FOUNDING TEAMS CHECKLIST

Founding Team Composition

Will you found this venture with co-founders?
It is recommended that you only found a company alone when: (1) You have deep relevant experience in your focal industry (2) You like to keep control (3) The industry you are starting your company in does not demand fast growth (4) Your idea and its implementation are relatively simple. For most high-growth ventures a team is the way to go because there is a low likelihood that you alone possess all required human, social and financial capital at founding to succeed.

Are your co-founders family or friends (prior to founding this venture)?
While co-founding with people you know well, such as family and friends, makes sense because there is a basic level of trust and comfort with one another, there are also more risks involved. There is a higher likelihood of not discussing the 'elephants in the room' with one another, and there will likely be higher damage to the relationship in case something goes wrong. This does not mean you should never co-found with family and friends, but does mean you need to prepare yourselves well. Ways to do this can include compartmentalising your relationships, creating worst-case scenarios (ideally written up in a founder's agreement) and discussing and arranging upfront how you will ensure sensitive discussions to take place.

Do the co-founders have complementary (i.e. diverse) skills (e.g., based on key functions, industries, contacts,... needed for the venture)?
One of the disadvantages of teams consisting of people who knew one another before is that you see people going for co-founders who are like them; we all suffer from similarity bias (also called "homophily"). However, that rarely results in an optimal team composition as you tend to need more diverse skills, access to different networks and other resources.

Do the co-founders have similar values (e.g., what you value in life, priorities (e.g., money, ethics,…))?
While diversity in skills is needed, don't forget about the softer factors in your team. You need some similarity in values as otherwise you run the risk of having too many personal conflicts.

Have you discussed and are aligned concerning your key goals for this venture (e.g., growth path, willingness to take on external financing and/or to internationalise, type and time of exit)?
It is important to not only be aligned in values but also in how you see the future path of your venture. Exit is one of the topics that you likely need to address heads on, especially if at some point you aim to go for external funding. Raising external financing is a first important step in the path of many high-growth ventures - yet, one that goes along with giving away some of the control of your venture (e.g., in the case of angel or venture capital funding), as well as giving away part of the financial pie of your venture. Are all founders willing to do this? It is key all founders are aligned on this matter (which can also mean deciding to NOT want to raise external money).

Founding Team Roles

Have you discussed which co-founder will take on what role?
It is very important to have clear role responsibilities and hence divisions between co-founders (esp. when you are family/friends). If you do not do this, it may lead to conflict, along with avoiding accountability. Also, having those discussions will allow you to avoid some of the inherent assumptions you could otherwise make towards known co-founders ("we know one another").

Have you made clear agreements on how much time each of you will commit to the venture?
Make sure to clarify how committed each founder will be. Oftentimes the assumption is made that all founders will devote their full attention to the venture, yet we see in reality that plenty of founders are part-time founders. It is important each founder can decide whether or not to take the leap having access to all available information, i.e. including whether or not you may have to pull more weight than one of your co-founders. It is also an important element to take into consideration in drafting the rest of your founders agreement (e.g., related to founder remuneration, decision-making power, equity splits).

Are you all equally involved (in terms of time invested) in the venture?
While part-time founders are not uncommon, matters do become more complicated if this only holds for some of the co-founders and not for others. An inequality in time commitment may cause frustration down the road (especially for the founder(s) taking on the larger time commitment). If you do have such an inequality, discuss it explicitly (including formal agreements as to when the less-involved founder(s) will transition to a fulltime commitment) and take it into account when designing the rest of your founder agreement (e.g., in determining your equity shares).

Do the majority of co-founders have C-titles? (e.g., CEO, CTO, CFO)?
Investors generally do not like this practice as it can signal an avoidance to have difficult discussions around who truly deserves which title. So, if you have done this (same applies to having co-CEOs) just ask yourself: are you sure this is not just a way to avoid having the discussion of who should be the CEO? Also, once titles have been handed out, it is quite difficult to take them away - however, having a C-level title comes with substantial power and hence important consequences for venture decision making. Are these really the right people for the job? Being a young venture means that plenty of things may still change along the way so be careful with handing out those titles now. Assigning roles yes, handing out titles to everyone no.

Decision Making

Are important decisions always be taken by unanimity/consensus ?
Consensus decision-making is another way teams often show a "we're in this together" mindset. The majority of teams initially rely on consensus decision-making. There is not necessarily anything wrong with that, BUT be careful it does not slow down the decision-making process too much and be careful to thoroughly think about the next two questions that will follow.

Have you defined what you consider to be "important decisions"?
Be careful to delineate what kind of decision-making rule you want to apply to which exact kind of decision (e.g., general strategic decisions, admissions to shareholdership, admissions to entrepreneurial team, firm liquidation/sale).

Do you have a mechanism in place to deal with deadlock (i.e. no consensus on important decisions)? (e.g., majority/minority voting, CEO who has the final vote, a mutually trusted independent arbitrator).
Conflicts are bound to occur - think about how to handle disagreements regarding key decisions. There is no one right solution here, but it is important you have thought about and agreed upon a mechanism if this were to happen.

