

Who should become a co-founder?

By Roch Ogier and Saskia Karg

Take the lead

Many people would like to be “part of a spin-off”. Few are ready to take the personal risks involved. You need someone to step up and get the ball rolling, someone to steer development of the early-stage spin-off. We will call this person the “lead founder”. There may be two people sharing this role, but rarely more.

As lead founder, you have usually done some or most of the hands-on work related to the technology and have taken the first steps towards translation. You may be in this role by default as no one else is willing to develop your technology. You plan to work 100+% for the company. You may have already left your job or taken other personal risks, such as forgoing lucrative job opportunities. You are the one the tech transfer office (TTO) trusts and intends to grant the license. You are likely the one reading this article and you will initiate the discussion with potential co-founders.

Don't go it alone

If you are a single lead founder and no one wants to become a co-founder, things may appear simple. However, it is beneficial to have a partner on board as co-founder. Be it to share the hard work or, more importantly, to share the emotional burden and uncertainties linked to the creation of your company.

The CEO position is not a job for everyone. You may lack the necessary skills and training. You may prefer another position (e.g. CSO or CTO) to best leverage your know-how. Awareness of your own strengths and limitations and how to complement them is key.

Do not rush into bringing someone on board, however, if they are not a perfect match. You can always hire people later on. Recruiting co-founders carries a lot of weight. Make sure you conduct your due diligence before committing to join forces with anyone. The past is full of horror stories of co-founder conflict.

If you have already been working as a team, take a step back and consider if your colleagues should join as co-founders and in which roles. This requires a major shift in focus, as you need to take the viewpoint of a hiring manager. As you may not have much recruitment experience at this stage, it may be helpful to have a trusted coach or mentor by your side to support you in the recruitment process. Who is able and willing to contribute which skills, knowledge, and spirit to your future company from the start has a major impact on your chance of success.

A special case is the “professor as single founder” who fully retains their academic appointment. These companies lack the classical lead founder with a full-time commitment. This may impact knowledge transfer if there is not a dedicated person on

board with hands-on knowledge of the technology. Also, filling the role of the CEO can be tricky. A professor-CEO may soon reach their limit, be it time-wise or skill-wise. They may have trouble attracting a suitable outsider as CEO, who may find the company too immature and the distribution of power unattractive. Remuneration expectations of a non-founder CEO may be a deal-breaker. Further staff may be reluctant to join for the same reasons. An attractive incentive structure may partially remedy this.

Find the right role for the professor

As lead founder, you will likely have to work out the role of your professors (faculty members who hosted you and/or played a role in the development of the technology) in the spin-off. First, check the guidelines and regulations of your academic institution. Unfortunately, not all universities have these in place. Those that do often address conflict of interest (COI) and conflict of commitment (COC), define which role a professor can or cannot take, or require authorization from as high up as the university president for professors to take active roles or even equity in a spin-off. To state the obvious, the less COI and COC the better for all parties involved.

Clarify the expectations of the professors at this stage and to find out what they are based on. Do not offer a professor a role by default. They may not be interested in participating at all. If professors want to join the company (in a way compatible with your institution's guidelines), find out their motivation. Is it monetary? Intellectual curiosity? An interest in the entrepreneurial ecosystem, even hype, or peer pressure? Scientific interest? The wish to see technology translated to serve societal needs? Is there a genuine wish to actively support the nascent company? Are they willing and able to be a champion of your science?

Know and clarify the benchmark in your institution, country, or internationally. Expectations regarding equity are often based on faulty assumptions or incomparable examples. Coaches with experience in your specific environment are invaluable allies in this process.

Offer the role that best matches expectations and motivation, keeping in mind COI and COC. As long as the professor keeps their academic appointment, the time commitment they are able (and allowed) to make is very limited. Often, an advisor role is most suitable (e.g. in the scientific advisory board of the spin-off), with fees and/or ESOP (employee stock option plan) if applicable. Unless the professor is an experienced board member, do not offer a seat on the board of directors. Serving on a board is a complex task that needs experience and a significant time

commitment. The board can have a large impact, positive or negative, on the spin-off. A smooth relationship will allow a mutually beneficial further collaboration between the spin-off and the academic group of the professor.

Fig. 1: participation of each stakeholder in the value creation and realization of the value potential of the spin-off

 <p>inventors</p>	<p>Current value: participated in the development of the technology and patent, and were paid (usually by academia) for this work. Are usually entitled to a share of the benefits that academia will collect in the future.</p> <p>Value potential: None if not active in the spin-off.</p>
 <p>professors</p>	<p>Current value: usually among the inventors and participated in development of technology. Usually hosted the founder in their lab and provided mentoring and financial support for the discovery, sometimes early advice on business creation. Were paid by academia for this work. Note that discovery and mentoring is an essential part of their academic job.</p> <p>Value potential: Will continue to support with their lab, and with their network, reputation, or as advisor. Image of professor being still on board and involved is positive for investors.</p> <p>Negative value potential: Could put a veto as inventor (TTO to take final decision). Can be very damaging if not on board (image) or proactively against the project. On the other hand, too much involvement can be counterproductive</p>
 <p>founders</p>	<p>Current value: Have usually done work on the technology (often as PhD or post-doc; often part of the inventors but not always). Were paid (usually by academia) and rewarded (e.g. PhD, publication) for this work.</p> <p>Value potential: Will usually dedicate 100+% of their time and energy to the start-up. Usually trusted by the technology transfer office (TTO) to receive a license agreement.</p> <p>Negative value potential: Nothing will move forward if they quit.</p>
 <p>academia</p>	<p>Current value: Hosted the team that created the technology. Often paid for salaries, training, material, labs, shared facilities, etc. Provided the reputation and ecosystem that facilitated obtaining funds, brain power, and publications. Sometimes directly invested money in the project (e.g. entrepreneurship grants). Usually filed (and often paid for) the IP.</p> <p>Value potential: Reputation and quality label to be a spin-off of a recognized institution. Future host of collaborations with the start-up.</p> <p>Negative value potential: Not granting the license to the IP or offering a poor agreement.</p>

Say “no” where needed

You may feel you need to include someone simply because they “were there” at the start of the project. Think twice. Do not offer shares to everyone who did “something” (e.g. worked on the business plan) easily been done by someone else (e.g. outsourced). Especially if they will not be a clear asset to your team and they are easily replaceable. You do not have to give shares to anyone. “Feeling bad” is not a good reason for such a commitment.

This is not the time to avoid uncomfortable discussions. It is better to deal with emotions now than to end up with a lifelong passive, or even toxic, minor shareholder. Ask yourself: “What happens in the long run if I give shares to this minor contributor? What happens if I don’t?” If there is not a big difference, by all means do not offer any shares. Remind people that your spin-off will thrive or fail based on future work.

Adapt to the new team dynamics

In the academic as well as in the clinical setting relevant for biomedical spin-offs, hierarchies are still pronounced. These hierarchies cannot be replicated in your company, where who is in charge is legally governed by who holds which position (i.e. management versus board of directors). This means that roles, relationships, dependencies – one could even say personal identities – change. A mentee may become CEO and a mentor their employee. A professor used to calling the shots on the project for the past years may need to defer to the decision of a new CEO who just joined. Do not underestimate the friction this may cause in the short term. We humans have a need for continuity of our personal identity and a sudden change in role and power can rock the boat.

Make sure everyone has at least a basic understanding of corporate governance. Take your time to work out who will actively join the company at its incorporation, who will take which role and with which time commitment (who will leave their current job). This will allow you to take the next step: addressing the share split among founders.

Disclaimer

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