THE EXPERTS

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Insights on Transparency, Financing and More

Let Employees See Metrics 24/7

You don't have to be a CEO, on the finance team or even in a leadership role to get value from real-time performance metrics.

At every level of a company, information on success and shortcomings should excite, motivate and challenge you. Companies that wait until the end of the month or quarter to review progress are sitting on a gold mine of potential.

From the day a new employee joins my team, he or she has 24/7 desktop access to exactly the same information I have—daily orders, revenue, new customers, user retention and more. It's a relatively bare-bones dashboard that displays current data alongside historical data.

Whether professionally built or pieced together with free tools, real-time companywide dashboards can:

Save time and increase focus. A constant flow of information ensures that decisions can be made quickly.

Give employees purpose. The best employees want to know why their job is important and how they can improve the bottom line. An annual review shouldn't be the only time successes and failures are out in the open.

Teach lessons from success and failure. A team member who makes a decision that garners a positive result will repeat that action, and those who see immediate and obvious negative results will learn from the experience.

Obviously, knowledge is power, and power can be used for both good and evil. To deploy this type of open information policy, you'll need to carefully consider which metrics you want to share, place trust in your employees and be willing to own up to your data if and when it is shared outside of your organization. If you're confident in your product or service and your competitive advantage, the potential downside of your performance metrics surfacing outside of your walls won't be an issue.

—David Kalt, founder, Reverb.com, a marketplace for musical instruments and gear; owner, Chicago Music Exchange

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Lack of Transparency Usually Backfires

Audacious vision is what I look for in every startup founder that I fund. Too often, though, startups obfuscate truths, which detracts from carefully orchestrated forward momentum. Such deception, intentional or not, usually backfires. Transparency, though, never fails, especially at the earliest stages of fundraising, and should be the priority of every founder. Here are three lessons on this theme:

Investors talk to one another. I met with a respected entrepreneur in what was gearing up to be a massive market. He was well-spoken, experienced and persuasive. We moved through due diligence, and he seemed reasonably forthcoming with information.

When we got to actual investment discussions though, details became spare and odd—no disclosure of who was interested in participating, simply promises that the round was moving quickly, a term sheet from an alleged lead investor filled with blanks and typos.

I emailed a few people I knew who had also looked at the deal. All were getting different stories about participation and terms.

We passed immediately. Don't try to play investors against one another.

Share the facts before you're asked. Fundraising will always take longer than anticipated. Summer vacations and year-end holidays, for example, slow response times. But product and market evolve simultaneously, so numbers and discussions change in real time.

If you shared projections for April and it is now May, proactively send the April actuals to the investors with whom you're actively engaged. Don't sit on facts hoping no one asks.

Value our time; we'll value yours. Investors mostly say no, and the best ones do it quickly. We must always recognize the tremendous value of an entrepreneur's time, as should they ours. Some angels and most fund investors do a significant amount of diligence on any opportunity they consider seriously.

There is no better way to sting an investor than to encourage him to spend time and resources exploring an investment, advocating for it, and then cut him out at the end. Be up front about your expectations, timing and options.

—Christina Bechhold, co-founder, Empire Angels, a New York-based angel-investor group

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Showing Off Your Startup to Investors

When venture capitalists select new investments, the management team is the top criterion. Cass Business School research found that an effective management team was the No. 1 consideration, followed by strong market drivers and a unique, disruptive product.

Effectively selling the team to investors requires insightful information beyond years of experience, previous firms, degrees and technical skills. To maximize investor confidence, emphasize these 10 points.

The culture the firm will operate under. Investors insist you have a plan for developing the type of culture that is required for continuous innovation and scaling up. Mention other effective company cultures that you'll try to emulate because they mirror your situation.

Learning and adaptive capability. Show that your team has a systematic way to stay on the leading edge of knowledge and to adapt, learn from and bounce back after failures.

Show collaboration. Show that to maximize innovation, you have designed collaboration into every aspect of your team's workflow.

Rapid conflict resolution. Conflict is common among passionate individuals with complementary skills. Show a process and a track record for rapidly resolving major conflicts.

Show the team is forward-looking. Reveal your process for systematically spotting problems and opportunities while there is still time to act, evolve and adapt.

Balance strategy and execution. Show your team understands the strategic direction of your industry and can effectively execute the tactical aspects of your business plan.

