Could a hub and spoke, homegrown CEO strategy boost the success of university start-ups?

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How can universities make more money with their spinout company (SpinCo)-suitable technologies? By “growing” their own CEOs to improve both the quality and quantity of start-up company leaders available, that’s how. Surprisingly, however, at most universities little or no effort is made to interweave this critical need into tech transfer efforts.

Most TTO directors will tell you that some of their biggest success stories have come from revenues based on equity as opposed to small licensing payments drawn out over a period of time. Given that fact, and the increasing importance being placed on start-up creation, it seems particularly shortsighted not to give sufficient attention to the selection and grooming of SpinCo management.

Ideally, TTOs should be proactively planning three to seven years ahead with regard to the staffing and selection of SpinCo management. While universities have been providing CEOs for their start-up companies for many years, a rigorous selection and development process for these executives is almost nonexistent.

Many times these CEOs are selected by default by virtue of simply having invented the technology. But is this the best way? The evidence is clear that inventor-CEOs have a mixed record of success, yet universities often don’t focus during a start-up’s early development on the installment of a robust management team. If the technology is worth patenting and committing scarce resources to, shouldn’t TTOs be taking steps to protect those investments by ensuring wise SpinCo management team selection?

And from a purely common sense perspective, is it logical that a person who did not seek out a career in business will make a good candidate for the position of CEO? Extending that logic one step further, what may be needed is a university policy to educate and indoctrinate start-up CEOs on campus.

The youth movement

TTOs are hoping to develop promising technologies into revenue-producing start-up companies, but they often lack leaders to expertly nurture these early-stage operations to give them the best chance of success. At the same time, universities are replete with energetic young MBAs who are eager to get their hands on a start-up opportunity, and MBA programs are equally eager to help provide real-world work for these young graduates. But in most cases universities fail to recognize these complementary aims.

True, many recent MBA graduates are not sufficiently seasoned to run a company. Truer still some technology areas demand years of experience. But Silicon Valley is replete with companies that are run by individuals under 25. In certain circles, some tech savvy players will refuse to deal with anyone over the age of 40. Chances are, there are at least some, and maybe more than a few, technologies in your TTO’s portfolio that would be a good match for a twenty-something CEO.

For at least some technologies, the marriage of “foster care” technologies and jobless MBA graduates can make sense. To arrive at the best candidates, your TTO could hold competitions among MBA students for the privilege of running a company, and offer credits for completing the task.

Seek future CEOs among PhD candidates

Another area where the failure to interweave university goals in general with the university’s IP goals can be seen is PhD candidate selection. Most universities select doctoral candidates based on their academics, their technical interest, and the likelihood that they will be successful in their particular program. But this selection process has a fundamental flaw when it comes to a marriage with the interests of university TTOs.

Because TTOs have technologies that are homeless despite the best efforts of licensing associates, wouldn’t it make sense for universities to incorporate CEO personality profiles into their selection process for PhD candidates? Even to hold out the promise of a CEO position and an equity stake for those who bring their talents to the school and continue developing their research as well as business acumen?

Here’s a fictional example to illustrate. Say a hypothetical Baggot University knows Professor Genius has recently filed an invention disclosure on a bleeding edge technology. Assume further
that Professor Genius has dutifully explained that the technology will not be ready for marketing for three to five years. For TTOs, the current practice is watchful waiting. Perhaps the better practice is to send a memo to the VP of research stating the need for PhD candidates for the upcoming academic year who have a desire to work in the same area as Professor Genius. Further suggest to the VPR that said PhD candidates should have that necessary blend of personality traits that are characteristic of the entrepreneurial CEO. Additionally, involve Professor Genius in the PhD selection process to ensure that the match is a good one, and place the successful candidate into Professor Genius’ lab.

Voila! At just the moment that Professor Genius’ technology is ready for market, the university will have a home-grown CEO: the CEO will have worked in Professor Genius’ lab, will be imprinted on the professor and the university, will know the technology, and will have the right personality to successfully launch the company.

One advantage to this model is that a great deal of the relationship and trust building issues present in university technology licensing will go away. Also, with the home-grown CEO the university has a chance to establish a relationship and track record with the CEO candidate and possibly increase the likelihood of success for the SpinCo.

Again, taking a common sense approach, this concept potentially solves a chronic problem for TTOs -- namely, with the bare-bones budgets of most start-ups and without a big salary or perks to lure an experienced business leader, CEOs are in extremely short supply, while young MBA and PhD students who would be willing to supply sweat equity are in large supply. It’s a good situation for a “shotgun marriage.”

**Hub and spoke CEOs?**

Admittedly, young CEOs lack experience, so it might also make sense to have a number of young, home-grown CEOs reporting to and being mentored by a single seasoned CEO who keeps watch over the portfolio of start-up companies. One can imagine a hub and spoke arrangement of a single part-time CEO managing three to seven start-up companies, sharing office space with the inexperienced but energetic MBA graduates or post-docs. The gray-haired “hub-CEO” brings experience, judgment and a Rolodex, and the spoke-CEO brings enthusiasm, energy, and the proven ability to survive on a diet of peanut butter and Ramen noodles.

Think about the efficiency that would occur for the hub-CEO. If the CEO is out spit-balling super angels to raise money and has one start-up to pitch, his chances are much slimmer than if he is shopping seven exciting technologies.

Such a model structure may not be right for every technology you seek to transfer to a start-up. But technologies with successful student CEOs do exist -- notable student CEOs include Michael Dell, Steve Huffman and Alexis Ohanian, Larry Page and Sergey Brin, Bill Gates, and Mark Zuckerberg.

What types of companies fit the hub and spoke CEO model? First, note that none of the success stories just mentioned involved FDA or USDA approval of a pharmaceutical or pesticide chemical. Additionally, none of these companies created products that have a remote possibility of complications similar to the Thalidomide situation. Also, all of these companies are in the predictable arts: engineering, software, hardware, computer programming, and the like.

Interestingly, each of these companies got started with very small teams with little cross discipline contribution of the team members required to make the prototype. Finally, note that computer programming was integral to many of these products. When everyone on your team has a similar technical background, a student CEO model might work. If you need a medicinal chemist, a toxicologist, a physician, and a multicenter clinical trial, the student CEO may not have the depth required.

The point is, universities can and should do more with their staff, students and technologies by becoming proactive developers of young start-up CEOs. With a little extra effort, you’ll increase the success of your spinouts while at the same time enhancing the practical value of the education students receive.

Editor’s note: This article is © copyright 2012 by Brendan O. Baggot and Martin R. Graf, PhD. All rights reserved. Mr. Baggot is a principal with Schaefer O’Neill, where he counsels clients in worldwide patent law and strategy, patent preparation and prosecution, and portfolio management. He can be reached at 804-385-0444 or brendan.baggot@SchaeferONeill.com. Dr. Graf is a technical specialist in the Intellectual Property Group of Schaefer O’Neill. The opinions expressed herein are not necessarily those of Schaefer O’Neill LLC.