Horizon37
The Leadership Proliferation Threshold (LPT)
Is your business ready for scale-up?

19 January 2022

This research, in a nutshell..

Our combined Horizon37 and Cranfield University research team - with input from over 100 scale-up leaders in the innovation business ecosystem - examined the huge impact leadership can have on success and failure during scale-up.

No-one leading an innovation scale-up wants to join the 24/25 start-ups that don't get past 50 people[1]. Leadership must step-up as a business grows.

At points along the way, the urgency of change, and associated risk to the business, can increase fast. We define the moment for a scale-up where unprepared leadership can pose the greatest risk to the business as the **Leadership Proliferation Threshold (LPT)**. The pending risk is often neither foreseen nor properly mitigated for.

The key components of the collective leadership required beyond the threshold are **creating culture, setting direction, managing performance and feedback**. Furthermore, leadership must proliferate beyond the Founder/CEO for the scale-up business to thrive beyond the LPT.

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[1] Freeman, D. and Siegfried Jr, R.L., 2015. Entrepreneurial leadership in the context of company start-up and growth. *Journal of Leadership Studies*, *8*(4), pp.35-39, referencing Young Entrepreneurs Council (2013)

1. Why does leadership matter in scale-up?

As a business grows, so do the demands on leadership. Even with a strong innovation, a genuine market, good timing, and a sensible strategy… unfit leadership puts the business at risk of failure.

Leadership is not *doing*. Innovators are usually very good at *doing*. But, doing, isn't scalable.

Leadership is ***generating positive results through others.***

"It is leadership that ultimately defines the difference between success and failure"
Phil O' Donovan, Chairman of Twelve Winds and co-founder of CSR plc

What is at risk when leadership fails?

Loss of Founder

Crash in trust

Alienating Stakeholders

Controlling behaviours

Blinkers

Conflict

Distraction

Can't hire

Can't retain

Chair operationally involved

Poor communication

Focussing on the past

Micro-management

Team becomes too technical

Conflict between Founders

Not focussing on strengths

Source: experiences shared by the 57 Horizon37 community members participating in the Leadership Proliferation exploration event Dec 2021.

The right leadership delivers successful business outcomes of:

- **Achieving its mission** - this could include deploying the product or service, generating financial returns, creating jobs and disrupting a sector or social construct.
- **Raising investment funding** and/ or **achieving a positive exit.**

2. When does leadership get mission critical? (Introducing the LPT)

More is demanded of leaders as businesses mature. But it's not linear. At a critical point, business risk gets massive if leadership can't keep up.

That's the Leadership Proliferation Threshold, and it occurs at around 40-50 people.
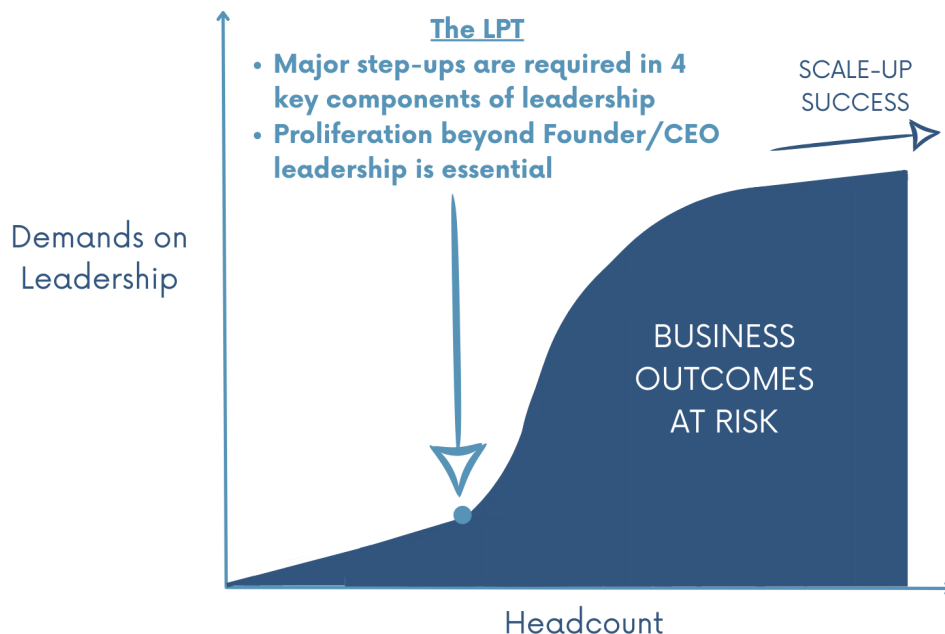
Source: Analysis by the research team of: interviews held with 30 scale-up business leaders; validation conversations with 40 leaders; survey results; and literature review.

