

Leadership DNA for Start-Ups

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1.0: Abstract

India is attracting a lot of attention when it comes to entrepreneurship and start-ups. The Liberalization, Privatization, and Globalization efforts of the Indian government in the early nineties opened up the various sectors of the economy to private sector and foreign participation. When the multinational companies started establishing their businesses in India, they brought along with them best practices in management that had enabled them to become successful in the world arena. As a result, our young managers who were part of these companies in India were exposed to a great amount of learning in terms of how to successfully lead and manage companies. After going through the learning curve, many of these managers ventured out on their own to establish start-up companies. As a result, over the years, sufficient traction was built, and today, India ranks third amongst the start-up ecosystems in the world and has been billed as the youngest start-up nation in the world.

Whilst the above is good news, the high rate of start-up failure is a cause for concern, as it results in erosion of capital and job losses. Keeping this in mind, it is imperative to examine the role that leadership plays in the success of start-up ventures.

This qualitative and exploratory research paper looks into the crucial role of “**Leadership DNA for start-ups**” and tries to bring forth the leadership qualities and capabilities that the entrepreneurs should necessarily have to sustain their ventures over a long period of time

Key words: start-ups, leadership, leadership theories, entrepreneurship, leadership styles

2.0: Introduction

Of late, India has been attracting a lot of attention for being the fastest growing start-up eco-system in the world. Amongst all the cities in India, Bangalore attracts the maximum number of start-ups due to the excellent eco-system that exists for creation of start-ups, and as a consequence, Bangalore also attracts the maximum funding that start-up ventures receive in the country.

While on the one hand, the high rate of new venture creation is good news, as it not only leads to generation of thousands of jobs but also has a direct bearing on the economy of the country. On the other hand, the high rate of failure of the start-ups is a cause for concern. The new venture failure rate is almost equal to the new venture creation rate in the country. When start-ups fail, they impact the economy in a negative way due to job lay-offs, and improper utilization of capital, not taking into account the emotional and psychological turmoil that people who are involved with failed start-ups go through.

In the above perspective, it is prudent to examine the relationship between leadership skills and the success/failure of start-ups. An innovative business idea alone does not guarantee success. The innovative business idea has to be complemented with capable leadership.

The leader has to effectively communicate the vision he has set forth for the company and motivate his followers to work towards fulfilling the vision.

Capable leadership is not the only factor that has an impact on the success of the start-up venture. The internal and external business environments have to be in favour of the entrepreneur to achieve success. The leader should have the capability to carefully analyze the internal and external business environments, and formulate appropriate strategies to achieve success.

3.0: Literature Review

3.1: Leadership

The definition of leadership has evolved greatly over the last 100 years and more. At the beginning of the twentieth century (1900-1929), leadership was looked upon as control and centralization of power, with domination over followers being a common theme. During 1930-1940, researchers focused on the traits of a leader and looked at leadership as being able to influence followers rather than dominate them. The 1940s saw a shift in the focus of research on leadership – from traits of leaders to how leaders behave while leading and directing group activities. In the 1950s and 1960s, we saw researchers continuing to support the group approach, and added a few more dimensions – like leaders developing a relationship with followers while formulating and implementing shared goals of the organization, and the effectiveness of the leader. The 1970s were influenced by the Organizational Behaviour approach, wherein the ability of leaders in initiating and maintaining groups or organizations towards achieving the group or organization's goals were taken into account. Towards the end of the twentieth century (1980-2000), the focus shifted back to dominating the followers (do as the leader wishes), having an influence over them, and on the traits of the leader. Even after a century of research, there is still no agreement on a common definition of leadership. For the sake of convenience, leadership can be defined as a process whereby an individual influences a group of individuals to achieve a common goal. In the last sixty years, there have been sixty five different classification systems to define the dimensions of leadership. The most popular leadership theories are: *Trait Approach, Skills Approach, Style Approach, Situational Approach, Contingency Theory, Path-Goal Theory, Leader-Member Exchange Theory, Transformational Leadership, Servant Leadership, Authentic Leadership, Team Leadership, and Psychodynamic Approach*. Table 3.1 compares the various theories of leadership. (Peter G. Northouse, *Leadership: Theory and Practice*, Sage Publications, 2012).

