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The Founders Pie

ELEMENTS OF THE DECISION-MAKING PROCESS

Idea	The company wouldn’t exist if it weren’t for the original idea, and that is certainly worth something, BUT there’s a lot of truth in the saying, “A successful business is 1% inspiration, and 99% perspiration.”
Business Plan Preparation	The development of an initial business plan is a surprisingly difficult and time-consuming effort. To pull together and organize all the thoughts of the founding team, filling in the blanks, identifying and reconciling the differences, and producing a document that captures the essence of the business and helps persuade banks, investors, board members, and others to support the company is a mammoth undertaking, as anyone who has done it will attest. Again, the plan is a necessary element of starting the business, BUT execution against the plan is where the real value lies.
Domain Expertise	To what degree do you and your partners have a meaningful experience in the business of your business? Knowing the industry, having relevant experience, and having a Rolodex full of accessible contacts can greatly improve the company’s probability of success and speed up its growth rate. Otherwise, it will take longer to get commercial traction and you’ll have to pay for these assets, usually by hiring someone and including equity in their compensation package.
Commitment and Risk	You’ve probably heard the old saying that “a chicken is involved with breakfast, but a pig is committed.” Similarly, the founders who join the company full-time and are committed to making it a success are much more valuable than those who will sit on the sideline and be cheerleaders. In addition, the opportunity cost for those who join the company instead of pursuing a career is not trivial.
Responsibilities	Who is going to do what? Who is going to go stay up at night when you can’t make tomorrow’s payroll? Where does the “buck stop”?

RELATIVE IMPORTANCE OF THE ELEMENTS

For each company, the relative importance of these elements is likely to be very different than that for another company. A company based upon new technology is highly dependent upon the “idea.” On the other hand, a new restaurant is not likely to be so unique that the “idea” is a major contributor to the restaurant’s ultimate success. If we were to evaluate the ideas on a scale of 0-to-10, the technology company’s idea might be a 7 or 8, while the restaurant may be only 2 or 3.

Similarly, the relative importance of the business plan will vary. A company that has to raise external financing will need a plan that will assist fund raising efforts. If the founders are providing the start up capital, then the plan will be relatively less important.

	WEIGHT
Idea	
Business Plan	
Domain Expertise	
Commitment and Risk	
Responsibilities	

I believe the same analysis can be productively applied to the other elements. Not only can the absolute evaluations be made (0-to-10), but they can be compared to one another for make sure that their relative values are reasonable as well.

RELATIVE CONTRIBUTIONS OF THE FOUNDERS

Each of the founders can be evaluated on these elements as well. Who did what to come up with the idea? Who contributed what to the business plan? Who has the industry connections? Who is joining the company? Who is accepting responsibility for raising investment capital? Who is responsible for bringing the product to market?

	Founder 1	Founder 2	Founder 3	Founder 4
Idea				
Business Plan				
Domain Expertise				
Commitment and Risk				
Responsibilities				

AN EXAMPLE

Let's look at a hypothetical example. Assume that we have a high technology start up spinning out of a university with four members of the founding team.

1. The inventor who is recognized as the technology leader in his domain.
2. The "business guy" who is bringing business and industry knowledge to the company.
3. The technologist who has been the inventor's "right hand man."
4. The research team member who happened to be at the right place at the right time, but hasn't and won't contribute much to the technology or the company.

If these were all first-time entrepreneurs, it's likely that they would each get 25% of the company's stock, because "it's fair." Let's take a look at what the Founders' Pie Calculator says. First we evaluate each of the factors on their relative importance and each of the founding team members contribution to each on a scale of 0-to-10.

	Founder 1	Founder 2	Founder 3	Founder 4	
Idea	70	21	21	0	
Business Plan	6	16	2	0	
Domain Expertise	30	20	30	20	
Commitment and Risk	0	49	0	0	
Responsibilities	0	36	0	0	
Total Points	106	142	53	20	321
% of Total	33%	44.2%	16.5%	6.2%	100%

ADVICE TO FOUNDERS

- Splitting up the founders' pie is not a trivial undertaking.
- Rarely should it be split evenly, even though that's what many start-ups do.
- Consider the past, current, and future relative contributions of the founding team members to the ultimate success of the company.
- Employ the Founders' Pie Calculator to create a quantified scenario of how the pie might be divided based upon these elements.
- Caution: while I have convinced myself that this is brilliant tool, and that the scenarios that I've run through it have had logical outcomes, use this tool for guidance only. Do not depend upon it exclusively.