There are many different controlling variables used to define the stage of maturity of a scale-up - for example, the amount of investment raised, revenue, market traction, product regulatory approval, IP creation, and many more. But **Headcount** matters most.

Ratified by interviews held with 30 scale-up business leaders; validation conversations with 40 leaders; survey results; and literature review; we asked the Horizon37 community at the LPT online event (December 2021) to tell us at which point leadership needs to ramp up:
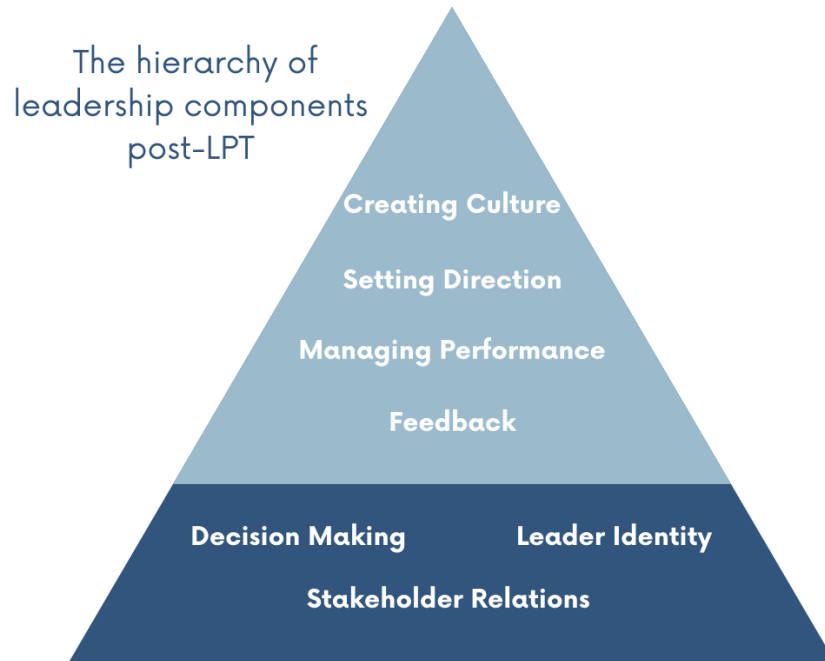
Leadership needs to ramp up most quickly when headcount reaches:

twenty around 70 people
11 45 double the previous
forty 10 **40** **20** **25**
22 **100** 18 thirty
7 30 15
110 120
twelve the dunbar number

Source: responses from the 57 Horizon37 community members participating in the Leadership Proliferation exploration event Dec 2021.

Fall "behind the curve" and business outcomes are put at risk. You can't get away with mediocre leadership any more.

"If you cut off the head of the snake, can it still survive?" Anonymous

"At the beginning, leadership is the typical founder. They have a hand in every aspect of the company, marketing, all the way through to cleaning the office. As the business evolves, so does the skill set within the company. Leadership then is about harnessing those skills and therefore looking at a "longer horizon". You want to be able to move from looking at day to day or even minute by minute issues to planning 6/12 months ahead." - Anonymous

3. What kind of leadership is needed in scale-up?

We identified eighteen components of leadership required collectively in the business during scale-up.