Show you can convince others. Reveal how management has convinced top talent to join and remain with your firm. Also include your proposed process for incentivizing and continually motivating your team.

Openness to referred talent. Few VCs expect you to have a complete team when you ask for funding but many will want a voice in "filling in the gaps." Acknowledge those leadership gaps and show enthusiasm for accepting new team members referred by the investors.

Reveal mutual acquaintances. Showing that team members and the investors share common long-term acquaintances helps to build trust.

Team-member summaries. Don't force investors to read a dozen resumes. Provide a summary with a one-paragraph story that sells the best aspects of each current and potential management team member.

—John Sullivan, professor of management, San Francisco State University

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Family Offices: Overlooked Financing

One of the most overlooked sources of capital for small and middle-market businesses is the so-called family office—private wealth-management firms that serve ultra-high-net-worth families. Over the past decade, family offices have started to bypass indirect investment through private-equity funds and to invest directly in entrepreneurial ventures. Although family offices may start at $20 million, the vast majority have wealth in excess of $100 million.

The challenge is making contact. There is no easily available list of family offices that invest in entrepreneurial ventures. Most introductions are through personal connections and introductions. Most likely you will have to turn to a business broker or a strategic growth adviser for the connections to make the introduction.

—Sharon Hadary, founding and former executive director, Center for Women's Business Research

RUNNING THE SHOW

A Dilemma for Entrepreneurs: Keeping Control vs. Growing Faster

BY LOUISE LEE

WESLEY BEDROSIAN

TO A FOUNDER, maintaining control of a startup might be a good boost for the ego. But it often comes at a price: a lower valuation for the company.

That's the conclusion of a recent study by Noam Wasserman, former professor at Harvard Business School and now director of the Founder Central initiative at the University of Southern California.

The study, which examined 6,130 startups from 2005 to 2012, found that a startup's valuation fell by an average of 17.1% to 22% when the founder stayed on as chief executive or chairman after the first two years. When the founder held both jobs, the valuation fell by another 17.1% to 22%. And the longer the founder held on to the reins, the deeper the drop in valuation tended to be.

Calling in help

What's going on? Once a company is out of its infancy and growing more complicated, founders usually need outside investors, co-founders and managers who can provide capital and skills that the founder doesn't have. But luring those resources typically requires founders to cede some ownership and decision-making power, says Dr. Wasserman, whose research was published in Strategic Management Journal.

Investors are "going to want to have a say in what the money's going to be used for and in making decisions that will affect how valuable this investment's going to be for them," he says.

Venture capitalists in particular usually insist on guiding certain matters such as determining who's the CEO. Likewise, highly qualified managers are likely to demand equity and substantial job responsibilities.

"There's all sorts of things that you might have to offer people to get them to come on board," says Dr. Wasserman.

Investors may worry that founders who insist on maintaining control aren't going to prioritize the growth and financial success that investors crave. If investors "are worried about countercontrol, if they're seeing divergence and misalignment with the founders, that's going to harm how much they're going to value that company," Dr. Wasserman says. Investors concerned about future disagreements with the founder "are going to attach more of a risk factor" to the firm.

A choice to make

The takeaway, Dr. Wasserman says, is that founders need to be aware of the trade-off between keeping control and building a company with a high valuation.

Especially during the heady early days, many founders are convinced that they're among the rare breed of entrepreneurs who, like Bill Gates or Mark Zuckerberg, can simultaneously keep control of their companies and propel them to high values.

"Then there's the rude awakening when they hit one of those, 'I want to attract this great hire, but that great hire is requiring more than I'm willing to give up' moments," says Dr. Wasserman.

Founders need self-awareness and "the knowledge of what it's going to take to build a company and make the right trade-offs along the way," Dr. Wasserman says.

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Hands on the Tiller

A look at the median traits of the 6,130 entrepreneurs and companies in the study

PROFILE OF THE STARTUPS

Value	Trait
5.9 years	Age
17 years	Founders' prior work experience
2	Number of founders
26	Number of full-time employees
$7 million	Capital raised

LOCATION OF THE STARTUPS

Share	Location
32%	California
18%	Massachusetts
13%	Illinois, New York, New Jersey or Texas

Source: Noam Wasserman, "The Throne vs. the Kingdom: Founder Control and Value Creation in Startups"

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