

A CEO for the Right Time

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Not all CEOs are interchangeable; different traits are required at different stages of a business' evolution.

The entrepreneur founder is often deified in the business world. You know the person: the one who brought an idea to scale and created a business out of nothing. Charisma backed her vision and conviction, often absent any proof, and that was sufficient to convince others: customers, employees, investors. She never saw an obstacle because she believed there was always a gap to run through and she would find it. Certainly, there were setbacks, but through pure willpower (fueled by a strong internal drive and an ability and willingness to work ungodly hours), a business emerged with her at the helm.

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What separates these leaders from the pack? What caused them to achieve what they did? There are a lot of smart businesspeople, but they aren't necessarily the ones who create something out of nothing or take a business from one level to the next. Why does it also seem, once the

creation happens, that these same creative geniuses get bored? The mundane job of managing a business appears to be both uninteresting and challenging. When that occurs, what should happen?

The uniqueness of the creative entrepreneur is so interesting that a lot of research has been conducted to answer the question: why this person? In short, it appears the entrepreneur is wired differently than the rest of us. It may seem like the entrepreneur loves risk; the actual underlying truth is that they process risk differently. Their mindset is that they tolerate uncertainty to a higher degree than others, they perceive downside as controllable, and they have their eye on the potential rather than the worst-case scenario. Much of this perspective shift can be explained as a result of different brain chemistry. Brain imaging studies of successful entrepreneurs show lower threat reactivity (amygdala response) and stronger engagement of prefrontal regions responsible for planning and reframing risk. Entrepreneurs also show a heightened sensitivity to dopamine; the neurotransmitter tied to motivation and reward anticipation.



The details of the psychological studies are interesting, but the results are practically important to understand. Entrepreneurs have a stronger drive toward novelty and opportunity. They have high energy when pursuing future potential, but they are prone to boredom once things stabilize. Cognitively, they have faster decision loops and a preference for iteration over optimization.

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They learn by doing and have an action bias, and a much lower need for complete information before acting. Entrepreneurs feel stress like the rest of us, but they channel it differently. Cortisol spikes are shorter, followed by rapid re-engagement, which means stress triggers problem-solving mode, and that means action.

It is not clear how much of this is innate (nature) or learned (nurture) but it does appear that continued entrepreneurial conditions train the brain over time, much like elite athletics or military command. The bottom line is that this person who quickly developed or grew a business is opportunity-driven, action-biased, and uncertainty-tolerant.

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This mental chemistry can clash with businesses as they mature and the demands for scale, governance and optimization rise to the top of the pile of priorities. As businesses turn into companies, complexity sneaks up quietly. Employees multiply.

Team interactions become more frequent and complex. Information needs are magnified, as not every problem can be solved by a quick “huddle” of all decision-makers. Suddenly, the company needs formal processes, long-range planning, and structure. The change is not instantaneous, but unless the business is very small, the eventual warning signs will surface: declining operational efficiency, inability to attract top talent, increasing investor or board concerns, and internal dysfunction and employee turnover, among others.



Ultimately a shift in leadership style will be needed. The entrepreneur may understand or at least voice the need for systems, data, and delegation, but the fundamental personality of an entrepreneur gets in the way of the path to execution.

Contrasting the characteristics of the entrepreneur and the traditional CEO, the former is oriented towards what “could” be built and what asymmetry could be exploited, while the latter’s focus is on refining processes, making marginal improvements and executing a defined strategy repeatedly and reliably. Here are some areas where differences can be observed:

- Personal control versus institutional trust. Entrepreneurs sell personally, hire intuitively, and fix problems directly. They have trouble letting go of decision rights and accepting that others may solve problems differently but not worse, a trait that directly gets in the way of institutionalizing repeatable and measurable processes.
- Identity entanglement with the business. To the entrepreneur, the business is not just an asset, but rather an extension of identity. Early survival requires emotional investment, personal sacrifice and relentless ownership of all decisions. As the business moves towards institutional processes and systems, governance-as-a-process becomes a threat to the ego.
- Risk reframing versus risk management. While the entrepreneur is skilled at reframing risk by considering uncertainty as opportunity that can be realized through effort and ingenuity, the traditional CEO focuses on downside protection, ensuring compliance and controls, and reducing volatility.
- The psychological cost of winning differently. Entrepreneurs don’t feel like winning is winning when the emphasis swings from bold moves to steady performance, from visible heroics to quiet - reliability, and from personal impact to institutional durability.

What should be done when a business requires less creative, bold, action oriented leadership and a more systems-oriented optimization focus? Transitioning to being a delegator and team builder requires changing what the leader does during a day, from direct involvement in the front lines of the business with suppliers, operations, and customers to directing and enforcing systems and processes, measuring the results, and keeping the organization in the right lane. To be effective in this different role requires trust in others to carry out the businesses' functions. It is hard to trust someone else who can't do it (whatever it is) as well or as quickly as can the entrepreneur. This is partially why attempts to convert the entrepreneur to a process-manager CEO usually fail; the entrepreneur CEO can't make (and isn't wired to make) the mental leap to being an orchestrator of others who have thoughts and ideas rather than relying on his or her own.

But why force it? Changing the entrepreneur leaves the organization without the electricity that got it where it is and retains in place a CEO that doesn't have the formal training to create organization charts, manage risk, hold effective meetings, establish goals, measure results, and hold the organization accountable.

Converting the entrepreneur to a traditional CEO may bring the worst of both worlds: the loss of the entrepreneurial spirit that is the backbone of the company and a substandard institutional leader.

We've watched too many case studies in which the very same attributes that propelled an entrepreneur to leading a viable business held that business back from achieving its next stage of growth.

When a founder- or family-led business seeks to professionalize the CEO role, it should not be seen as replacing the founder or family leader, but as evolving the leadership to match the company's stage. Many successful entrepreneurs that continue as effective leaders don't fundamentally change themselves, but they complement their entrepreneurial spirit with an execution-focused leader at their right-hand side to "manage" the business so they could continue to point

the compass in the right direction. Even in middle market businesses, it is important to preserve what matters most: the founder's vision, the family's values, and company's long-term future. Rather than replacing the CEO, a better solution might be to partner the entrepreneurial leader with a professional COO so that the founder can focus on the future, critical external relationships and new opportunities, while the COO can focus on repeatable, reliable execution of the plan. The key ingredient to making this transition is to recognize that the transition is necessary to realize the potential of the business, or in some cases, allow it to survive.

We've watched too many case studies in which the very same attributes that propelled an entrepreneur to leading a viable business held that business back from achieving its next stage of growth. Rather than change the inherent nature and brain chemistry of that founder, the business is more likely to succeed in its next phase with a leader with different strengths. The best course of action is for the entrepreneur to recognize the need and initiate the transition, instead of waiting for a board or catastrophe to necessitate it, and that starts with a candid conversation about the needs of the business and organization apart from the needs of an individual.

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