



Entrepreneurial Founding and Teams

15.394 -- MIT SLOAN SCHOOL OF MANAGEMENT
SPRING 2023

T/Th 1:00 – 2:30 PM, E51-325

Instructors:

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Office Hours: Office hours by appointment

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COURSE INTRODUCTION

In order to be successful, an entrepreneur and their founding team must not only be able to create and deliver value to a segment of customers, but also must be able to build an effective organization in order to sustainably do so. The course centers on the key organizational and strategic decisions in founding and building a new venture. It aims to inform students on the trade-offs and consequences of these early decisions on the founders, their team, and the venture's performance and to equip them with tools to navigate these complex organizational challenges more effectively. Though the primary decision maker in the course will be a member of the founding team, the perspective of early-hires and investors will also be taken to understand the broader implications of the founder's decisions on the venture.

The course is a complement to *New Enterprises* (15.390) and *Entrepreneurial Strategy* (15.911), as well as the entrepreneurship courses and activities in the broader MIT Sloan and Trust Center ecosystem. This course is designed to be particularly appropriate for those considering:

- Founding a new venture
- Joining an early-stage start-up
- Evaluating start-ups (and founding teams)

The course is highly interactive. It combines lecture, case analyses, activities and direct engagement with start-up founders and their teams. The course is divided into three parts:

- 1) **Co-Founding a Venture:** What is it actually like to be a founder? How should you choose a co-founder? How do you decide on roles? Is there a correct way to split equity and craft a founders' agreement?
- 2) **Establishing an Early Team:** How should an early-stage venture approach sequencing early hires? How do you determine if a startup is a good fit for you to join? How do you have the difficult conversations necessary to manage a startup team? How do you effectively build out an organization? How do you coach your employees? And, when necessary, fire them?
- 3) **Growing Your Venture:** How should your entrepreneurial identity and motivations affect the investment choices you make? Who should you choose (and not choose) as your investors? How do you work productively with your board? When and how will you leave your company?

COURSE REQUIREMENTS AND GRADING

Class & Group Contribution (40%)

- **In-Class Participation (20%).** One of most valuable ways to engage with the topics in this course is through active discussion. The quality of the learning is dramatically enhanced when students come to class prepared and bring diverse perspectives and experiences to the conversation. Both quantity and quality of contributions are important, and effective class participation draws upon the readings and builds on the contributions of others. Recognize that the perspectives of your colleagues likely reflect the views of potential co-founders, employees, and other stakeholders and use the classroom environment to understand and engage thoughtfully with those ideas.

Attendance and classroom behavior in accordance with Sloan Policies and Norms will be factored into your grade. Repeated disruptions or lateness will count against the class participation grade. Though absence is discouraged, please inform the TAs in advance of any that arise.

COVID Attendance & Participation Policy. Please monitor and prioritize your health. Do not attend class should you test positive for COVID or have symptoms consistent with a cold, flu, or COVID. You may request access to the Panopto recording of missed lectures through Course Overview in the Course Navigation Menu in Canvas for these absences. In lieu of in-class participation, please submit a short paragraph to the TAs, copying the instructors, reflecting and building on the in-class discussion from the lecture recording. After your return, you are welcome to meet with the teaching team during office hours to catch up on any additional materials.

- **Pre-Class Surveys (15%).** Preparing and reflecting on the course readings, topics, and guest speakers in advance of class enhances the quality and depth of in-class discussion and learning. As a founder you will be called on daily to make tough decisions similar to those put forth in the selected cases and discussion. Use the pre-class surveys to reflect on

your personal values, professional objectives, and the leadership style you will bring to your venture in advance of our class discussions.

Pre-class surveys will be posted on Canvas for each session (after the first class) by Friday 5PM the week prior. It is the responsibility of each student to complete the survey by 9AM the day of the respective session to receive credit. Both completing the surveys, as well as thoughtfulness of survey responses are important. Effective survey responses draw upon the readings and course topics, as well as incorporate reflections based on your own experience and leadership style.