Table 3.1: Comparison of Leadership Theories

Sl.No	Theory	Central Theme	Strengths	Weaknesses
1	Trait Theory	Leaders are born with leadership traits	Backed by extensive research	Does not link traits with leadership outcomes
2	Skills Approach	Leadership skills and abilities can be learned	Includes a wide variety of components of leadership	Too broad. Beyond the dimensions of leadership skills
3	Style Approach	Focuses on the behaviour of leaders	Has great validity and credibility	Does not link leadership styles with leadership outcomes
4	Situational Approach	Adaptability of leaders based on situation	Very practical approach and has stood the test of time	Not backed by extensive research
5	Contingency Theory	Matching leadership skills with the right setting	Is supported by extensive empirical research	Does not address the mismatch between leaders and situations
6	Path-Goal Theory	Motivating followers to achieve goals	Is very practical in its approach	Is complex and confusing. Has received partial support in empirical research
7	LMX Theory	Interaction between leader and follower	Is a very strong descriptive theory	Measurement of Leader-Member Exchange is questionable
8	Transformational Leadership	Changing and transforming followers	Widely researched and has proven effectiveness	Poor validity for measurement of Transformational Leadership
9	Servant Leadership	Putting followers before self	Only theory that focuses on followers	No common definition or framework for Servant Leadership
10	Authentic Leadership	Focuses on whether leadership is genuine and real	Meets the need for trustworthy leadership	Is still in a formative stage
11	Team Leadership	Focus on working in teams and shared/distributed leadership	Is in tune with today's reality	Is complex and does not have an exhaustive list of Team Leadership skills
12	Psychodynamic Approach	Focuses on the personality types of leaders	Is universal in its approach	Has limited use in practice

3.2: Start-ups

The Smart Techie Start-up City event held in 2008 at Bangalore saw participation of more than 6000 enthusiasts, 42 start-up companies, more than 16 Venture Capital companies, a host of eco-system partners and more than 300 CEOs of start-up companies (Christo Jacob, SiliconIndia, 2008).

In 2012, SiliconIndia reported that the Start-up Genome Project has placed Bangalore amongst the top 10 preferred entrepreneurial locations.

India ranks amongst the world's fastest growing eco-systems for start-up companies and amongst all the cities in India, Bangalore received 47.8% of the total start-up funding in 2014 (Gaurav Sikka, thenextweb.com, 2015).

"I see start-ups, technology, and innovation as exciting and effective instruments for India's transformation" (Shri Narendra Modi, Prime Minister of India, 2016).

Buoyed by the interest shown by entrepreneurs to get onto the start-up bandwagon and by the worldwide attention the country was receiving in the start-up world, the Government of India, in 2016, announced the Start-up India policy for nurturing and promoting start-ups in the country. The Start-up India policy defines a start-up as "Start-up means an entity, incorporated or registered in India not prior to five years, with an annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment, or commercialization of new products, processes, or services driven by technology or intellectual property" (Gazette of India, February 2016). "Start-up India is a flagship initiative of the Government of India, intended to build a strong ecosystem for nurturing innovation and start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government, through this initiative aims to empower start-ups to grow through innovation and design" (Start-up India Action Plan, January 2016). According to the Start-up India Action Plan, the Government of India will provide funding support to the start-ups via a Rs.10,000 crore corpus. As part of the Start-up India policy, the Government will partner with 108 incubators and 20 industry associations to promote and nurture start-ups. The policy envisages a three point action plan: *simplification and handholding, funding support and incentives, and industry-academia partnership and incubation.*

According to the Global Ecosystem Report of 2015, Bangalore has between 3100-4900 start-ups and has achieved the second highest growth rate for exit volume and VC investment among the top 20 start-up ecosystems in the world and as a result, ranks amongst the top 15 start-up destinations in the world.

