Harvard Business Review

REPRINT R1904E
PUBLISHED IN HBR
JULY–AUGUST 2019

ARTICLE
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The Soul of a Start-Up

Companies can sustain their entrepreneurial energy even as they grow.

by Ranjay Gulati

ENTREPRENEURSHIP

The *Soul* of a Start-Up

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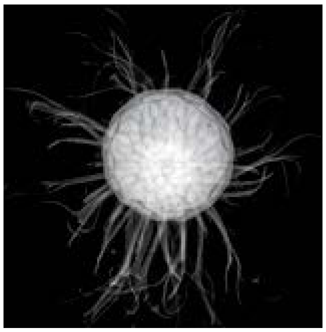

Companies can sustain their **entrepreneurial energy** even as they grow.

IDEA IN BRIEF

THE PROBLEM
As companies grow, they need new systems and structures to manage their evolving businesses. Too often, however, they lose sight of the original spirit and essence that during their early days attracted and energized stakeholders.

THE RESEARCH
Interviews with more than 200 founders and executives at a dozen fast-growth ventures show not only that this "start-up soul" is real but that it can be broken down into three key elements: business intent (the company's reason for being); customer connection (a crystal clear focus on those being served and what they want); and employee experience (allowing people to have voice and choice).

THE SOLUTION
If a company follows the lead of Warby Parker, Netflix, and BlackRock and thinks more consciously about what it needs to do to keep the three elements at the forefront of its strategy and daily operations, it can preserve its soul—or revive it.

There's an essential, intangible *something* in start-ups—an energy, a soul. Company founders sense its presence. So do early employees and customers. It inspires people to contribute their talent, money, and enthusiasm and fosters a sense of deep connection and mutual purpose. As long as this spirit persists, engagement is high and start-ups remain agile and innovative, spurring growth. But when it vanishes, ventures can falter, and everyone perceives the loss—something special is gone.

Photographs courtesy of Holly Johnson Gallery

Most founders believe that their start-ups are about more than their missions, business models, and talent.

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The first person I heard talk about "the soul of a start-up" was a *Fortune* 500 CEO, who was trying to revive one in his organization. Many large companies undertake such "search and rescue" initiatives, which reflect an unfortunate truth: As a business matures, it's hard to keep its original spirit alive. Founders and employees often confuse soul with culture and, in particular, the freewheeling ethos of all-nighters, flexible job descriptions, T-shirts, pizza, free soda, and a family-like feel. They notice and wax nostalgic about it only when it wanes. Investors sometimes run roughshod over a company's emotional core, pushing a firm to "professionalize" and to pivot in response to market demands. And organizations trying to recover an "entrepreneurial mindset" tend to take a superficial approach, addressing behavioral norms but failing to home in on what really matters.

Over the past decade, I've studied more than a dozen fast-growth ventures, conducting 200-plus interviews with their founders and executives, in an attempt to better understand this problem and how it can be overcome. I've learned that while many companies struggle to retain their original essence, creativity, innovativeness, and élan, some have managed to do so quite effectively, thereby sustaining strong stakeholder relationships and ensuring that their ventures continue to thrive. So often entrepreneurs, consultants, and scholars like myself emphasize the need to implement structure and systems as a business grows, missing the importance of preserving its spirit. We can and should focus on both. With effort and determination, leaders can nurture and protect what's right and true in their organizations.

IN SEARCH OF ORGANIZATIONAL SPIRIT

Perhaps not surprisingly, investors and founders seem to harbor different views on whether start-ups have souls. In my research I found that some executives at VC and private equity firms tended to discount the notion as an illusion or irrelevant. Their focus was on applying professional management and process discipline to their portfolio companies.

Most founders, by contrast, believed that their start-ups were about something more than their missions, business models, and talent, even if those founders couldn't articulate it precisely. For example, in his book *Onward*, Howard Schultz described the spirit of Starbucks this way: "Our stores and partners [employees] are at their best when they collaborate to provide an oasis, an uplifting feeling of comfort, connection, as well as a deep respect for the coffee and communities we serve." I interviewed another founder who identified "loyalty to customers and the company" as the "core essence" of what made his business great. A third spoke about this essence as "a shared purpose built around an audacious goal and a set of common values." Early employees told me that they identified intensely with their enterprises, feeling what Sebastian Junger, in his book *Tribe,* refers to as "loyalty and belonging and the eternal human quest for meaning."