Reproduced from Frank Demmler-Assoc. Teaching Professor of Entrepreneurship at the Donald H. Jones Center for Entrepreneurship

Outputs from the Programme Planning Process

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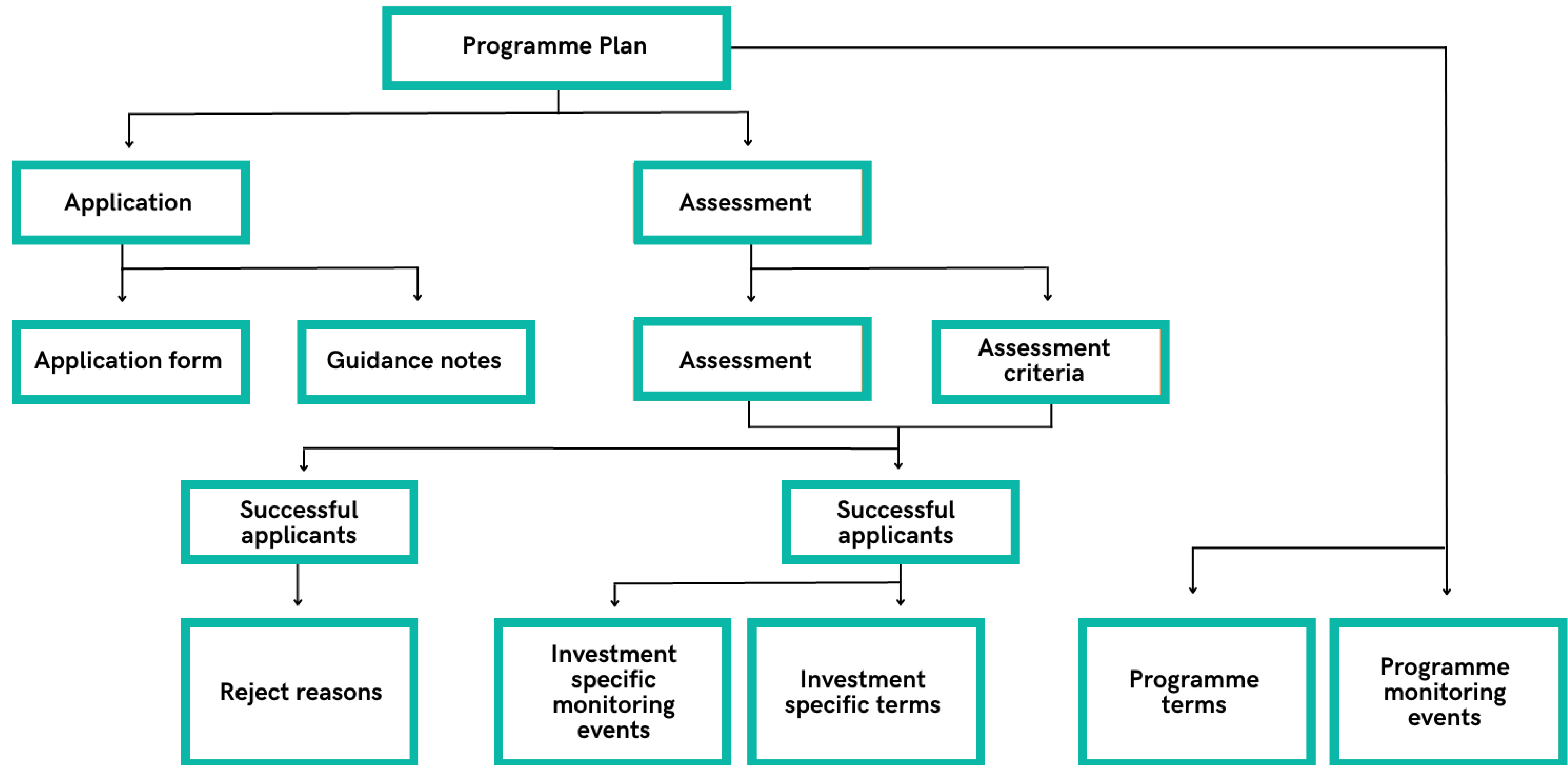
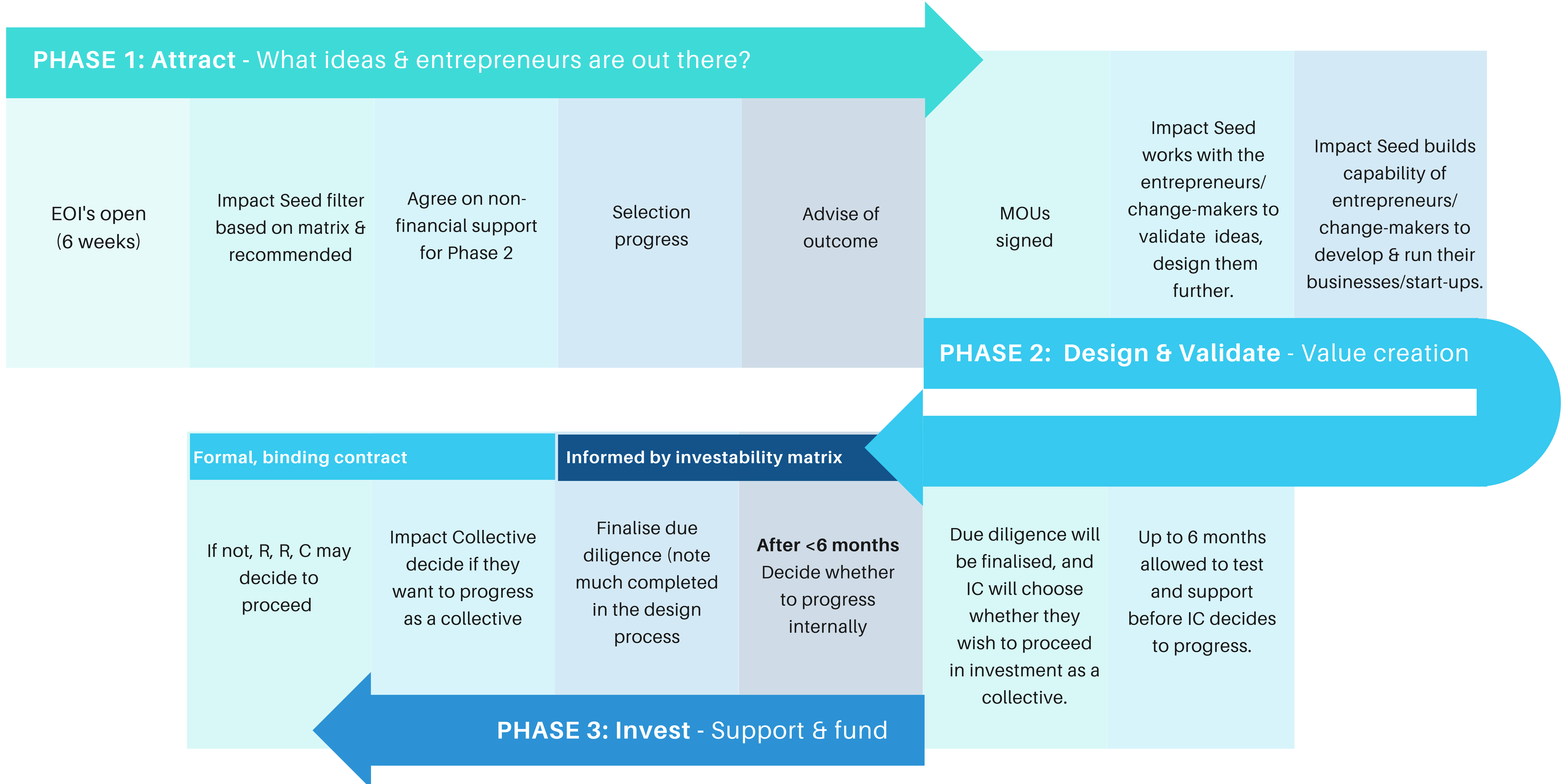


