

The secret sauce for building winning teams in startups

Whether it's as founders, investors or as employees, we all know that the success of a business comes down to the people behind it. We all likely have tales to tell about toxic cultures and bad bosses, and we all know of at least one colleague whose impact is so positive, the company wouldn't be the same without them.

This is true of all businesses, but it's especially true, and ever so critical for startups looking to scale.

"Having a strong senior team is always of great importance but the level of impact it has is determined, ultimately, on the size of the company" explains Smedvig Ventures MD Jon Lerner. "For businesses with millions in revenue, the impact of the top team is large, but in the early stages, and particularly at Series A when the company is looking to take its growth to the next level, it is absolutely critical. There's a reason why certain companies rise to the top, and why companies with exactly the same or even superior technology don't end up winning the race. That reason is the team and organisational structure."

However, hiring the best people and building the right teams is a costly and time-consuming minefield. In the UK, research has found that the average

interview process takes 27.5 days to complete. Some 25 people, on average, apply for every job; six will make it to the first interview and half of those will progress to a second. Each interview lasts 30-45 minutes; it takes an average of 12 days to decide on a candidate and three weeks to make an offer in writing. That's before you factor in notice periods of as much as six months, the fact that this process exponentially increases the more senior the role, and that once hired, the person may not be the best fit after all.

Get this wrong, and the damage can be severe; failing to hire a harmonious team is *cited* as the cause of a fifth of startup failures. Get it right, however, and the rewards can be plentiful and endless, especially for founders of startups looking to grow – the inspiration behind Smedvig's recent *Building Winning Teams* *playbook*.

Discover the Building Winning Teams playbook

Profile – a Smedvig Ventures portfolio company

Timing it right

Scaling a business is hard. Finding the right people to support you on that journey can be just as hard. As a VC, Smedvig knows it's one of the most common challenges founders face and a large reason for this is that founders often don't know what "great" looks like when it comes to building teams.

Founders come in all shapes and sizes but few are ex-general management. Few have had the experience of being a CEO and, as a result, many don't know *when* to hire, let alone how or who.

The exact point of when to hire will vary from business to business – and a good investor partner will be able to help guide you – but there are red flags to look out for. If you start having to turn customers away this can be a sign you're not effectively managing your resources; or if you can't deliver product for your existing customers on time; or if your employee satisfaction starts wavering. These can all damage your internal and external brand and subsequently your ability to raise further funding. Yet the most significant sign is that the everyday running of the business is preventing you from seeing the bigger picture. You're so lost in the weeds that you're not able to look forward; to implement a growth strategy and your revenues start stalling or even falling, as a result.

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Building out the board

As a founder who has reached this stage, hiring an executive team is the best place to start. Aside from being able to divide the roles and responsibilities, hiring an executive team brings a range of different perspectives and viewpoints to the table. Your execs should act as an invaluable sounding board while allowing for creativity and new ideas. From surveys with founders for their *Building Winning Teams* playbook, Smedvig found that the highest performing teams are those built around trust, respect and alignment. They contain people who can engage in healthy conflict, can collaborate and who are consistent across the board. This means that they treat a junior hire in the same way they would treat the CEO.

“I once read a report that included an anecdote about a leadership group meeting,” said Stuart Dawson, Chair of Smedvig portfolio company, *Infinity*. “The author was sitting in on the meeting as an outsider and he said it was 30 minutes before he could work out who the CEO was because everybody was contributing, challenging, congratulating and criticising. Everyone had that leadership role within the group. It wasn’t one person going around the table holding people to task. That’s an amazing space if you can get to it.”

An executive team also brings functional expertise. This allows a founder to focus on the business, rather than being in the business itself, and prioritise the longer term areas that need attention such as overall strategy and organisational design.

While there isn’t a one-size-fits-all approach to choosing the structure of your executive team, it’s worth looking at the skills that are missing within your current team and filling those gaps first. In small numbers, to begin with. In early-stage businesses, it can be beneficial to map out the weaknesses and strengths of the founding team to help identify areas of improvement and need. Don’t be afraid to lean on your investors to support this process, too.

