ENTREPRENEURIAL LEADERSHIP
IN THE CONTEXT OF COMPANY
START-UP AND GROWTH

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Starting a new business is easy. Leading a start-up and transitioning from founder to CEO is hard. As a result, less than 1 in 25 new companies will grow to have 50 or more employees. This article examines three important challenges faced by entrepreneurial leaders at start-up: developing a vision, achieving optimal persistence, and executing through chaos. The article also considers three capabilities needed by founders who seek to continue to lead their companies during the growth stage of the entrepreneurial process: strategic thinking, coaching, and self-evaluation. The Siegfried Group, LLP, a leading national CPA firm that provides Leadership Advisory and Talent Delivery services to Fortune 1000 organizations, is used as a brief case study to illustrate key challenges and capabilities associated with entrepreneurial leadership.

Starting a new business has never been easier than it is today. Anyone with an Internet connection and a $100 can go from an idea to start-up in just a few days (Guillebeau, 2012; Stonefield, 2011). According to U.S. Small Business Administration data, newly launched companies have about a 50/50 chance of surviving for at least 5 years, and small firms—those with fewer than 500 employees—account for 63% of net new job creation over that last two decades (SBA, 2014). That's the good news.

The bad news is that nearly 80% of new businesses are nonemployer firms with no employees other than the founder. In addition, only about 1 in 25 of these new businesses can be expected to achieve economies of scale by growing to the level of having 50 or more employees (Young Entrepreneurs Council, 2013) and less than 1 in 1,000 can be expected to grow to the level of having 500 or more employees (SBA, 2014).

Many factors contribute to the paucity of start-ups that will ultimately achieve significant employment growth, including the founders' desire to maintain a lifestyle business, limited access to growth capital, and execution of nonscalable business models. The current article offers a leadership-based perspective to help explain why most start-ups fail to achieve significant growth. This perspective highlights the unique challenges of entrepreneurial leadership in start-up contexts. It also emphasizes the shifting skill set needed by leaders to successfully launch versus grow a company.
Start-up Leadership Challenges

Company founders face myriad challenges in leading their start-ups through the process of generating an idea, searching for a viable business model, gaining customer traction, building a strong team, and creating a successful company. Three of the most important challenges are: developing a vision, achieving optimal persistence, and executing through chaos.

DEVELOPING A VISION

Start-up founders typically possess strong passion for turning their initial ideas into viable companies. Their passion helps them to attract attention; however, they face the challenge of articulating a compelling vision to prospective customers, employees, suppliers, partners, and investors. To gain conversion, their vision must successfully address two fundamental questions: (a) Why should potential stakeholders choose the start-up over existing alternatives? and (b) What is the company’s purpose?

Choosing to buy from, partner with, or invest in a start-up inherently involves greater uncertainty and risk vis-à-vis existing alternatives. Uncertainty and risk are aversive. Consequently, the entrepreneurial leader’s vision for why the company should be chosen over existing alternatives—that is, its value proposition—must promise unique benefits that are orders of magnitude superior to existing alternatives (Gourville, 2006). A vision that simply suggests the promise of something better may ultimately provide the basis for a financially viable company with margins and cash flow sufficient to support continued operations; however, it will do little to promote significant company growth.

In addition to conveying a compelling value proposition, the entrepreneurial leader’s vision must articulate a purpose that makes potential employees feel as if they have the opportunity to be part of something important. Recent research on motivation shows that purpose is often more powerful than money in promoting high performance among the types of employees who are most likely to drive the growth of a new company—those who are creative problem solvers and knowledge workers (Pink, 2009).

Entrepreneurial leaders who successfully develop a vision that conveys a unique value proposition and compelling company purpose clear an important hurdle. However, it is important to recognize that this hurdle can be expected to reappear over time and may become higher with company growth. Business success tends to attract competition, so entrepreneurial leaders need to continually reconsider their value proposition to remain competitive. In addition, the sense of organizational purpose that permeates the founding team can be expected to become less potent to new employees as the company’s headcount increases. As a result, entrepreneurial leaders must also begin to address how specific positions in the company relate to its overall purpose.

To illustrate the point, consider which purpose is more likely to prove meaningful to a receptionist—answering the phone and greeting clients or serving as the “chief first impressions officer” for the business? Clearly the latter, which implies a purpose, suggests greater importance than the former, which implies a task.