PHASES & ASSOCIATED RESOURCES



Risk considerations for NFP Boards when exploring Impact Investment

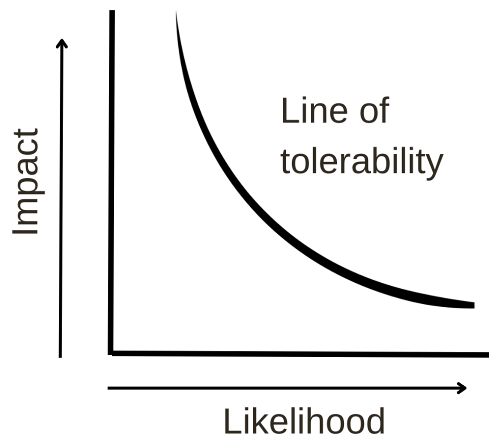
In social investment, there are really two types of fundamental risk:

1. The risk the investment will not produce the outcomes you hope for
2. The risk that the recipient will do something that impairs your future ability to make effective investments

However, for not-for-profit boards, there are deeper risk considerations.

Type of risk	Considerations
Constitutional Risk	Are the objects of the Association (if applicable) in alignment with impact investment?
Ownership of Risk associated with Impact Investment /Risk Governance structure	Where across the agency, from the Board down does risk ownership sit? Is this communicated effectively? Poor governance can also be a risk with social impact investment, leading to a lack of accountability and transparency.
What are the roles and responsibilities to ensure effective mitigation of risk?	Are the people delegated to mitigate risk appropriately skilled in Impact Investing?
Do you understand your risk appetite? As a board and management	Have you considered the types of investors? Are there ethical considerations, areas of operation, types of partnerships, fraud controls, compliance breaches or financial impact considerations
Have you assessed the impact on core service delivery and alignment with constitutional objectives? Is it mission aligned?	Will your investment disrupt or enhance our current core service delivery.? Whilst not a critical risk factor in so far as investment, however, stakeholders may require certain criteria.
Due Diligence – does Board have the expertise to undertake due diligence to assess risks and rewards	Will a sub-committee be developed with relevant experts to manage associate due diligence etc?
Reputational Risk Stakeholder perception	Dependent on how your investment funds have been generated (ie surplus from government funds) what work will be done with stakeholders to manage the perception?
Financial Risk	If the social impact investment does not achieve expected returns, how will this be managed and communicated Social Impact Investments can result in a loss of control over the use of funds, which can again be a risk if the funds are not being used in accordance with mission/constitution.