- **360 Group Evaluation (5%).** Students will form project groups of four to five students. Each group will be responsible for completing the group memos as well as the group project. At the end of the semester, each group member will be evaluated in terms of their contributions over the semester by the other group members. Evidence that group work has been unevenly completed will count against the class participation grade.

Group Case & Discussion Memos (3 x 8% = 24%)

- **Each group will complete three group memos as follows:**
 - **UpDown Co-Founding Equity Memo.** Case materials and memo discussion questions will be posted on Canvas at least a week in advance.
 - **Ministry of Supply Hiring Memo.** Case materials and memo discussion questions will be posted on Canvas at least a week in advance.
 - **One Optional Group Memo.** Four optional group memo opportunities are available during the course, of which *each group must complete one*. Memo discussion questions will be posted on Canvas at least a week in advance.

Memos should be uploaded to Canvas by 9AM the day of the respective session. The memos should reflect the thinking of all members of the team, and everyone should be prepared to defend the recommendations in class discussion. They should be typed and double-spaced with 12-point font and one-inch margins. Additional exhibits may be included. To be fair to all students, a late penalty will be assessed after the deadline and memos will not be accepted after the respective course discussion begins.

Individual Memo (10%)

- Each student will individually complete a final memo on the founder journey. Memo discussion questions will be posted on Canvas at least a week in advance.

Memos should be uploaded to Canvas by 9AM the day of the respective session. They should be typed and double-spaced with 12-point font and one-inch margins. Additional exhibits may be included. To be fair to all students, a late penalty will be

assessed after the deadline and memos will not be accepted after the respective course discussion begins.

Group Project (26%)

- The objective of this project is to identify, analyze, and develop an actionable plan to resolve an organizational challenge within the unique and demanding environment of a startup. In your project groups, you will interview members of the founding and/or early team of a startup about the venture's founding and early growth, craft a mini case study, and draw on course concepts and readings to analyze the founder(s) choices and pinpoint broader lessons your own career as a founder, joiner, or investor.

Groups are welcome to interview startups within their personal or professional networks, though are prohibited from using a startup they previously worked, founded, or invested. Should your group require assistance identifying a founder to interview, please email the teaching team.

Details and deadlines are provided on Canvas.

Course Summary Schedule

| TUESDAYS | THURSDAYS |
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| February 7 th : Introduction & Overview | February 9 th : Co-Founding a Venture: Choosing Co-Founders |
| February 14 th : Co-Founding a Venture: Deciding on Founder Roles | February 16 th : Co-Founding a Venture: Building a Foundation |
| February 21 st : <i>Monday Classes</i> | February 23 rd : Co-Founding a Venture: Splitting Equity I |
| February 28 th : Co-Founding a Venture: Splitting Equity II | March 2 nd : Panel Discussion: Founders' Perspectives |
| March 7 th : Establishing an Early Team: Navigating 1st Hires | March 9 th : Establishing an Early Team: Joining a Startup |
| March 14 th : Establishing an Early Team: Early Employee Motivations | March 16 th : Panel Discussion: Hiring Perspectives |
| March 21 st : <i>No Class - SIP</i> | March 23 rd : <i>No Class - SIP</i> |
| March 28 th : <i>No Class – Spring Break</i> | March 30 th : <i>No Class – Spring Break</i> |
| April 4 th : Establishing an Early Team: Having Difficult Conversations | April 6 th : Establishing an Early Team: Framing Your Entrepreneurial Identity |
| April 11 th : Establishing an Early Team: Instituting Formal Structure | April 13 th : Establishing an Early Team: Crafting New Teams |
| April 18 th : Establishing an Early Team: Leading Through Change | April 20 th : Establishing an Early Team: Developing Policies and Routines |
| April 25 th : Establishing an Early Team: Firing with Respect | April 27 th : Growing Your Venture: Choosing Your Investors |
| May 2 nd : Growing Your Venture: Managing Your Board | May 4 th : Growing Your Venture: Leaving Your Venture |
| May 9 th : Growing Your Venture: Reflecting on the Entrepreneurial Journey | May 11 th : Growing Your Venture: Mini-Case Presentations |
| May 16 th : Growing Your Venture: Mini-Cases & Wrap Up | |