ACHIEVING OPTIMAL PERSISTENCE

A second entrepreneurial leadership challenge is achieving an optimal level of persistence. The story of Thomas Edison’s work to develop a commercially viable light bulb is often repeated to exemplify the type of persistence entrepreneurial leaders need to succeed. “I have not failed. I’ve just found 10,000 ways that won’t work,” Edison is famously quoted as saying. Analogous stories recall how ultimately great companies like Cisco, Pandora, Skype, and many others faced massive numbers of rejections by venture capitalists before finally gaining investment. The lesson that many entrepreneurial leaders glean from these examples is that persistence pays off in the end.

What these stories and their associated lesson fail to convey is that the optimal degree of persistence depends on the situation, especially the type of resistance faced by the entrepreneurial leader. If the resistance is technical in nature but there is an eager market, as in the case of Edison, then persistence is likely to pay off. Similarly, if the resistance comes from third parties like venture capitalists, but the leader can find a market of eager customers and a viable business model for serving them, as in the case of Cisco and others that were rejected by venture capitalists, then persistence is also likely to pay off. In contrast, if the resistance comes from the market itself—that is, the business aims to solve a problem that customers
simply do not have—or resistance comes from the fact that the economics of the business model simply do not work, then persistence will lead to perpetual failure.

At the other end of the persistence spectrum, advice about “listening to the voice of the customer” can lead founders to seek to change their product vision each time they meet a prospective customer. For example, one customer may indicate a strong desire to purchase the product if it offers feature X while a second customer indicates a strong desire for feature Y. Entrepreneurial leaders who frequently yield to such feedback will add costs, diminish perceived value, and severely limit the potential for company growth. Thus, achieving optimal persistence—knowing when to remain resolute and when to acquiesce by pivoting—is a considerable challenge for entrepreneurial leaders.

EXECUTING THROUGH CHAOS

Start-up environments are chaotic. Everything is new, team member responsibilities are often unclear, and important processes are created on an as-needed basis. Resources and staffing are also lean, necessitating a constant shifting from task to task and the need for everyone to do whatever might be needed to deliver value to customers. Executing the company’s business model in this environment involves constantly prioritizing, reprioritizing, and reflecting on outcomes to determine what’s being done, what needs to be done, what’s working, and what needs to change.

Amid the chaos, the entrepreneurial leader is responsible for continuing to develop the company vision, achieving optimal persistence, and executing in a manner that meets or exceeds customer expectations. This is a monumental challenge. Those who falter short of meeting this challenge risk their companies on the road to slow or no growth and possibly failure. Those who successfully meet the challenge position themselves to lead their companies into the growth phase of the entrepreneurial process. As the next section describes, going from founder to CEO involves a major transition.

Key Capabilities

The transition from start-up to growing company demands new skills from entrepreneurial leaders. This section highlights three important capabilities needed by founders who seek to continue to lead their companies during the growth stage of the entrepreneurial process: strategic thinking, coaching, and self-evaluation.

TECHNICIAN TO STRATEGIST

During the start-up phase, entrepreneurial leadership is about pace setting and being actively involved in all aspects of value creation, delivery, and capture. This might include customer research, product design, getting orders, fulfilling orders, attracting clients, serving clients, human resources and financial management. Leaders need to be close to customers initially to ascertain whether they are on the right track. Technical expertise and operational skills are valuable in this context, as they enable the leader to meet the execution challenge, which is about doing things right.

As the business grows, entrepreneurial leadership transitions to being about doing the right things. CEOs simply do not have sufficient time to continue to be actively involved in all of the day-to-day operational aspects of the business. Rather, they need to focus on setting the strategic direction of the company and beginning to consider how to put their limited time to its highest and best use. Transitioning from working in the business to working on the business can be difficult for many entrepreneurial leaders. Whereas working in the business emphasizes attending to details and constantly making decisions in real time, working on the business emphasizes big picture, systems-based thinking, and making a relatively small number of impactful decisions. This requires a different skillset.

STAR PLAYER TO COACH OF THE YEAR

Transitioning from a start-up to a growing company also involves a shift in the nature of leaders’ relationships with team members. The shift from founder to CEO is akin to going from the star player to coach of the year. During start-up, entrepreneurial leaders are the stars of the team; others look to them for direction and big plays that allow the company to begin winning in the marketplace. For example, entrepreneurial leaders may be expected to land important new accounts or salvage execution disasters that would otherwise derail the company.