The relative importance of each component of leadership changes drastically as the business evolves, and varies from business to business. There is no "one-size fits all" in leadership. Scale-ups can waste a lot of time and money trying to be comprehensively good at it, sacrificing pace and progress as a result.

Leadership Component	Signs that a leader is getting it right
Decision-making	Prioritises the most important decisions for the business, gathers relevant data and input, consults appropriately to win buy-in, makes decisions at the right time, communicates to ensure execution of decisions.
Setting Direction	Lays out the direction and supporting plans for the business to scale, over appropriate time-scales, and communicates to ensure alignment and clarity.
Hiring	Attracts, selects and on-boards the ideal people to deliver the business goals.
Creating Culture	Motivates people, fosters excellent team interactions, appreciates and optimises diverse strengths in teams, consistently "lives" the ideal company values, prioritises and de-prioritises clearly to increase productivity, inspires ownership and belief in the chosen organisational culture.
Firing	Swiftly identifies people who are not, or no longer, performing as the business needs, takes action to move people out of the business, maintains positive stakeholder relations when tough firing decisions are made and implemented.
Problem-solving	Identifies problems and addresses the highest priority ones to move the business forward, comes to practical and valuable solutions to important problems, directs action to unstick blockages and allows people to work efficiently towards business goals.
Organising People	Clarifies roles and responsibilities, puts the right people in the right roles, provides unambiguous job missions, shows how people's deliverables and outcomes ladder up to business results, empowers with appropriate level of autonomy in tasking.
Managing Performance	Sets high expectations, induces responsible leadership in others, holds people to account, has difficult conversations effectively, increases quality and performance of teams over time, in line with business needs.

Mentoring	Brings distinctive value to mentees, sets up effective, efficient mentoring relationships, maintains trust and sticks to unambiguous terms and boundaries as a mentor
Resilience	Role models building resilience in self, creates resilience networks and support around and within the business, links the case for resilience to tangible business value creation, handles failure without denial or despair to react and adapt as required.
Feedback	Seeks feedback for self and business, listens with an open-minded and action-oriented mindset to feedback, uses feedback to improve, delivers useful feedback, creates a feedback culture and processes in the business to allow others to improve.
Self-growth	Has the ability to look at their self-objectively, knows their own strengths and weaknesses, adjusts opinions and beliefs consciously over time, engages in development work as a leader.
Networking	Leverages mentors and advisers, seeks new perspectives from peers and relevant experts, contributes and benefits from scale-up ecosystems and communities within.
Stakeholder Relations	Identifies and prioritises important stakeholders, engages and influences for the benefit of the business.
Leadership Mindsets	Creating and choosing mindsets that optimise leadership performance.
Leader Identity	Knowing unique value as a leader that is relevant to the needs of the business, knowing own purpose, strengths and style that gets the best results.
Self-deployment	Deploying time and energy as a leader where it is most valuable and needed, being present and being "in flow" more often than not.
Achieving	Achieving specific leadership objectives that matter to me and my business, getting positive results through others.

4. What are the most important components of leadership post LPT?

All 18 components matter, but not all equally. Don't try to do them all at once!

To cross the LPT, four leadership components are required above others.

The hierarchy of leadership components post-LPT

Creating Culture

Setting Direction

Managing Performance

Feedback

Decision Making   Leader Identity

Stakeholder Relations

Source: Analysis by the research team of: interviews held with 30 scale-up business leaders; validation conversations with 40 leaders; survey results; and literature review to identify the hierarchy of leadership components post-LPT

"You need to go beyond the 'band of rebels' and get ready to scale." - Jonathan Wagstaffe, Founder and CEO, Growva

5. How do we know if we have the leadership right?

Look out for signs that the mission-critical components of leadership are strong as the LPT is crossed. Invest in upskilling in a very targeted way.

