone. You may not think that your company will fall victim to this timing trap, but remember that many technology markets and companies develop quickly and unpredictably. So what is the lesson here? The entrepreneur has to keep looking ahead and develop an "over the horizon" radar system.

Which leads me back to my opening: it's People, People, People. You need to get good people now; you have to plan ahead to get the good people you will need; and you really need to search out good advisors. It is highly unlikely that the Company in this story would have been able to foresee the tight time schedule to the IPO if the Board had not forced the issue.

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