I became certain that these people, who knew their companies best, were onto something. Across spiritual traditions, the human soul is often described as "the real self." In Hindu, it is the *atman*. For Jews, it's the *neshama*. While Christian theologians and Western philosophers have long had debates about the soul, many have believed in it and in its persistence over time. The dozens of founders and start-up employees I interviewed felt similarly, perceiving their organization as having a "true" self in which all stakeholders are intertwined.

DIMENSIONS OF THE SOUL

I began to wonder if it might be possible to catalog what specific elements of this soul engaged stakeholders and drove a venture's success. In other words, what aspects of a start-up do leaders really need to preserve as the business grows?

My investigation pointed to three elements that combine to create a unique and inspiring context for work: business intent, customer connection, and employee experience. These are not simply cultural norms designed to shape behavior. Their effects run deeper, and they spark a different, more intense kind of commitment and performance. They shape the *meaning* of work, rendering work relational instead of merely transactional. Employees connect with a galvanizing idea, with the notion of service to end users, and with the distinctive, intrinsic rewards of life on the job. People form emotional ties to the company, and those ties energize the organization.

ABOUT THE ART
Photographer Dornith Doherty has spent 10 years using X-ray machines to capture the beauty of seeds and plant samples from global seedbanks for a project she calls Archiving Eden.

Business intent. All the ventures I studied had their own animating purpose. Usually this "business intent" originated with the entrepreneur, who communicated it to employees to persuade them to trade stable jobs for long hours and low pay. Although many factors—including the desire for an eventual windfall—drove the people I interviewed to join their companies, all had a loftier desire to "make history" in some way, to be part of something bigger. They wanted to build businesses that improved people's lives by changing the way products or services were created, distributed, or consumed. Many ventures define their mission or business scope, but the intent I uncovered went further, taking on an almost existential significance—a reason for being.

Consider Study Sapuri, a Japanese enterprise started in 2011 within the multibillion-dollar information-service and staffing company Recruit Holdings. Seeking to turn around Recruit's declining education business, Fumihiro Yamaguchi, a relatively new employee at the time, hatched a plan to create a website that helped students by giving them free access to study guides to university exams. When he presented the idea to an internal group charged with launching in-house ventures, he explained that the website would address educational inequity in Japan by providing more people access to learning materials—an intent that aligned well with Recruit's long-standing mission of creating new value for society.

Since its launch, Study Sapuri has continued to evolve but always with deference to its original intent. Among other moves, it has marketed its services as a college prep service and a tool for high school teachers to use with remedial students, and has expanded its content to include elementary- and junior-high-school material and academic coaching. In April 2015, through its parent company, it acquired Quipper, which offered similar services mainly in Southeast Asian markets. Quipper's founder, Masayuki Watanabe, remarked that he liked the deal because of Study Sapuri's intent: "We believed that learning is a right and not a privilege. We shared the same vision." Top talent felt the same way. "I was drawn to the idea of addressing these issues," one employee told me. "My motivation to join was to offer true value to customers; the users and their parents can actually see that their academic ability is improving." By early 2019, Study Sapuri had emerged as a central brand of Recruit's educational business, with 598,000 paid subscribers.

> What set apart successful firms was not a "fun" or "crazy" culture but the unusual creativity and autonomy employees showed.

Customer connection. A close bond with customers also figured prominently in the successful companies I studied. Founders and employees intimately understood the perspectives and needs of the people to whom their products and services were targeted, and felt personally connected to them in a way that unleashed their energy and creativity. In its early days, Nike sent sales reps—dubbed *Ekin*s because they needed to know the company's products backward and forward—around the United States to not only market to sneaker buyers but also gather insights from them and feed that information back to headquarters. Many Ekins, including cofounder and then-CEO Phil Knight, were so passionate about the brand that they got its now-iconic swoosh tattooed on their feet or legs.

At the global asset manager BlackRock, the mission has always been to improve customers' financial lives by flexibly anticipating market trends and minimizing risk through a computerized operating platform. And cofounder and CEO Larry Fink repeatedly emphasizes the company's unusually close relationship with clients. One expression of this commitment is a decision Fink made early on that BlackRock would never trade for its own account. While many other firms do this kind of trading, which is often extremely lucrative, it can result in conflicts of interest. "The temptation is enormous," Fink explained. "But then we can't say that we're a fiduciary to our clients."

