https://hbswk.hbs.edu/item/founders-with-a-hands-on-management-style-grow-stronger-companies?cid=spmailing-17263015-Working%20Knowledge%20Newsletter%2010-18-2017%20(1)%20A-October%2018,%202017

- 16 OCT 2017
- RESEARCH & IDEAS

The Most Successful Startups Have Hands-On Founders

Research by Rembrand Koning and colleagues says the best-performing startups are those where the founder is hands-on with people management.

by Dina Gerdeman

Startup founders with a hands-on management style are more likely to retain employees and see their firms thrive, new research shows.

The results are particularly applicable to knowledge-intensive technology firms, where human talent is the main resource that affects firm performance, the researchers say.

Founders are usually very busy people—they recruit key employees, raise funds, find a board, develop partnerships, set strategy, and design the organization, to name a few responsibilities. What often falls by the wayside as founders get pulled in all directions, according to the researchers, is intensive mentoring and monitoring of staff.

“Because many young companies face both technological and market risks, founders may prioritize dealing with these challenges rather than the more mundane aspects of human resource management,” the paper says. “Our findings suggest that … more intensive people management is a worthwhile investment of a founder’s time.”

Effective human resource management is more than just keeping the paperwork flowing. “You also need to focus on the strategic part of managing people to make sure they are working on the rights tasks, that they’re getting the feedback they need, and they’re happy in the firm so they’re less likely to quit,” says Rembrand Koning, an assistant professor in Harvard Business School’s Strategy Unit who was a coauthor of the study.

"OUR FINDINGS SUGGEST THAT … MORE INTENSIVE PEOPLE MANAGEMENT IS A WORTHWHILE INVESTMENT OF A FOUNDER'S TIME"

Koning's working paper, released in May, is titled Learning to Manage: A Field Experiment in the Indian Startup Ecosystem. The coauthors were Aaron Chatterji and Sharique Hasan, both of Duke University's Fuqua School of Business; and Solene M. Delecourt from Stanford's Graduate School of Business.

In studying 100 founders of Indian software companies, they found that those who exert more hands-on management—keeping close tabs on workers with regular evaluations, setting expectations, creating shared milestones, and tracking progress toward key goals—run better-performing companies.

Learning from the network

If this intensive style doesn't come naturally to a founder-manager, the good news is it can be learned, Koning says.

"What's encouraging about this paper is that we found that hands-on management can be learned over time. This is something we think many firms can improve. And if we can get people to manage better, we think they can keep more employees and be more successful."

Through social interactions with other hands-on managers, founders can discover not only why they should use these tactics, but also how exactly to implement them.

To study how these management skills can be acquired through peer networks, the researchers partnered with the Indian Software Product Industry Roundtable (iSPIRIT), a think tank that promotes the growth of Indian software product companies. The team brought together founders of 100 growth-stage software product companies in India for a three-day executive retreat.

Prior to the retreat, participants were surveyed to find out how often they engaged in four management practices: providing structured feedback, conducting performance reviews, setting expectations, and establishing shared goals. They then grouped founders into 50 pairs, focusing on the pairs where a high-intensity manager was partnered with a founder who was self-described as more hands off. (A more hands-on manager might use these intensive practices once a week, whereas others might do so once a month or less.)

During the retreat, the paired founders discussed their business challenges and were told to provide advice about management and strategy to their partners.

On the final day, the founders completed a list of changes they planned to implement after returning to their companies. Founders paired with intensive managers were more likely to include items related to management practices. Eight months later, founders were surveyed to provide results from changes that had occurred at their companies.

Hands-on wins in practice

Founders who received advice from hands-on founders were more likely to adopt a similar leadership approach. The majority of these founders made at least one substantial business change after the retreat. “Founders talked at length about implementing particular action items,” the paper says. “For example, founders discussed hiring a new product manager or reorganizing their team to be more efficient.”

"NO ONE WANTS TO WORK FOR A BOSS WHO’S DOING EVERYTHING OR GIVING (WORKERS) ONLY THE BAD PARTS OF THE TASK"

Founders who adopted a more intensive management style saw positive results: These companies retained a higher percentage of their employees and were less likely to close eight months after the retreat. Founders who got advice from more hands-on managers saw 19.6 percent fewer employees leave their firms, and these startups were roughly 20 percent less likely to fail. Founders who already had a more hands-on management approach were able to increase hiring rates.

The researchers make it clear in the paper that “we do not assert that ‘more’ management is always better. To the contrary, excessive ‘micro-managing’ could have a negative impact on firm growth.” Effective managers make sure their workers understand corporate goals, then trust them to take charge of key responsibilities and make important decisions.

It’s easy to confuse hands-on management with micromanaging, Koning says.

“Startup founders have a really hard time letting go, so they’re the ones doing the customer interviews and trying to hire people. But no one wants to work for a boss who’s doing everything or giving (workers) only the bad parts of the task,” he says.

Companies should invest in peer learning

Companies often opt for formal training programs or consulting arrangements with instructors who teach entrepreneurs how to manage their companies. But these interventions can be expensive, often don’t work, and at times are impractical for leaders who are working full-time on their businesses, the paper notes.

Koning hopes the research shows founders that they should seek mentor networks with the goal of picking up intensive management techniques that they can use to more effectively manage and grow their own teams.

These types of exchanges are often more personalized than formal training programs, because the founders tailor the discussion to a company's specific situation and share their own experiences. These discussions aren't likely to happen at networking cocktail parties, so it may take one founder seeking out another for a more in-depth talk, says Koning, whose research examines how businesses depend on the distribution of knowledge, technology, and people across firms.

“When you think about building an advice network to discuss the strategic direction of your company, it can be fuzzy and hard, so you should think: Given the people I know, who should I be talking to more—and who should I choose to ignore?” Koning says. “It's a big decision.”

In fact, it might even determine how well your firm performs.

Related Reading:

Meet the Oddball Entrepreneurs Who Invented Green Businesses
How to Sink a Startup
Rich or Royal: What Do Founders Want?