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| February 7th: | Introduction & Overview |
| Reading: | Wasserman, Noam. <i>“Assembling the Startup Team”</i> HBS Background Note. |
| February 9th: | Choosing Co-Founders |
| Reading: | <i>Case: Smartix: Swinging for the Fences</i> |
| Topics: | Relationships with co-founders are similar to a marriage. This session dives into the nature of the relationship, potential pitfalls, and the early discussions you should be having with your co-founder(s). |
| February 14th | Deciding on Founder Roles |
| Reading: | Wasserman, Noam. <i>The Founder’s Dilemma</i> Chapter 5 - Role Dilemmas: Positions and Decision Making. Princeton University Press, 2013. |
| Topics: | Assembling a founding team with a shared vision can be invigorating. In many ways, it is the first external validation of your idea. As you move from early discussions into action, how should you decide roles? When should you designate formal titles? |
| Optional Reading: | Porter, Michael et al. Seven Surprises for New CEOs . <i>Harvard Business Review Magazine</i> , October 2004 Issue. |
| February 16th | Building a Foundation |
| Reading: | <i>Founders’ Agreement Overview</i> (skim, on Canvas). <i>Mini Case: Founders’ Agreement</i> (on Canvas) |
| Topics: | How do founders start to organize and formalize their relationship during the early experimentation phase. The Founders’ Agreement is an important yet often rushed, even skipped, part of the co-founding process. Moreover, in their haste, founders often neglect to surface other individual and shared responsibilities and objectives. |
| Optional Reading: | Linfield, James. “Founder Basics: Founders’ Stock, Vesting and Founder Departures” Cooley GO post. |
| February 23rd | Splitting Equity I |
| Reading: | <i>Case: Negotiating Equity Splits at UpDown</i> Splitting equity is one of the first difficult decisions you may make as a startup team and it will have implications for years to come. |

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| Assignment: | Required Group Memo: Discussion Questions Posted to Canvas |
| Topics: | In this session, we will be performing an in-class simulation on splitting equity, based on the UpDown case. |
| February 28th | Splitting Equity II |
| Topics: | When and how should you split equity and why does it matter? What are the key terms and tools to match the equity split to the nature of your (future) contributions to the venture. |
| Optional Listening: | Startup Podcast How to Divide an Imaginary Pie . September 17, 2014. |
| March 2nd | Panel Discussion: Founders' Perspectives |
| Topics: | What is it actually like to be part of a founding team and what are some of the organizational challenges that Sloan entrepreneurs have faced as they founded and scaled their businesses? |
| March 7th | Navigating First Hires |
| Assignment: | Required Group Memo: Discussion Questions Posted to Canvas |
| Reading: | <i>Case: Ministry of Supply</i> (available on Canvas) Smart, Geoff and Randy Street. <i>Who: The A-Method for Hiring</i> , Chapter 2 – Scorecard: A Blueprint for Success. |
| Topics: | Founders often find it incredibly difficult to navigate early hires. How do you prioritize among the many roles you need to fill? Should you emphasize experience or fit in the selection process? How should you construct the recruitment process itself? |