Since Bangalore has been in the forefront of the entrepreneurial revolution that is sweeping the country, the Government of Karnataka, in April 2016, announced the Karnataka Start-up Policy 2015-2020. The Karnataka Start-up Policy states that in 2015, close to 35% of all Indian start-ups were operating from the state and this makes Bangalore as the single largest hub for start-ups in the country. Additionally, the policy also states that Bangalore is the only Indian city to figure in the best 20 start-up ecosystems in the world. The vision of the Karnataka Start-up Policy is "to create a world-class start-up ecosystem in the state through strategic investments and policy interventions, leveraging the robust innovation climate in Bangalore". The goals of the policy include: "stimulating the growth of 20,000 technology based start-ups including 6000 product start-ups by 2020 in Karnataka, achieve creation of 6 lakh direct and 12 lakh indirect new employments in the sector, mobilize Rs.2000 crore funding for investment in start-ups through Government intervention alone and facilitate generation of at least 25 Innovation Technology Solutions with a social impact in sectors like healthcare, food security, clean environment, and

education for all, etc”. The policy defines a start-up as “a technology based company which is registered in Karnataka not more than 4 years from the date of application, employing at least 50% of its workforce in Karnataka, and having a revenue of not more than INR 50 crore” (Karnataka Start-up Policy 2015-2020, April 2016). The strategies enlisted in the Karnataka Start-up Policy 2015-2020 include encouraging entrepreneurship in education through New Age Incubation Network (NAIN), fostering strong partnerships between R&D institutions and industry, creating incubation infrastructure through Public Private Partnership (PPP), and providing state support in the form of incentives and concessions.

India ranks third amongst the global start-up ecosystems, with 3-4 start-ups being established every day. The country received a total start-up funding of US\$ 5 billion in 2015, with the number of private equity, venture capital, and angel investors seeing a 100% growth rate and a 125% growth in funding as compared to 2014. The country is also one of the youngest start-up nations in the world, with the average age of 72% of the founder-entrepreneurs being less than 35 years (IPAN Research, September 2016).

3.3: Leadership and Start-ups

In his article titled “Entrepreneurs and the cult of failure” in the April 2011 issue of Harvard Business Review, Daniel Isenberg says that it is misleading to “embrace failure” to encourage entrepreneurship. He recommends that entrepreneurs should accept that failure is an integral part of doing business and plods entrepreneurs to convert the learning from the failure into fodder for introspection. He also emphasizes that it is very important to remove structural obstacle to reduce the objective risks of a failed venture (Harvard Business Review, April 2011).

9 out of 10 start-ups are going out of business and the ones that survive display qualities such as: *vision, speed, budget mastery, social skills, discipline, determination, ability to adapt to changes, fundraising skills, unwavering belief, good time management skills, and superior execution* (Tanya Prive, Forbes, March 2013).

According to Jayson Demers, the 10 most critical factors that dictate the success of start-ups are: *the idea, the leader, the team, the capital, the plan, the execution, the timing, the crisis response, the marketing, and the growth* (Entrepreneur India, November 2015).

In an article titled “There’s no success like failure”, Iqbal Wahhad writes that businesses which are not willing to take risks will miss out on opportunities that others don’t have the courage to explore (Director, April 2015).

Katalin Takaes Haynes et al, in their article “The dark side of entrepreneurship: towards a mid-range of theory of hubris and greed in entrepreneurial contexts” argue that greed and hubris have a negative effect on entrepreneurial ventures, with specific reference to human and social capital. They further say that greed and hubris are likely to have an influence on the potential success of new ventures and may result in the venture reporting sub-optimal financial results (Journal of Management Studies, June 2015).

97% start-ups fail, 1% get acquired, 1% become paper unicorns, and 1% become sustainable. Some common mistakes made by start-ups are: *unsustainable business model, poor unit economics, lack of long term approach, improper guidance and mentorship, the team, timing, and estimating demand and supply* (IPAN Research, September 2016).

