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The Founder's Dilemma

Key ideas from the [Harvard Business Review](#) article By Noam Wasserman

The Idea in Brief

Most entrepreneurs want to make pots of money *and* run the show. But Wasserman reveals that it's tough to do both. If you don't figure out which matters most to you, you could end up being neither rich nor in control.

Consider: To make a lot of money from a new venture, you need financial resources to capitalize on the opportunities before you. That means attracting investors--which requires relinquishing control as you give away equity and as investors alter your board's membership. To remain in charge of your business, you have to keep more equity. But that means fewer financial resources to fuel your venture.

So, you must choose between money and power. Begin by articulating your primary motivation for starting a business. Then understand the trade-offs associated with that goal. As your venture unfolds, you'll make choices that support--rather than jeopardize--your dreams.

The Idea in Practice

At every step in their venture's life, entrepreneurs face a choice between making money and controlling their businesses. And each choice comes with a trade-off.

If You Want to Get Rich

Startup founders who give up more equity to attract cofounders, key executives, and investors build more valuable companies than those who part with less equity. And the founder ends up with a more valuable slice of the pie.

On the other hand, to attract investors and executives, you have to cede control of most decision making. And once you're no longer in control, your job as CEO is at risk. That's because:

- You need broader skills--such as creating formal processes and developing specialized roles--to continue building your company than you did to start it. This stretches most founders' abilities beyond their limits, and investors may force you to step down.
- Investors dole out money in stages. At each stage, they add their own people to your board, gradually threatening your control.

If you're motivated more by wealth than power:

- Recognize when the top job has stretched beyond your capabilities, and hire a new CEO yourself.
- Work with your board to develop post-succession roles for yourself.
- Be open to pursuing ideas that require external financing.

If You Want to Run the Company

To retain control of your new business, you may need to bootstrap the venture--using your own capital instead of taking money from investors. You'll have less financial fuel to increase your company's value. But you'll be able to continue running the company yourself.

If you're more motivated by power than wealth:

- Restrict yourself to businesses where you already have the skills and contacts you need.
- Focus on a business in which large amounts of capital aren't required to get your venture off the ground and flying.
- Consider waiting until late in your career before setting up shop for a new venture. That will give you time to develop the broader skills you'll need as your business grows and to accumulate some savings for bootstrapping.

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Further Reading

Articles

How Venture Capital Works

Harvard Business Review

November 1998

by Bob Zider

Entrepreneurs who want to get rich usually need outside funding to grow their business. Many look to venture capitalists, who have become more like conservative bankers than the risk takers of days past. This article presents myths and facts about the venture capital process. For instance, many entrepreneurs expect venture capitalists to provide them with sage guidance as well as capital. But that expectation is unrealistic. Given that the typical venture capital partner manages a portfolio of 10 companies and works 2,000 hours per year, they spend (on average) less than two hours per week on any given company. The author analyzes additional myths and offers advice for entrepreneurs considering venture funding.

The Questions Every Entrepreneur Must Answer

Harvard Business Review

November 1996

by Amar V. Bhide

Regardless of which kind of entrepreneur you are, ask three crucial questions before launching your venture: 1) "Where do I want to go?" Consider your personal goals and their implications. For example, if you want to sell your company eventually, you'll need to build a sustainable enterprise that can renew itself through generations of technology, employees, and customers. 2) "How will I get there?" Formulate strategies that provide clear direction, generate sufficient profits and growth, and serve your enterprise long term. 3) "Can I do it?" To grow your business, build a workforce that can implement your strategy. And be willing to shift from "doing the work" to managing the work environment.

Growing Your Business: Strategies That Work for Small and Midsize Companies

Harvard Business Review OnPoint Executive Edition

August 2006

This collection of articles focuses on how to spur and maintain growth in your new venture. For many new businesses, growth can be a wild ride. Mind-boggling expansion during the startup years can turn to incremental progress as a company matures. If you don't stop and ask hard questions about your long-term growth strategy at each crucial stage, your venture may falter. The articles in this collection provide practical insights for defining and implementing your strategy, managing change, and handling other challenges that will inevitably crop up over the lifetime of your venture. Experts featured include Chris Zook, W. Chan Kim and Renée Mauborgne, Nitin Nohria, and Michael C. Mankins.

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