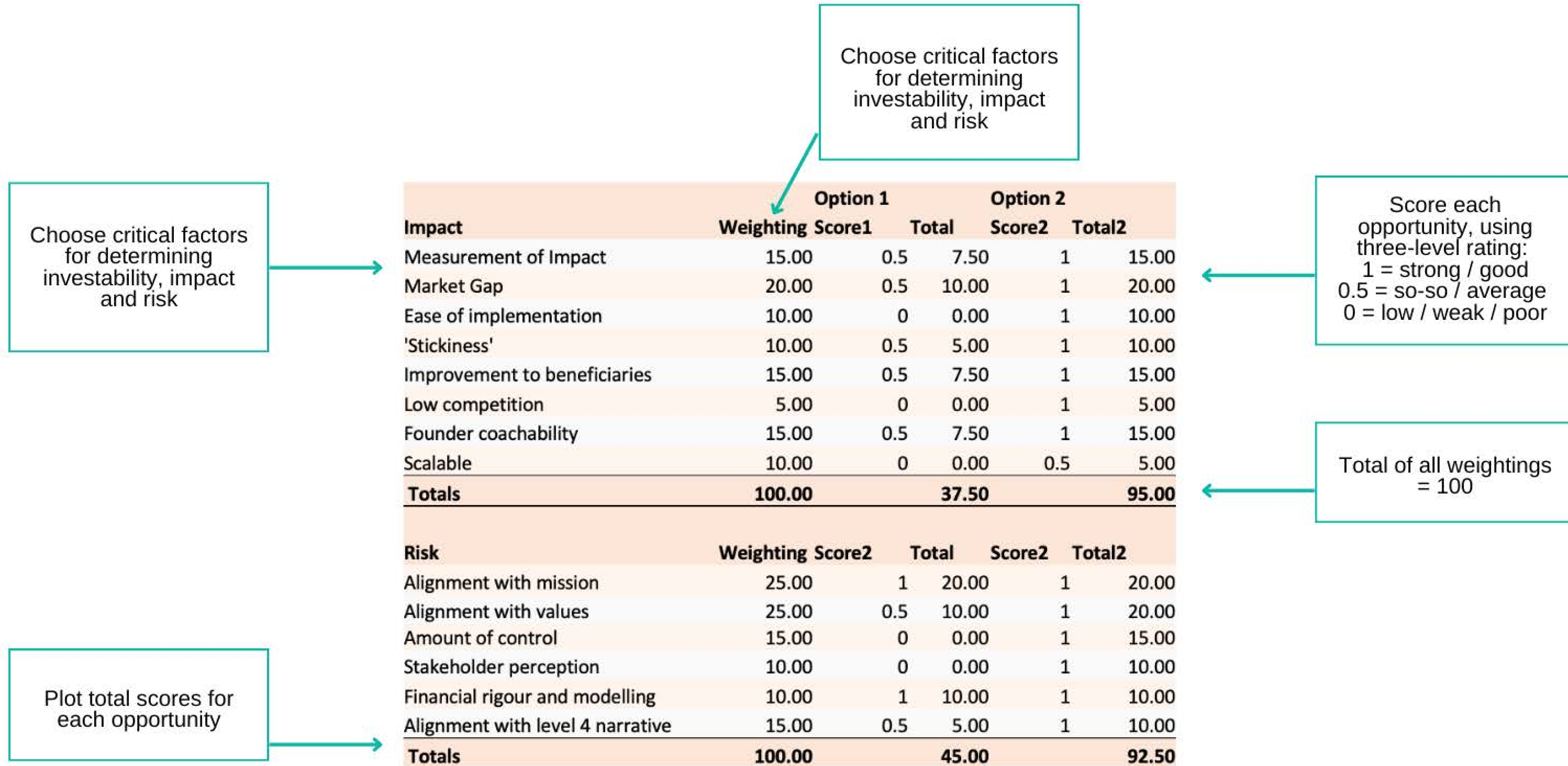
By utilising the above considerations risk can be modelled utilising the below matrix.



The horizontal axis indicates the likelihood that a risk will occur, and the vertical axis the potential impact of that risk. The area below the line of tolerability (the Board's risk tolerance) is the 'safe zone' when assessing investments against risk criteria.

Assessing Impact Investment Opportunties

The directional policy matrix (DPM) is rigorous, tried and tested multi-criteria decision making model for weighting, scoring and ranking each potential investment option, summarised below.



		Option 1		Option 2	
Impact	Weighting	Score1	Total	Score2	Total2
Measurement of Impact	15.00	0.5	7.50	1	15.00
Market Gap	20.00	0.5	10.00	1	20.00
Ease of implementation	10.00	0	0.00	1	10.00
'Stickiness'	10.00	0.5	5.00	1	10.00
Improvement to beneficiaries	15.00	0.5	7.50	1	15.00
Low competition	5.00	0	0.00	1	5.00
Founder coachability	15.00	0.5	7.50	1	15.00
Scalable	10.00	0	0.00	0.5	5.00
Totals	**100.00**		**37.50**		**95.00**

Risk	Weighting	Score2	Total	Score2	Total2
Alignment with mission	25.00	1	20.00	1	20.00
Alignment with values	25.00	0.5	10.00	1	20.00
Amount of control	15.00	0	0.00	1	15.00
Stakeholder perception	10.00	0	0.00	1	10.00
Financial rigour and modelling	10.00	1	10.00	1	10.00
Alignment with level 4 narrative	15.00	0.5	5.00	1	10.00
Totals	**100.00**		**45.00**		**92.50**

Investability Criteria - Examples

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SOCIAL IMPACT ALIGNMENT

- Ease of operational fit with/additionality to Impact Collective partners
- Additional value added to community sector/funders
- Alignment with Impact Collective's social impact problem statements

MARKET GAP

- The market gap is very significant for this service/product (i.e. competition low, and/or points of difference exist)
- Partnership/ collaboration opportunities exist
- Validation has been achieved for the product through existing pilots, pivots and/or evidence of support from customers

DEFENSIBILITY

- The business model is unique and hard to copy
- Potential to develop and/or protect intellectual property
- Potential to find and engage with key foundational clients/sponsors