Founding Team Equity

Have you explicitly discussed how you will split the equity and why you will split it that way (i.e. you have clarified which criteria to use, how important you find each one and how much you think each founder (has/)will contribute(d) to each criterion)?
Most founders spend very little time thinking and discussing about how to split their equity. This, however, is a decision with substantial consequences for you as the founder down the line. It is simply too important to not discuss thoroughly. So make sure to have an explicit discussion within your founding team on how each of you sees a fair equity split and how you each came to that conclusion. Using the equity split simulator can be a helpful tool to get this discussion started.

Have you split your equity equally amongst the co-founders?
Whether or not this is a good thing depends on your reasoning to do so. For instance, in quite homogeneous teams (e.g. people who are rather close to one another in terms of experience, who had the idea and the money contributed to the venture) the cost of engaging in lengthy negotiations with your co-founders may not be worth the return. In more heterogeneous teams however it would be worthwhile and is advisable to avoid frustrations later on. Moreover, those that do split their equity equally also tend to be the ones who did not thoroughly discuss this decision (so-called quick handshakes). Being careful is the message here!

In the case of a non-equal split, do you all feel comfortable with the difference in percentages?
Discussing this topic thoroughly also ensures that everyone feels fairly treated - so make sure everyone truly speaks their mind about this. A key tip is to have everyone, on their own, make a proposal on how they individually see the equity being fairly split among co-founders and why. Bringing all of these views together, you can start to have a fruitful discussion.

Have you divided the equity primarily based on who had the idea and/or patents and the amount of money put into the venture?
The easiest criteria to use, which hence most teams do use, relate to past contributions of founders (i.e. such as who had the idea, money invested,…). While it is fair to reward for past contributions and hence to include this in your equity split calculations, it should not be the only nor predominant criteria to use. The future will take far longer to build; so make sure to also look ahead: what can you expect each founder to contribute to the future growth path of the venture? (E.g., the person you assigned a CEO will likely take on more of the responsibility so probably should get a little more; do they have key skills required for the venture, what is their expected future commitment towards the venture?).

Have you agreed upon buy-out terms amongst founders, i.e. terms regarding the transfer of founder shares when a founder would leave the venture or change their role?
One of the biggest mistakes founding teams can make regarding equity splits is writing this in stone, i.e. putting it in a static equity agreement without any consideration for the future and how things may change. Including buy-out terms is one of the ways in which you can account for the (uncertain) future of both your venture and your co-founders. At the very least you need to discuss whether or not to include these terms. Note that discussing and agreeing upon such terms likely also includes agreeing on a price or pricing mechanism for the shares - this will be easier to agree upon early on in the venture rather than later on (much like with divorce terms).

Are your founder shares subject to vesting? (i.e. do you have to earn your shares over time?)
Given that you cannot predict the future, it is best to make your shares contingent upon either time or performance (i.e. achieving certain milestones). Vesting based on the passing of time is most used in practice. You could do this either linearly (i.e. if you use linear vesting over 5 years and you have 50% of the shares, that means with each passing year you get 10% of your shares. If you leave after year 1, you would hence only get to keep 10% and need to return the remaining 40% to the venture) or with a cliff (e.g., making sure you only get the majority of your shares after a significant amount of time, e.g., 4 years). This way, if a founder were to leave prematurely, he/she will not be able to take all shares with them. As with buyout terms, at the very least make sure you discuss whether or not to include this.

If you do have buy-out terms and/or vesting schedules, have you differentiated those terms for 'good leavers' versus 'bad leavers'?
Founders can leave for many reasons; some founders may leave simply because they realize they have different goals, preferences or priorities in life. Founders may, however, also leave because they committed fraud or because they want to join the competition. Just like marriages may end in good versus not so good circumstances, so may founder partnerships. To account for these potentially quite different ending circumstances, founders should differentiate the terms under which they will buy back the departing founder's shares. This is typically done by using good versus bad leaver provisions (e.g., bad leavers will typically receive a lower price for their shares than good leavers).

Founding Team Other Remuneration

Have you decided on what the rest of the founder remuneration package will look like (i.e. amount of cash remuneration, variable pay, dividends)?
The key here is simply to have thought about it and to have discussed possible differences in this regard amongst co-founders. If not a fixed amount, make sure to agree on which criteria you will use (and make those explicit) to determine remuneration. Also, be aware this initially may be quite low (about 30 to 40% of founders have no base pay at all at founding).

If performance is used as a basis to determine founder remuneration (e.g., vesting, cash), have you agreed upon how founder performance will be evaluated and by whom (e.g. by external advisors, by the founding team themselves)?
Performance as an evaluation basis brings along risk of subjectivity. It is important you set the assessment principles in a transparent and agreed upon manner from the beginning.

All

Have all agreements among founders been made legally official and signed by all founders?
You should put everything in writing! All the decisions we have highlighted in this checklist related to founder remuneration (both equity and cash) and founding team decision-making (including conflicts and how you will deal with those) should be written down and signed by all founders. Involving a lawyer to this end may be wise as these agreements set the foundation for your venture later on.