Stephen Brown writes in “Learning from failure” that history has shown that failure is the default condition of the business. They argue that some of the world’s best and respected leaders failed before succeeding. They have identified six characteristics of people who persevere: *ambitious, activity, amplification, aphorism, and abidance* (Director, 2008).

In “The changing role of the entrepreneur: models and strategy to master the changing role of leaders in today’s dynamic business environment”, Kelly Bruning says that

entrepreneurs must become leaders by delegating responsibilities and focusing on vision, mission, and strategy. She argues that entrepreneurial transition includes: *doing*, *managing*, and *managing managers* (Proceedings of the Academy of Entrepreneurship, 2009).

Jason Cope et al, write in their article “Exploring distributed leadership in the small business context” that the leader has to develop a broader range of leadership skills as part of the transition while the venture grows. They argue that entrepreneurship increasingly becomes a distinct form of leadership during the growth process (International Journal of Management Review, 2011).

In an article titled “How do entrepreneur’s Emotional Intelligence and Transformational Leadership orientation impact new venture growth”, Romit Yitshaki says it is not Intelligence Quotient but it is the Emotional Intelligence and social capabilities of the leader which determines the leader’s performance (Journal of Small Business Entrepreneurship, 2012).

Peter Bregman, in his article “The most overlooked leadership skill”, says that it is the ability of the leader to receive messages that distinguishes the best of the leaders from the rest, more than the ability of the leader to convey messages clearly and powerfully. He says that a great leader can become a great receiver by *being courageous, not judging and by being open* (Harvard Business Review, May 2013).

In “Rethinking the work of leadership”, Dan Pontefract argues that leadership is not a 9-5 job and that leaders should do away with the notion that they know all and can decide everything. He says that a fancy title of the leader does not make him superior to others, but instead, puts him in their service (Harvard Business Review, July 2013).

Manfred F.R. Kets de Vries, in his article “The Eight Archetypes of Leadership” points out that distributive, collective, and complementary leadership contribute to the success of organizations. He lays down the eight archetypes of leadership as: the strategist, the change-catalyst, the transactor, the builder, the innovator, the processor, the coach, and the communicator (Harvard Business Review, December 2013).

Doug Sundheim, in his article “The trouble with Leadership theories” says “The art of great leadership is never cliché. It’s an art. It should be informed by smart research, yet it should be shaped by on-the-ground experience. Both are critical.” (Harvard Business Review, May 2014).

W. Chan Kim and Renee Mauborgne, in “Blue Ocean Leadership” talk about how in the United States of America, only 30% of the employees are committed to doing a good job. They identify poor leadership as one of the reasons for this employee disengagement. They differentiate Blue Ocean Leadership from traditional leadership in three ways: *focus on acts and activities, connect closely to market realities, and distribute leadership across all management levels*. According to them, the four steps of Blue Ocean Leadership are: *being aware of your leadership reality, developing alternative leadership profiles, selecting the to-be leadership profiles, and institutionalizing the new leadership practices* (Harvard Business Review, May 2014).

George Vielmetter and Yvonne Sell, in their article titled “Leadership is about to get more uncomfortable”, talk about how leaders in the future will experience discomfort on the personal and business levels. They introduce a new form of leadership called “Allocentric Leadership”, wherein the leader focuses more on the needs and wants of others first before his own needs and wants (Harvard Business Review, July 2014).

In a Harvard Business Review article, John Michel identifies supportive leadership as being the most effective form of leadership. He argues that leaders should push people in joining them in their mission of penetrating new territories. The author also says that effective leaders put others before self. The author lists down four things which are imperative for this kind of leadership: *listening to other people's ideas, embracing and promoting a spirit of selfless service, asking great questions, and not falling prey to your own publicity* (Harvard Business Review, August 2014).

Emotional Intelligence is a common trait that all effective and great leaders have, is the view of Andrea Owens in his article "How Emotional Intelligence became a key leadership skill". He argues that Emotional Intelligence takes precedence over Intelligence Quotient and technical skills and is a must have for a leader to become great (Harvard Business Review, April 2015).