BlackRock's customer focus conferred a competitive advantage, allowing the firm to attract more assets, while becoming a rallying cry for staff. "You can't have a conversation without talking about clients, because that's what's important," one employee said. Another highlighted the firm's emphasis on empathy: "Once we truly understand what the clients want and need, then we can apply our expertise." A third talked about the "really simple and clear" idea of "helping real people…build a better financial future." And in a recent engagement survey, more than 80% of BlackRock's employees said they were motivated to go beyond the basic requirements of their jobs.

Employee experience. My research turned up a third dimension to a start-up's intangible essence, one connected with the experience of work itself. What set apart successful young firms was not a "fun" or "crazy" culture, as the stereotype goes, but rather the unusual creativity and autonomy that employees encountered on the job, which fostered greater engagement and better results. Having articulated their business intent and emphasized the customer connection, leaders gave their people what I have called "freedom within a framework"—the liberty to operate within well-delineated boundaries—as well as opportunities to influence key decisions, such as which strategies to pursue or products to develop. With both "voice" and "choice," employees valued their work more and bonded with peers and the company itself.

Eyeglasses retailer Warby Parker has emphasized employee experience since its founding in 2010. Team members are expected to think for themselves, and the company seeks out self-directed hires. No one needs to "meet with a manager every day" to get work done, one executive told me. Personal expression and candid creative input are prized; employees don't feel they need to censor themselves. Cofounder Neil Blumenthal has also established an "initiatives" system in which employees pitch their own technology ideas on a quarterly basis, and a quarterly recognition—the Blue-Footed Booby award—celebrates employees who exemplify the firm's core values.

I found many other smart companies using programs to embed voice and choice. Founders at one venture, which had a staff of more than 500 and was growing fast, assigned all new employees to five-person teams and asked each team to spend three months building a business that might destroy one of the firm's existing ones. Participants could then decide whether to continue working on the idea or take a different position at the organization. Many of the new businesses launched by this company have emerged from this program.

HOW THE ORGANIZATION'S SOUL DIES

At some of the companies I studied, the start-up spirit eroded over time as a result of investors' interventions, leaders' own actions, or both. The people in charge either didn't fully understand what they had or failed to appreciate its usefulness as they pursued growth. The urgent need for survival and then pressures to scale up the business sent them down this perilous path.

Added bureaucracy and "new blood" can cause workers to feel stifled, customers to feel disconnected, and an organization's entrepreneurial flair to disappear.

Young companies often move into a mode of frenzied expansion. Their leaders can become highly tactical and pivot quickly and repeatedly, which is fine if the underlying business intent remains constant and continues to be communicated. But when it doesn't, the shifting focus of leaders may be problematic. They can become so enamored with their products and services and so obsessed with generating cash that they stop listening to and partnering with both customers and employees.

Start-ups do tend to fail if they don't instill discipline and order as they grow. As my and others' research has shown, they need to add formal systems and processes and hire professional managers. Such changes can be enormously productive if done thoughtfully, with input from all early stakeholders, the business intent on everyone's mind, and the customer bond and team experience maintained. But there is a danger that added bureaucracy and "new blood" will cause workers to feel stifled, customers to feel disconnected, and an organization's entrepreneurial flair to disappear. I interviewed several seasoned "growth stage" CEOs who'd been brought in to replace the founders of companies and who, despite the best of intentions, quickly squelched the spirit of those enterprises.

At the Indian mobile handset company Micromax, for example, the four founders yielded control in 2011 to more-experienced executives who professionalized the company's strategic planning, supply chain management, HR, and other functions. By most accounts, those changes were both necessary and successful, leading to a range of performance gains. But there was a cost. Many employees felt they had lost direct access to senior leadership, as well as true insight into customers and a clear, driving purpose—that is, they felt Micromax had lost its soul. The founders also grew uncomfortable with the changes, and when these tensions reached a boiling point in 2013, they decided to step back in. Later they transferred control to a new team of outside managers—only to have the same saga repeat itself.

Often, it takes a crisis for people to notice that a company's soul is disappearing or gone. Recently, Facebook and Uber both publicly apologized to customers for losing their way. In 2018 hundreds of Google employees demanded that the tech giant shelve plans to develop a search engine that would facilitate the stifling of dissent in China. "Many of us accepted employment at Google with the company's values in mind," they noted in a letter to the company, "including… an understanding that Google was a company willing to place its values above its profits."