Growth forces entrepreneurial leaders to rely more on the technical expertise and operational capabilities of others and less on their own abilities to execute the
company's business model. This means another shift in skills—away from execution and toward talent development. The entrepreneurial leader must become an effective coach who prepares the company's executives and devises a strategic game plan that puts them in the best position to succeed. The ultimate leadership success for a growing company is to develop a team capable of executing at the same high level with, or preferably without any, direct involvement in day-to-day business operations by the founder.

RECOGNIZING LIMITATIONS
Going from doing things right to doing the right things and from star of the team to an award-winning coach is beyond the immediate capacity of most company founders. They simply lack the necessary skills to transition from founder to CEO. Although it is possible to cultivate these skills through training and experience, this is only likely to happen if entrepreneurial leaders are capable of recognizing their own limitations.

The fact that companies become positioned for growth primarily as a result of the founders' abilities, work ethic, and general refusal to succumb to limitations can be expected to positively bias their self-assessments. As a result, many entrepreneurial leaders overestimate the importance of remaining involved with operational details, underestimate the importance of developing their executive team, and ultimately end up becoming a severe constraint on company growth.

Brief Case Study in Entrepreneurial Leadership: The Siegfried Group, LLP
The leadership challenges and capabilities we have highlighted are based on the first author's extensive engagements with start-up leaders as well as the direct experiences of the second author—Rob Siegfried—who founded The Siegfried Group, LLP in 1988. The Siegfried story provides an excellent case study in entrepreneurial leadership. Rob Siegfried started the company in a rented room with a phone jack and a strong commitment to the freedom and self-reliance that comes from being your own boss. After surviving early struggles, he led The Siegfried Group to become a successful accounting business with revenues of approximately $2M per year, a significant portion of which came from his direct billings. At this point, Rob had met the challenge of operating through chaos. However, the business was heavily dependent on his technical skills and he had yet to develop a vision to support the next stage of growth or recognize the need to shift his focus to setting the strategic direction of the company and coaching his team.

Through conversations with trusted business advisors, including a senior VP who reported to Jack Welch, longtime chairman and CEO of General Electric, Rob began to recognize the limitations of his company's business model and the need to transition his role. However, it was not until he had an unsettling conversation with a client at a global Fortune 100 company that he developed a breakthrough vision. The client indicated that he wanted to hire The Siegfried Group, but when asked how much of Rob's time would be needed, the client gave a shocking answer—"none." The client did not want Rob to be involved in the project; rather, the client wanted to lead Siegfried's talented team. By controlling the project, the client had the freedom to complete the project the way he wanted, resulting in a better, faster, and more cost-effective outcome. After surviving the initial surprise of having a client not wanting his technical expertise for an important project, Rob recognized that his company could execute a novel business model that would deliver unique benefits to customers. In a display of optimal persistence, Rob pivoted to a new vision.

Over the last two decades, this vision, which has undergone continuous reexamination, has fueled substantial growth. Today, The Siegfried Group works with hundreds of Financial Executives in a wide variety of industries who are committed to making a difference. Siegfried's service delivery model is based on a synergistic combination of Leadership Advisory to help executives clarify their path forward and Talent Delivery Services for successful execution. This combination results in extraordinary value and emotional gratification for its clients and employees.

The transformation of the Siegfried Group, LLP, from nascent start-up to successful company was enabled by its namesake's recognition of his limitations and willingness to transition away from involvement in day-to-day operations. Over the years, Rob has become a voracious consumer of and advocate for leadership training, including MIT's "Birthing of Giants" Entrepreneurial
Executive Leadership Program. He now sees his role as “providing strategic direction, protecting the Firm’s underbelly and developing the team” capable of executing the Firm’s business model at a high level. He also emphasizes the importance of “always investigating your surprises because there is a lesson in there.” Under Rob’s leadership, The Siegfried Group has become the fastest growing CPA Firm over the last 3 years (IPA Special Report, 2014), grown into a $100M business, and positioned itself to sustain a trajectory of rapid growth for the foreseeable future.

Conclusion
Most start-ups fail to achieve significant growth. The challenges of entrepreneurial leadership and the key capabilities needed to go from founder to CEO undoubtedly contribute to this phenomenon. Consequently, entrepreneurial education and leadership training programs that involve company founders would do well to highlight the challenges of developing a vision, achieving optimal persistence, and executing through chaos. Such programs should also help to develop capabilities relating to strategic thinking, coaching, and self-evaluation. Understanding these challenges and possessing the capabilities needed to transition from founder to CEO will help entrepreneurial leaders to avoid getting in their own way and enable them to produce social and economic benefits through job creation and the achievement of economies of scale.

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References


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