SOCIAL IMPACT

- An impact management framework/theory of change has been articulated
- Potential depth and breadth of social impact

BRAND AND CUSTOMER

- Potential for a strong brand and community recognition to be achieved?
- How easy is it to secure paying customers for the product/services? (with Impact Collective/Impact Seed support)

FINANCIAL

- Is there a bankable asset (eg property or plant/equipment) being built in this business
- Profitability potential of the business
- Economies of scale on margins (eg the business isn't labour-intensive)

TEAM

- The founder(s) is/are adaptable and willing to learn
- Key team members are in place
- Advisory/strategic/operational support available and/or can be easily sourced

INVESTMENT/ RISK

- Ability/capacity/timeframe to reach cash-flow positive
- Risk profile: The project has a high probability of success if the investment is secured
- The project has a good reputation across stakeholders and the community
- Potential to pivot (i.e. to learn quickly and change focus/business model if required)

Outputs from the Programme Planning Process

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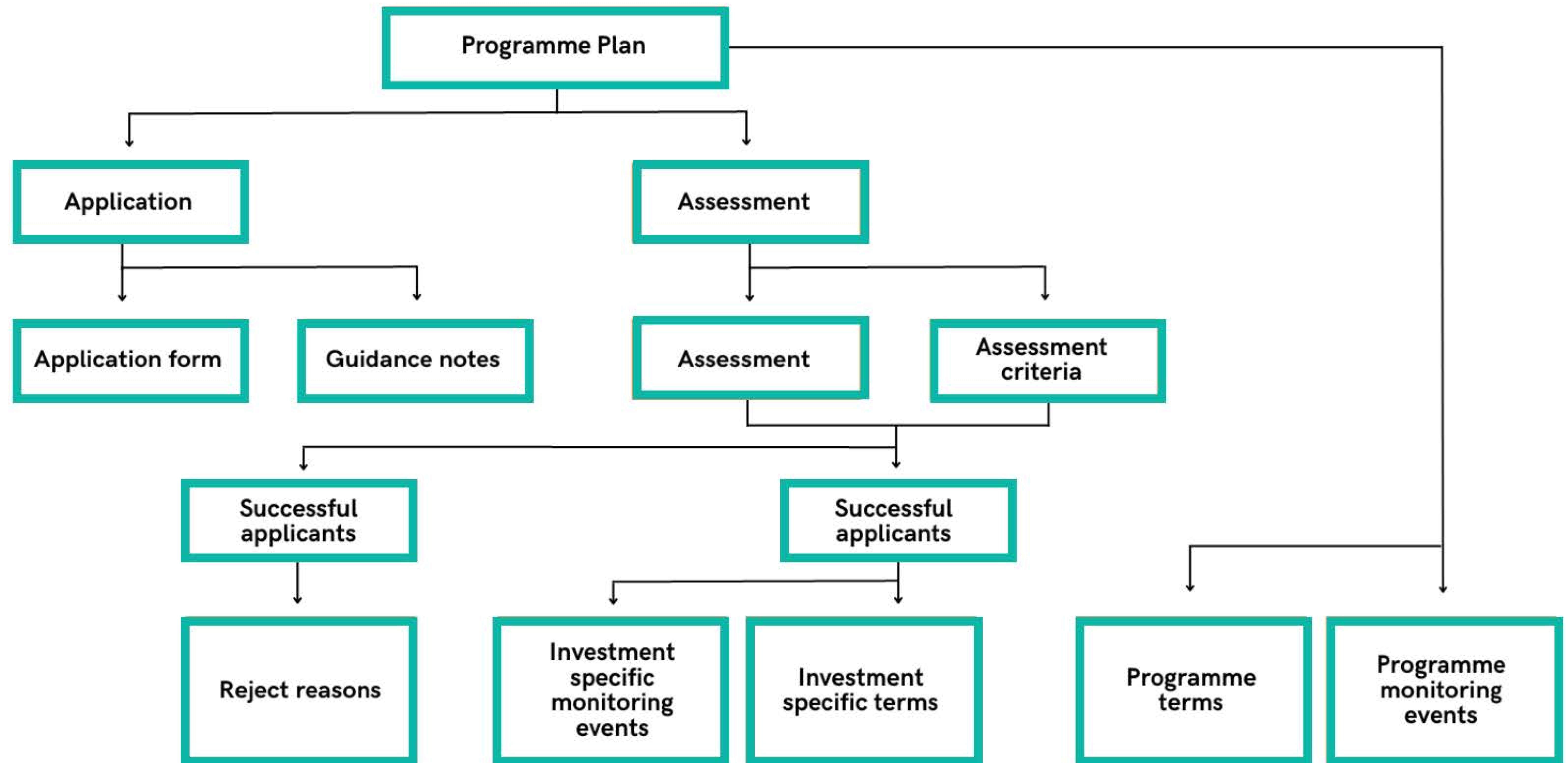