"Leadership is a muscle. It's something that needs to be practised and flexed." - Wenmiao Yu, Director of Business Development & Co-Founder at Quantum Dice Ltd.

We have developed check-lists for you to self-assess on each component and understand what good looks like.

a. Creating Culture

There is no "correct" scale-up culture, but it's important to be proactive about creating the one that's needed for the unique business goals, priorities and people. Combine the best of the founder culture with new values and norms required for scaling up the business. Purposefully shift what no longer serves or could hold the business back in scale-up. Adapt. But whatever you do, don't drift!

Creating Culture	
✔	The culture is consciously created and widely bought-into, no drifting.
✔	Positive values from the founder culture are retained.
✔	Specific bad behaviours and attitudes are not tolerated.
✔	Healthy differences are deliberately included.
✔	Culture is consistent, the lived and stated values match.
✔	People are purpose-led, with pride in bringing the business innovations to the world.
✔	The "sexiest" work is customer and market focussed, and delivers commercial value.
✔	People have freedom and autonomy.
✔	De-prioritising is celebrated, people adapt to business needs.
✔	The leaders have integrity and do what they say they will.

"Culture is one of the things that leadership builds. When people talk about successful cultures they are also talking about successful leadership." - Simon King, Partner, Octopus Ventures

"My role as a leader is in setting and testing the boundaries between which my team can innovate but also feel comfortable to fail. You can't innovate without failing, and it is my responsibility as a leader to identify where the lines are." - Wenmiao Yu, Director of Business Development & Co-Founder at Quantum Dice Ltd.

Here's an illustrative story based on real life…

"People working with CEO Elon, were very passionate about what their business innovation could achieve in the world - in a general sense. There were lots of very clever academic people who were on payroll - they'd hired for people not roles

But.. deadlines were being missed and all the leaders were stressed out about it. And there was constant apology from the top down for people having to do boring work to make the customers happy.

Elon and the leadership team chose to deliberately create the commercial culture needed for scale-up. The best thing they did was to make a conscious effort to celebrate customer-impacting success as the sexiest, highest status thing you could do.

No more hurrah for the intellectual genius breakthroughs, lots of hurrah for customer delight.

The people who stayed (not everyone liked this new culture!) were excited to make their innovation land in the real world, and work for real customers.

This was part of THEIR version of the culture. They had many of the general "good culture" hallmarks, plus others like role-clarity, people playing to strengths, market and customer-led de-prioritisation….and it was specific to the needs of their business."

b. Setting Direction

The key is getting it appropriately detailed and all plans laddering up to the mission.

The problem isn't usually with inspiring your scale-up team. It's more often that there is a gap between what people are inspired by, and what they are actually doing in the business. With limited resources, ambitious goals, and pressure to move at pace; scale-ups can seldom afford to waste time and effort on the wrong things.

Setting Direction	
✓	One message is heard from the Exec team about clear direction and priorities. Ambiguity is not used to disguise misalignment.
✓	Roles and responsibilities are clear. People are playing to their strengths.
✓	People know, and have the confidence, to work on what matters.
✓	Pace is high, energy is directed.
✓	People are clear on the criteria to apply to prioritise new opportunities or possible distractions.
✓	Execution plans are demonstrably adapted when market changes or new insights emerge.
✓	Activity is coherent and contributes to business outcomes.

"There are a load of ways to build something and influence people around a vision. Look at successful examples of scaled companies." Ben Murphy, Cleantech Investment Director - IP Group

"Direction setting is top priority: set out the big vision, communicate and inspire people to rally behind it. Needed next is a plan to execute at a level down and have the team buy in. Some people do one or the other. They may be good at the low level plan - budgets and expansion plans to new markets, but lose the 5 year "where are we going?" plan. More commonly though, founders are great with 'big picture' but unclear on how to execute." - Ed Lascelles, Partner, AlbionVC

"Maybe it's because I'm American but ego is important. It has a negative connotation in the UK. When I mean ego I suppose I am talking about resilience, direction, identity etc." - Anonymous

Let's consider this story...