PRESERVING THE SOUL

It is possible to find a middle ground in which high-growth, dynamic companies add structure and discipline while still retaining the three critical elements that provide meaning.

As Netflix looked from its DVD-by-mail business to its next frontier, the company pivoted from video distribution to movie and TV production, while also exporting its model from the United States to the far reaches of the world. It's hard to imagine that an organization could retain its original essence through so many profound changes. But Netflix did, in part because those moves were aligned with its core intent of becoming the best global entertainment distributor and helping content creators around the world find an audience. They also supported its brand promise of providing customers stellar service, suppliers a valuable partner, investors sustained profitable growth, and employees the chance to have a huge impact.

The company created innovative new offerings, including highly successful original content, with its audience squarely in mind. And it has maintained an employee experience in which managers provide context about the organization and its operations and then free workers to make informed decisions. The message is "We think you're really good at what you do," according to chief talent officer Jessica Neal. "We're not going to mandate how you do it, but we're going to trust and empower you to do great work." Internal recruiters hire employees who fit in with this culture and train them to navigate it. And CEO Reed Hastings and other leaders have implemented a range of policies designed to enhance voice and choice. They abolished limits on vacation time, replaced formal HR rules with commonsense guidelines, encouraged candid feedback, and opened up the decision-making process. "Ideas are rolled out as conversations with everyone," Neal told me.

Like other successful start-up-to-scale companies I studied, Netflix remained both stubborn and flexible as it grew.

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In some areas it practiced radical agnosticism, abandoning or altering plans as necessary. But when it came to business intent, customer connection, and employee experience, it took an uncompromising stance, strengthening and protecting them over the years. It worked to preemptively protect its soul.

Even if one of the three elements of a start-up's spirit has eroded, companies can address the problem. Let's look in more depth at Warby Parker's initiatives program. As the retailer grew its workforce and added new layers of management, its leaders spoke about retaining a "small-company feel." But the company's software engineers, who had once helped choose which projects to prioritize, were now simply executing tasks assigned to them. To fix the problem and re-create the employee experience of old, the company developed the "Warbles" program, asking engineers to suggest and advocate for new technology initiatives, such as altering web pages and improving order-processing workflow, which are then reviewed and voted on by senior management. The program also emphasizes intent. "For each piece of work that gets proposed, we ask people to attach metrics associated with our strategic objectives," cofounder Dave Gilboa told me. Also, though projects are ranked according to the number of votes received, engineers can choose to pursue any on the list if they feel it aligns with their priorities and can deliver maximum value. "If it's a new piece of work they're excited to learn or a new technology, we give them that freedom," Gilboa said. Adam Szatrowski, principal software engineer, added: "This is where autonomy shines."

When damage to the soul is especially grave, founders have sometimes returned to restore it. In 2008, Howard Schultz resumed the CEO role at Starbucks because, as he explained in his book, he "sensed something intrinsic to the Starbucks brand was missing." In the ensuing months, he undertook a number of measures to nurse the company's spirit back to life. Notably, he convened an off-site at which leaders thought broadly about the brand and focused specifically on customer relationships. As he told his team, "The only filters to our thinking should be: Will it make our people proud? Will this make the customer experience better? Will this enhance Starbucks in the minds and hearts of our customers?" Weeks later, when presenting a transformation plan to investors, he invoked a return to the company's original business intent, saying, "There are people in this audience...who believed in a young entrepreneur's dream that we could create a national brand around coffee, that we also could build the kind of company that had a social conscience....It's time to convince you and many other people...to believe in Starbucks again."

SAFEGUARDING THE ORGANIZATION'S soul is a critical if little appreciated part of the founding cohort's job, on par with such key decision areas as governance and equity splits. Netflix, Nike, BlackRock, Warby Parker, Study Sapuri, and Starbucks all blossomed as start-ups thanks to their founders' deliberate efforts to preserve the alchemy that made them great enterprises from the beginning. Over the long term, a strong soul will draw in and fire up various stakeholders. Even as companies institute processes, discipline, and professionalization, they should strive to retain the spiritual trinity of business intent, customer connection, and employee experience. It's the secret to not only growth but also greatness.

HBR Reprint R1904E

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