Good investors should be extensions of your board, and Smedvig prides itself on being able to help founders identify what skills their team needs, and how to fill roles to meet these needs.

Captify - a Smedvig Ventures portfolio company

Retaining your culture

In a successful high-growth business, there needs to be a balance between retaining the entrepreneurial attitude that attracted initial funding to the company, and the experienced leadership needed to scale.

With this in mind, it's beneficial to have a balance of members of the team that were there from the beginning working alongside those that have experience gained from multiple companies. In the same way as it's beneficial to map out the founding team's areas of weaknesses, it can benefit the wider team to map out who has the experience and skills internally, and which skills you are lacking.

This extends into the diversity of the team too - diversity of thought, as well as diversity of background. Analysis has shown that companies with higher levels of gender diversity on executive teams are 25% more likely to have above-average profitability than those without. This equates to a 36% jump in profitability when the executive boards are also ethnically and culturally diverse.

Improving diversity and inclusion starts by putting D&I at the heart of every decision you make, and involves making sure the hiring team itself represents a mixture of backgrounds, ages, cultures, beliefs and backgrounds. Part of this includes involving decision makers earlier than you might think. Knowing who should be involved in the process and bringing them along from the beginning of the journey is really important. If you all think you're hiring something different due to lack of context halfway through a process, then it's a huge waste of time and can set you back months.

"In lots of cases culture is about the way in which we do things, but sometimes to grow it's those very ways in which we do things that have to be challenged,"

said David Grossman, CEO of Smedvig portfolio company, *Simplify*. “Therefore, to recruit somebody who is too much like the people you already have, is actually a positively bad thing.”

Poq – a Smedvig Ventures portfolio company

When things go wrong

“As a CEO you hate the realisation that a hire isn’t working,” continued Dawson. “You want with every sinew in your body for it to come good because you don’t want to go through that process again. Therefore you resist it and hope it will get better. But as a non-exec who doesn’t have to do the hiring, you’ll see it clear as day. It’s therefore our responsibility to be the conscience and say you know what’s right and get it done.”

Acknowledging that you’ve made the wrong hire, or realising when existing team members have gone as far as they can in your business is as important as the process of hiring in the first place.

“One of the biggest lessons I’ve learned both as a manager, and with our work with many portfolio companies is that you can’t let go of the wrong person soon enough,” continues Lerner. “Some people delay doing so because they’ve invested heavily in that hire, from both an economic and time perspective. Others dread having to go back out to market, or they’re worried about the impact the change will have on the wider team. Yet many of these people will have known, from very early on, that they weren’t a right match and you have to just act on it. The opportunity cost lost is always greater than the other costs you’re concerned about.”

Other than relying on your gut feeling, it is possible to quantify this challenge, too. You can measure performance with key KPI’s and behaviours and set objectives with regular check-ins so you can see the employees progress. This also gives them an open forum to discuss issues and concerns with you.

“When we’re looking to make investments, especially at Series A, the best entrepreneurs are people who can show us they have the ability to hire great people. Even if they haven’t done so to their fullest yet,” adds Lerner. “You can see how they talk about their team, and how their teams talk about them that they’ve built, and are building something special. That, to us, is the best starting point for not just building teams, but building teams that win.”

Discover the Building Winning Teams playbook

Since 1996 Smedvig Ventures has partnered with and helped scale over 70 companies. Leading Series A/B rounds, we are passionate about finding and investing in the best fast-growing businesses across the UK, Nordics, and Netherlands. We work closely with a small number of high-quality teams and build strong relationships with our founders. We're not afraid to roll up our sleeves and be there for our portfolio when and how we're needed through the inevitable ups and downs of growing a business. We're a flexible source of capital supporting and accelerating ambition with a long-term view, often backing companies over multiple rounds all the way to exit. We understand that great things can take time.

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