"In this company, the CEO, Whitney, discovered a mishmash of different versions of the vision were used within and outside the business, even though Whitney herself, was certain it was 100% clear.

Activity was happening by lots of hard-working people in the business, but the CEO was frustrated that no one did what they were tasked to do.

Upon further investigation, it turned out they didn't know what they were tasked to do and they didn't have the confidence to prioritise and work on what mattered most. The place was littered with MVPs!

Great leaders make sure people don't waste time on the wrong things. Scale-ups have to move at pace and this was rather an urgent problem!

The work was to create a coherent "big picture" AND clarity on how to execute.

The leaders practised articulating the vision and gave each other feedback until they all got good at it. Staff and stakeholders started hearing one-message from the Exec.

They also created functional missions with clear responsibilities that linked up to the vision. And finally they laid out criteria to empower people to make their own prioritisation decisions, especially in development when new ideas arose that might be fun to pursue."

c. Managing Performance

How do leaders get the best performance out of others?

Performance management has a bad reputation. Is it just about horrible review conversations and managing people out with a nasty process?

The bad reputation is at least partly to blame for an utter failure to even try it in many scale-ups. Sometimes, teams develop where everyone is just a bit too nice to each other. In a scale-up, getting the very best from people is essential. To manage performance at all levels, leaders need to be catalysts.

Managing Performance
✓ Leaders set high expectations.
✓ Delegation is effective - without confusing autonomy with ambiguity.
✓ Reward and recognition are aligned with individual motivators.
✓ Leaders are willing to negotiate with individuals and make trade-offs to elicit high performance.
✓ Evaluation and consequence management are robust.
✓ Failure is tolerated to encourage innovation, learning and risk-taking.
✓ Some people will no longer fit and leave as the business grows - this is accepted.
✓ Leaders never undermine or show lack of confidence in their people, even during a process of choosing if someone has a future in the business.

"Without it [leadership] we would at best be the sum of our individual parts - leadership at any level opens up the possibility of 1+1=3." - Anonymous

Consider this illustrative tale, about Mark's business:

"The CEO Mark was massively committed to creating autonomy - from the exec team down. It turned out though, he was creating ambiguity as a result of his efforts!

At the same time, the exec team was making sweeping assumptions about what would and wouldn't motivate people to perform better and people just didn't buy the "no meetings before 9am.

Mark found this out, and so was able to create the ideal PM approach in their business, by asking people what would enable them to perform at their best - make it specific.

So their performance management involved empowering and unambiguous delegation, in the right level of detail. And they got far more sophisticated in offering incentives that matched the motivators of their staff. "

d. Feedback

Leaders need data, feedback, insight and advice to inform good decision-making. This applies to everything from setting direction and deciding on how to organise the team, through to choosing leadership style and developing resilience within the business.

Giving and Receiving Feedback

✔	Leaders regularly scan the market and ecosystem, and seek relevant advice, to assess their competitive position.
✔	Leaders acknowledge that as humans: we make assumptions, we are biased and we discriminate.
✔	Feedback conversations are easy to have, and purposeful - to improve performance not to blame.
✔	People trust each other and don't waste time guessing what others think.
✔	Leaders use a range of communication to give and receive feedback with team mates, beyond "telling".
✔	Leaders role-model an open-minded and action-oriented mindset when receiving feedback. They thank and validate feedback givers even when they don't agree.
✔	Leaders take a balanced view of incoming information and choose action appropriately.

"There can be a risk of arrogance and overconfidence and lack of emotional empathy. It's important that management, boards and investors can work together and one can alienate people if you don't bring them along. It's a risk for CEOs and a risk for the investors – you can burn through both, and self-awareness and shared vision is important." - Oliver Sexton, Investment Director, Future Planet Capital

"I have CEOs so arrogant and self confident that they can't see their failings" - Anonymous

Here's an illustrative story to share about a CEO called Jeff based on real life:

"Jeff knows how people feel. He has told them very clearly and lots of times what's important in the business. They just don't listen.