Sarah Cliffe, in a Harvard Business Review article "Leadership qualities v/s competence: which matters more?" says that whilst both skills (leadership qualities and competence) are important, it is risky to over-emphasize leadership qualities over task competence (Harvard Business Review, November 2015).

Angelo Mastrangelo, in his article "The answer to fixing our economy" advocates that entrepreneurial leaders are the solution to revive economies and not entrepreneurs and start-ups. He says that good entrepreneurial leaders focus on the needs and wants of the consumer, while at the same time generating business selflessly and not selfishly. He further says that entrepreneurial leadership is very critical to all forms of organizations and at all stages of their development (Business Journal News Network, March 2016).

"How your leadership has to change as your start-up scales" - an article that appeared in the Harvard Business Review states the leader of the start-up has to shift his mindset from "start-up" to "scale-up" by achieving a balance between the "push" model of leadership (tell, direct, delegate) and "pull" approach (empower, collaborate, coach). The article recommends that leaders who are transitioning their organizations from start-up to scale-up should do the following: *listen more, align employee and business goals, create feedback loops, and build peer-to-peer networks* (Jeffrey W. Hull, May 2016).

Tobias Meyhofer et al, in an article "Leadership education as a success factor in new venture creation support" talk about the importance of leaders improving their leadership competencies and developing their entrepreneurial personality to be able to creating a successful company, Further they also talk about how transaction and transformation-oriented leadership competencies affect the success of start-ups in a positive manner (World Conference Proceedings, International Council for Small Business).

4.0: Objectives of the Study

The objectives of this study are to:

- Understand leadership, start-ups and the start-up ecosystem in India
- Examine the relationship between leadership skills and the success & survival of start-ups
- Make recommendations for further research on this topic

5.0: Research Methodology

This research paper is qualitative and exploratory in nature. Data has been collected from secondary sources, by doing extensive literature review on the topics of start-ups and

leadership. The secondary data has been collected from published sources such as the Internet, articles published in journals, and government published documents.

6.0: Data analysis and interpretation

Some of the key learning, analysis, and interpretation from the review of literature can be summarised as follows:

- Leaders have to learn from failures
- Leaders need to have vision and superior execution skills in order for the start-up to survive
- Leadership skills is one among ten critical factors that dictates success of start-ups
- Some common mistakes made by leaders is not getting proper guidance and mentorship
- Leaders need to delegate responsibility and focus on vision, mission, and strategy
- As the start-up grows, leaders need to develop a broader range of leadership skills
- Emotional Intelligence and social skills, and not Intelligent Quotient, determine the leader's performance
- Leaders need to be courageous, non-judgmental, and open
- Leaders should not be a “know-all” type of leader
- Distributive, collective, and complementary leadership contributes to the success of organizations
- Leadership skills should be backed by smart research and on-the-ground experience
- Poor leadership leads to employee disengagement
- Supportive leadership is the most effective form of leadership
- Entrepreneurial leaders are the solution to revive economies
- As the venture grows, leaders have to shift their mindset from “start-up” to “scale-up”

7.0: Conclusion

The research paper has made an attempt to present an overview of leadership, start-ups and the relationship between the two. The research paper can act as a guide for enthusiastic wannabe entrepreneurs who are planning to dive headlong into the exciting world of entrepreneurship and start-ups. A detailed analysis and interpretation of the literature review reveals that having strong leadership skills are important for a leader to steer his start-up venture towards success and survival. However, the research paper does not conclusively and empirically establish the relationship between leadership skills and success/failure of start-ups. This provides an opportunity for researchers to do quantitative research in this area and such research is bound to have a positive impact on the leader, in terms of knowing the effect of his leadership skills on the performance of the start-up venture. Scope exists for researchers to investigate the impact of leadership skills on the various measures of performance of a start-up company – revenue, profit/loss, market share, employee retention, etc. In conclusion, it can be stated that prospective entrepreneurs who are planning to start their start-up ventures need to exercise caution before plunging headlong into entrepreneurship and should base their decision on a systematic and thorough analysis of their leadership skills and capabilities and the impact that they can have on the long term growth and survival of the venture.

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