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| <p>March 9th</p> <p>Reading:</p> <p>Topics:</p> <p>Optional Readings:</p> | <p>Joining A Startup, Early Team & Beyond</p> <p>Bussgang, Jeff . <i>Entering Startup Land</i>, Chapter 8 – The Search Process.</p> <p>Over the course of your career, many entrepreneurial opportunities will present themselves. We now consider the process of filling out the early-team, not from the perspective of the founders, but instead from that of potential early hires.</p> <p>Knight, Rebecca. “How to Know If Joining a Startup Is Right for You.” Harvard Business Review Blog, May 16, 2016.</p> <p>Feld, Brad. “Guidelines For Interviewing At A Startup,” Feld Thoughts (Blog), May 11, 2012.</p> <p>Eisenmann, Thomas. “How I Hire: What MBAs Should Know About Startup Jobs,” LinkedIn Blog Post, September 24, 2013.</p> |
| <p>March 14th</p> <p>Reading:</p> <p>Topics:</p> | <p>Early Employee Motivations & Onboarding</p> <p>Turco, Catherine. <i>The Conversational Firm</i> Chapter 2</p> <p>What are the motivations of the early team shape the organization culture? How do early founder decisions regarding employee voice and decision rights affect the evolution of the firm? How does that core, early team dictate how the organization continued to grow?</p> |
| <p>March 16th:</p> <p>Topics:</p> | <p>Panel Discussion: Hiring Perspectives</p> <p>What are the perspectives of founders who have hired out a team? What are the real-world challenges faced and what tactics have founders used?</p> |
| <p>April 4th:</p> <p>Pre-Class Prep:</p> <p>Reading:</p> | <p>Having Difficult Conversations</p> <p>In preparation for class, please bring with you a short paragraph describing a difficult conversation you have been meaning to have but have not had yet. Please note that you will be asked to share this paragraph with classmates and anonymize individuals as necessary.</p> <p><i>Mini-Case: The Co-Founder Conflict</i> (available on Canvas)</p> <p>Stone, Douglas and Bruce Patton and Sheila Heen. <i>Difficult Conversations</i>, Checklist on pg. 233.</p> |

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| Topics: | First time founders are often surprised as to how many difficult conversations they end up having with other founders, employees and stakeholders. Approaching these conversations constructively can strengthen the founder relationship and your ability to lead your team. |
| Optional Reading | Grenny, Joseph. 4 Things To Do Before a Tough Conversation . Harvard Business Review, January 22, 2019. |
| April 6th: | Framing Your Entrepreneurial Identity |
| Reading: | <i>Case: Harlem Capital: Changing the Face of Entrepreneurship (A) and (B)</i> |
| Assignment: | Group Project Proposal Due: Details Posted on Canvas |
| Topics: | Your organization’s entrepreneurial identity is more than the ‘North Star’ that unites your founding team, it attracts early team members, directs decision-making and effort, and communicates to stakeholders (including customers!) your value proposition. Correctly framing your message yields advantages along a number of dimensions. How can founders best prepare to effectively leverage early coverage about their venture? |
| April 11th | Instituting Formal Structure |
| Assignment: | Optional Group Memo: Discussion Questions Posted to Canvas |
| Reading: | <i>Case: CloudFlare, Inc.: Running Hot?</i> |
| Topics: | As founders expand their early team, a fluid work environment can become difficult to maintain. When and why do startups transition to an organizational structure and systems better suited for a more mature firm? Can they maintain their culture while doing so? What does this formal transition (or lack thereof) mean for the early team? |
| April 13th | Crafting New Teams |
| Assignment: | Optional Group Memo: Discussion Questions Posted to Canvas |
| Reading: | <i>Case: Gimlet (available on Canvas)</i> |
| Topics: | Unexpected opportunities often arise for young ventures. Beyond evaluating the opportunity itself, founders must also evaluate how the structure and human capital requirements to deliver this value may affect the venture and its early team. For still nascent ventures, the organizational changes required may further compound organizational ‘growing pains.’ |
| Optional Reading: | Eisenmann, Thomas R. and Alison Berkley Wagonfeld. “ <i>Scaling a Startup: People and Organizational Issues</i> ” Background Note. |