When people give Jeff and his senior team feedback, they make a great effort to show they had already considered this point and either it's invalid or they are already fixing it.

Strangely, people seem to have stopped giving feedback...

The leaders set the tone. Being a role-model is not "opt-in" when you're a leader. Others take cognitive shortcuts and follow suit. Why give feedback when it's not useful or even "I risk damaging my relationship and opportunities if I give the wrong upwards feedback"?

So, Jeff and his team did the work to make feedback easy to give and get. He started by forming an open-minded and action-oriented mindset for receiving feedback. People were delighted to be thanked and validated for venturing some feedback. They also saw and really believed the feedback was purposeful - genuinely about doing a better job and nothing to do with blame.

Feedback had been quite significant. No more, now it's easy.
It's' everywhere.

Jeff unlocked something very powerful in the scaleup. People now have their finger on the pulse at all levels, a lot less effort is wasted doing what people have guessed will work, and people actually trust each other."

5. How do we get ready for the LPT?

1   Diagnose Business Readiness.

2   Fix gaps now, not when you reach the LPT. (And don't try to do everything at once).

3   Get whole exec team involved.

Founders, investors and stakeholders must actively encourage a breadth of leaders at the LPT stage and beyond, to allow the business to become more resilient, more agile and adaptable to market changes and overall a more attractive proposition to investors.

Appendix: Research Programme - Context and Approach

The full academic report documenting the research method and findings in detail is available here (published 29 November 2021). Summary details are below.

Programme Set-up

The Leadership Proliferation Threshold research is the product of a collaboration between partners from Cranfield School of Management and Horizon37 team members, focussed on undertaking primary research into the correlation between leadership and business success in scale ups.

This project follows in the footsteps of previous successful business-academic partnerships ("Born or Made" and Villains vs. Value projects, working closely with Cambridge Judge Business School and St John's Innovation Centre, Cambridge respectively)

Research Team

- Joanne Roberts, Partnership Manager, Horizon37
- Katy Tuncer, Director of Coaching and Products, Horizon37
- Orsolya Ihasz, Cranfield School of Management
- Phillip Evans, Cranfield School of Management