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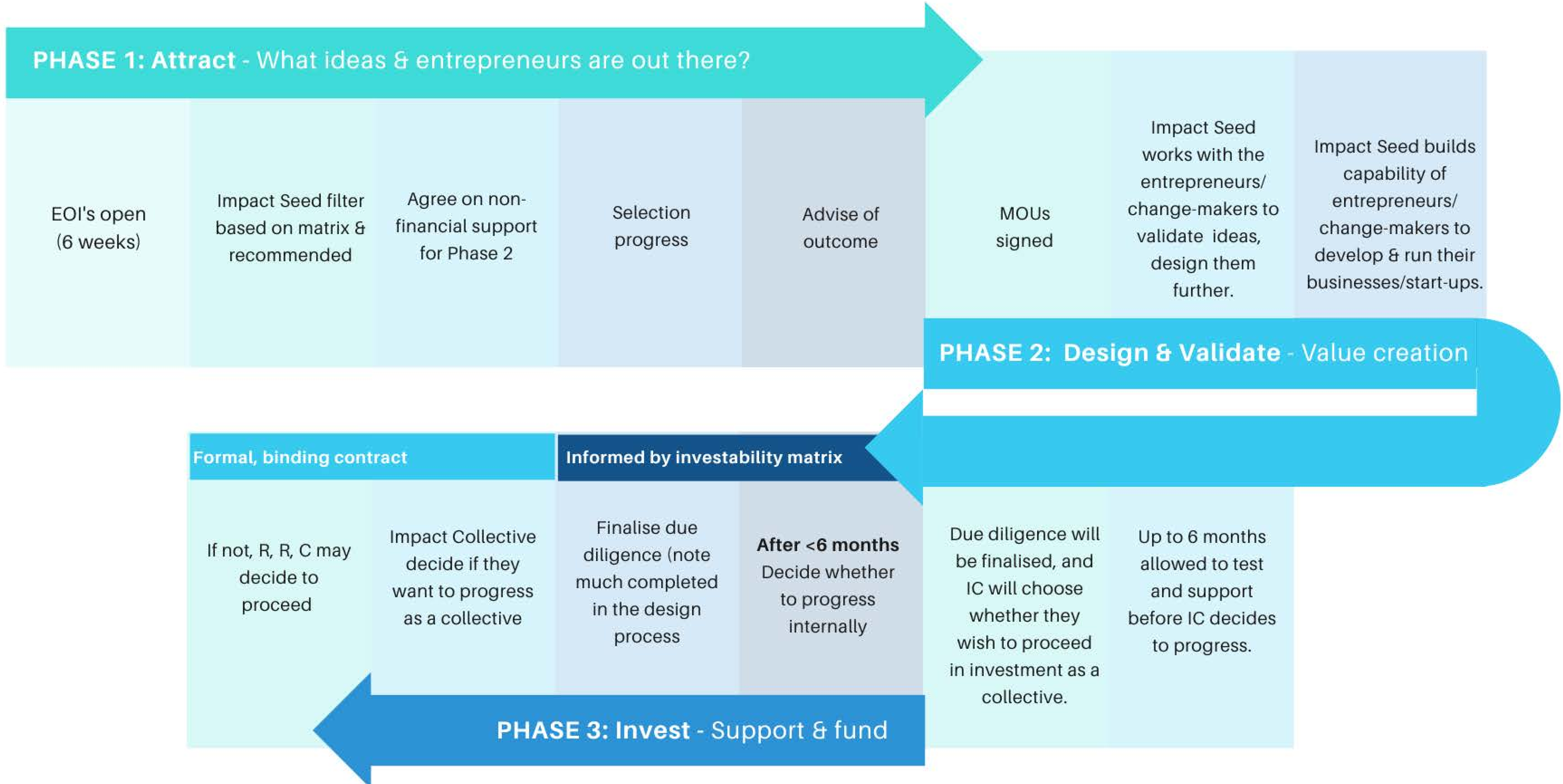