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| April 18th | Leading through Change |
| Assignment: | <i>Optional Group Memo: Discussion Questions Posted to Canvas</i> |
| Reading: | <i>Case: Giving Birth to Ovia Health</i> |
| Topics: | As a venture scales, the entrepreneurial identity set by founders' early decisions becomes magnified, enabling (or restricting) subsequent strategic opportunities. How should a founding team effectively pivot? How do you effectively communicate this change to stakeholders? |
| April 20th | Developing Policies and Routines |
| Assignment: | <i>Optional Group Memo: Discussion Questions Posted to Canvas</i> |
| Reading: | <i>Case: Candor at Clever</i> |
| Topics: | Building a startup team requires leading under uncertainty, limited resources, and tight deadlines. As founders craft an organization to best respond to these challenges, even well-intentioned policies can present unforeseen issues, which may quickly overtake the team's focus and distract from the critical tasks at hand. How should founders approach crafting policies and building routines? |
| Optional Reading: | Goler, Lori, Janelle Gale, and Adam Grant. <i>Let's Not Kill Performance Evaluations Yet</i> . Harvard Business Review. Nov. 1, 2016. |
| April 25th: | Firing with Respect |
| Reading: | <i>Case: Fresh to Table</i> |
| Topics: | Startup teams are balancing a number of tensions, including the blurring boundaries between personal and professional life. In this session, we focus on the decision to fire an employee and the implications that can have on the broader venture (as well as the signals it may send externally). |
| Optional Reading: | Grote, Dick. "A Step-by-Step Guide to Firing Someone" HBR Web Article. |
| April 27th | Choosing Your Investors |
| Reading: | <i>Case: Lovepop</i> |
| Topics: | Startups make tradeoffs when they accept outside investment, which has both short-term and long-term implications for their careers and their venture. How should founders' identity and motivations affect the investment choices they make? |

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| Optional Readings: | <p>Hsu, D. H. (2004), What Do Entrepreneurs Pay for Venture Capital Affiliation?. <i>The Journal of Finance</i>, 59: 1805–1844.</p> <p>Feld, B. and Mendelson, J. <i>Venture Deals</i>. Chapters 4 (Economic Terms of the Term Sheet) and Chapter 5 (Control Terms of the Term Sheet).</p> |
| <p>May 2nd:</p> <p>Reading:</p> <p>Topics:</p> <p>Optional Readings:</p> | <p>Leveraging Your Board</p> <p><i>Case: Pixability: Bettina’s Board Walk</i></p> <p>A turning point for any new venture is when outsiders join as Board Members and Investors. This session focuses on how to effectively manage these relationships and highlights common sources of conflict.</p> <p>Feld, Brad. My Ideal Board Meeting. Feld Thoughts Blog, February 7, 2014.</p> <p>Wilson, Fred. The Board of Directors: Board Meetings. ACV, April 2, 2012.</p> |
| <p>May 4th:</p> <p>Assignment:</p> <p>Readings:</p> <p>Topics:</p> <p>Optional Reading:</p> | <p>Leaving Your Venture</p> <p>Individual Memo: Discussion Questions Posted to Canvas</p> <p><i>Case: Founder-CEO Succession at Wily Technology</i></p> <p>Founders step aside from their ventures for a number of reasons. How do founders balance responsibility to their venture’s stakeholders with their personal objectives? Can leaving a company be prevented (and should it)?</p> <p>Michael Ewens, Matt Marx. Research: What Happens to a Startup When Venture Capitalists Replace the Founder. HBR Blog, February 14, 2018.</p> |
| <p>May 9th</p> <p>Topics:</p> <p>Assignment:</p> | <p>Reflecting on the Entrepreneurial Journey</p> <p>Putting it all together: Building a founding team and scaling an organization is only one part of the challenging (and exciting!) entrepreneurial journey. What does it look like from the other side?</p> <p>Group Project Final Deliverables Due Wednesday, May 10th</p> |
| <p>May 11th</p> | <p>Project Presentations and Debriefs</p> |

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| May 16th | Project Presentation & Course Wrap Up |
| Assignment: | 360 Group Evaluation Survey |