Participants

This study is based on interviews, surveys and conversations conducted with >100 participants from across the innovation scale-up business ecosystem. The findings are corroborated and enhanced by the research team coaching, facilitating hundreds of scale-up leaders and a detailed literature review to identify the hierarchy of leadership components post-LPT. We socialised and validated the findings with participants at an event held for community members in December 2021.
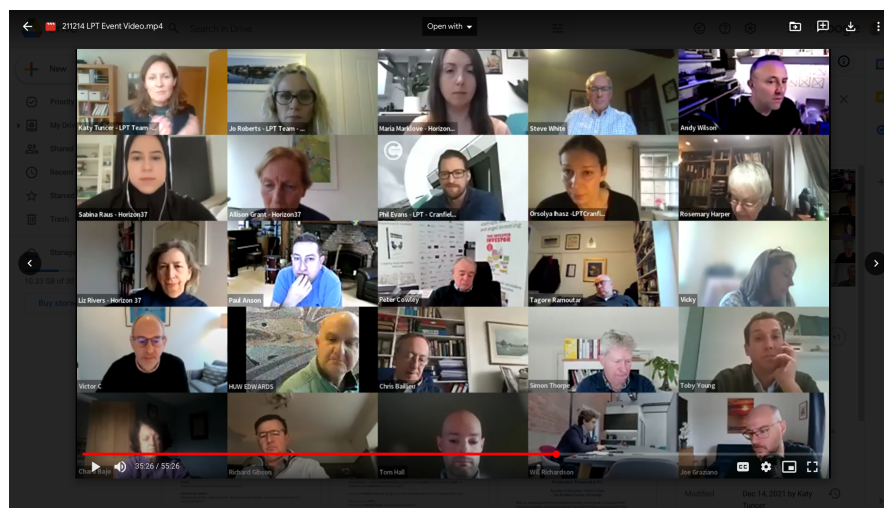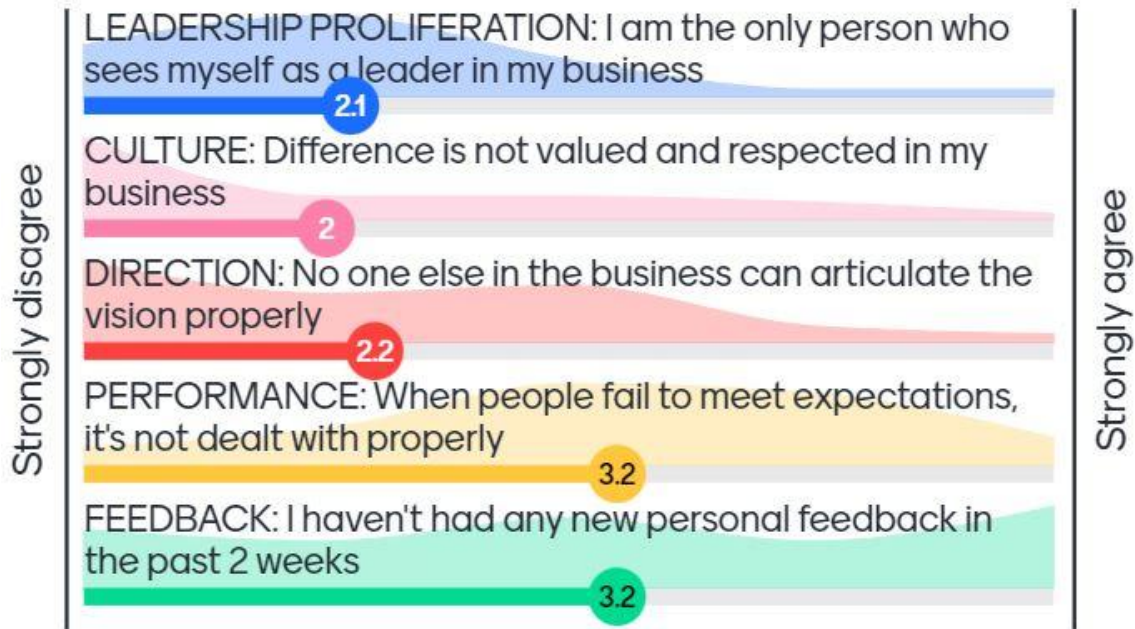
Source: Average self-assessment responses from the 57 Horizon37 community members participating in the Leadership Proliferation exploration event Dec 2021.

Participant Validation

We used LinkedIn, the Horizon37 website and e-newsletter, The Cambridge Network News, Bettany Centre for Entrepreneurship, Warwick Business School, Cranfield School of Business alumni, existing personal contacts, and direct requests to Horizon37 alumni, to reach participants with our invitation to participate in this research - by interview and survey.

We conducted semi-structured interviews, for between 40 minutes and three hours each, with thirty carefully selected scale-up business leaders between June - August 2021.

In our analysis, we only included responses from participants with experience in at least one relevant role in the scale-up ecosystem. We were pleased to have captured a full range of perspectives:

Source: Participants who answered the question in survey, self-declaring experience in each role: font size indicates number self declaring experience (i.e larger font, larger group size)

Definition of a Scale-up Business

"A Scale-up Business": a 3-7 year old company that meets any/all of the following criteria:
- Have had VC or Angel backing at least £1m in total
- Or are £500k p.a. revenue generating (product market fit)
- Or have grown 20% in staff from base 50 for three years
- Or have grown 20% revenue YoY from base £100k for three years

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