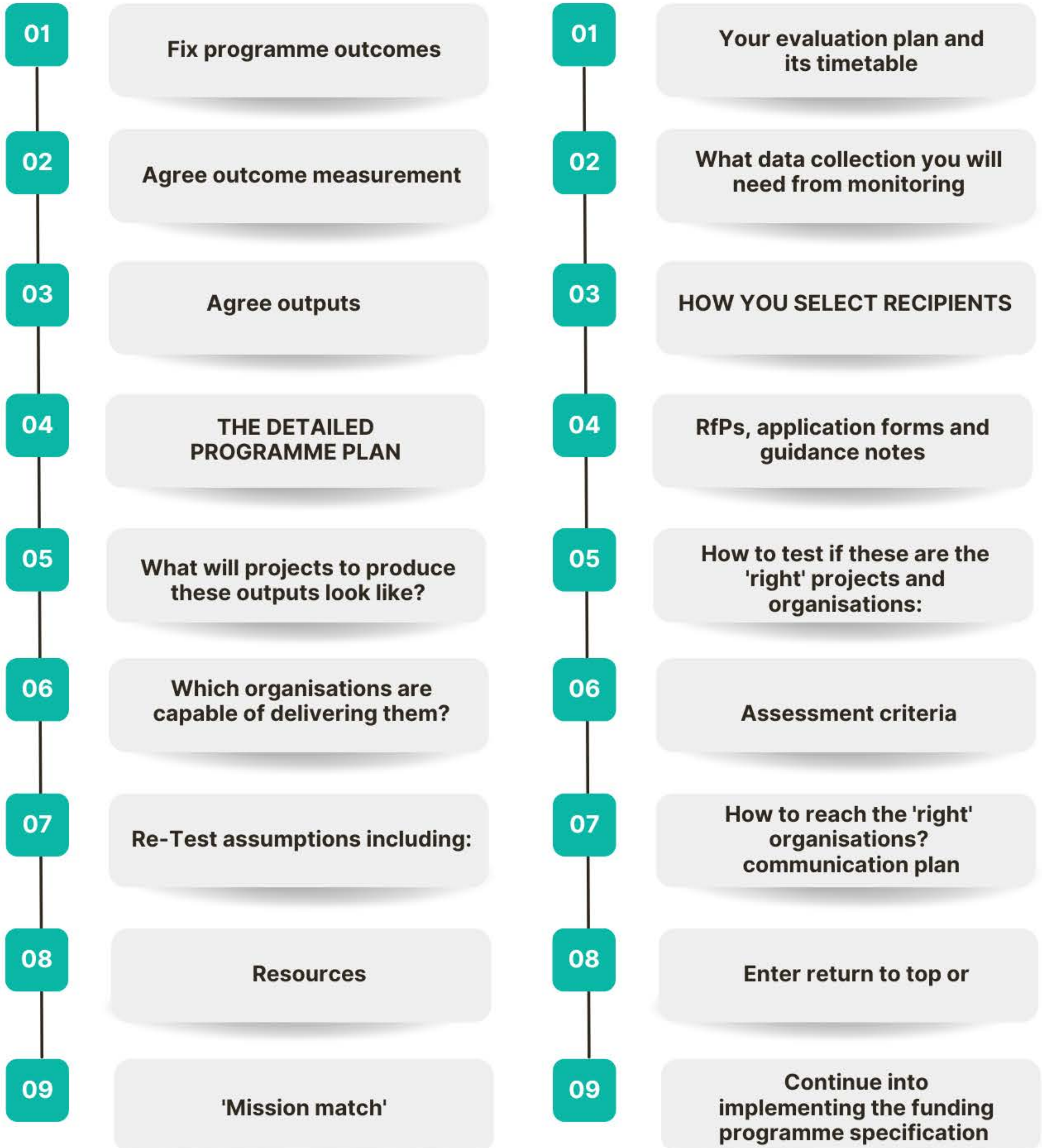


Planning an Investment Programme



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