Giving up the CEO role is one of the toughest challenges an entrepreneur will face, but doing it successfully will help their business grow.

When Swedish software developer Mattias Andersson first founded his own gaming company, he had no idea that he would one day become known as its “pirate CEO.”

Having built up Norrköping-based Proactive Gaming to employ around 15 people and achieve growth rates of 3,500 percent in just three years, Andersson found that the CEO role had become too challenging. Not only was it consuming most of his time, it was also stretching him beyond his comfort zone into areas such as finance and Human Resources.

So to focus on what he loved best—developing software and working with clients—in 2012, Andersson appointed Pål Burman as the company’s new CEO. Burman, a business school graduate who already had CEO experience, was tasked with bringing some order to the chaos induced by the company’s rapid growth. But there was a problem: having built up and cared for the company from day one, Andersson struggled to stop himself from making CEO-level decisions.

“I told all the staff that we have a pirate coming in sometimes, trying to give orders. You’re not allowed to follow him,” Burman says. “Mattias knew about this as well. I told him we considered him to be a pirate CEO and said, ‘You’re not allowed to make these decisions, you have to go through me.’”

This tale is one that’s common to many private businesses. Handing over the CEO reins is one of the toughest transitions an entrepreneur has to make. Do so half-heartedly, and you risk stunting your business’s growth. Take the proper steps to set your successor up for success, however, and watch your business soar.

How entrepreneurs work

“Entrepreneurs are typically very focused on their core business—they are driven and work quickly,” says Rosanna Lamanna, Southern Ontario Technology Leader. Those qualities are great for spotting opportunities and starting businesses, but entrepreneurs often keep tight control of their operations. This can lead to employees failing to take the initiative or contributing to the development of the business because what’s expected of them is not made clear.

That’s fine up to a point, says Lamanna. “As soon as you get to 10-15 people, if you don’t then assume some kind of leadership or CEO role where you start to focus on building a team, getting people motivated and giving them a sense of direction, the business won’t grow,” she says.
Why transitions are difficult

Decentralizing control and devolving power to others is crucial to growing a business—but it’s also something that entrepreneurs often find particularly difficult. After founding and creating a business, it becomes part of their identity. Owners sometimes talk about their business as one of their children.

“Many entrepreneurs severely underestimate how difficult this is on an emotional and psychological level,” says Lamanna. “Some say that it is the most difficult thing they have ever done. Or that it was really painful. They say: ‘I really felt lonely and like I had lost my sense of identity’.”

During the transition, entrepreneurs often unconsciously tread on the incoming CEO’s toes. “Mattias would come in and try to do things like take decisions about what we were supposed to build and how to build it,” Burman recalls. “It was wonderful to see him so engaged—and I enjoyed having access to his knowledge. The tricky thing was that he couldn’t make those decisions; I had to make them.”

As a consequence of Andersson’s resistance to letting go, employees and clients were often confused about who was in charge. It also undermined Burman’s ability to do his job effectively.

“Working with someone that had a stronger position than me and knew more about things limited me,” he says. “I wasn’t as sure about my own decisions as I had been in previous jobs. We did work well together and it was nice having someone to discuss decisions with. At these times I was a stronger CEO. But at other times, I became hesitant.”

Becoming an owner

Burman was instrumental in helping Andersson let go of the CEO role. They talked about what was and wasn’t working in real time, and took steps to define their roles more clearly as their relationship progressed. Burman encouraged Andersson to step back from operational detail and assume the role of a strategic owner who could articulate a vision and direction for the company.

Lamanna says this CEO-to-owner transition is important. When the CEO role is no longer enjoyable, many entrepreneurs feel that they have to sell the company and move on. Few realize that there is still an important role for them to play as a good owner.

“The owner’s role is about strategic and cultural framing,” says Lamanna. “A good owner is able to look at the business and say: ‘This is the vision and these are the guiding values of our business. This is where I want my business to be and this is how I want to get there.’”

How to change roles

Knowing how the roles of entrepreneur, CEO and owner differ is crucial to a successful transition. That being said, it’s possible to remain an entrepreneur, become a good owner and bring in an external CEO—and continue to see your business grow. To do that successfully, says Lamanna, you need to be aware of your strengths and interests to carve out your new role. For example, you can retain the aspects of a CEO role that you enjoy while bringing in a deputy to take on the operational responsibilities.

The best way to do this is to think about the job title that will be on your business card. Andersson opted for founder and account manager, which plays to his core competencies. Lamanna advises against vague titles like advisor, which can blur the boundaries with the CEO role. Once you have a title, draw up clearly defined job descriptions for you and the CEO, ensuring that they don’t overlap.

This is an exercise Burman wishes he and Andersson had gone through before he joined Proactive Gaming. “Things would have worked much more smoothly if we had formalized it on paper,” he says.

Burman also thinks bringing in a consultant and a business mentor for Andersson to guide them through the role changes would have saved them a year. In the end, it took Andersson 18 months to finally let go and allow Burman to run the company.

Today, Burman and Andersson’s roles are clearly defined, they’ve worked together to establish a long-term vision for the company and the business is reaping the benefits as a result. Its customers are more profitable; systems and processes more efficient; and staff and clients have greater trust in the organization.

Most importantly, perhaps, is that Andersson has found a role of his very own within the business. “His enthusiasm around the product engages people,” Burman says. “His passion is so important for the brand.”

In short, as a company grows, there may come a point when hiring an outside CEO is both necessary and good for the continued success of the company. This can be an incredibly difficult decision to make, and definitely not an easy undertaking. Ask yourself—is it time to hire a CEO for your company?

For more information, please contact:

Rosanna Lamanna, CPA, CA
Partner, Southern Ontario Technology Leader
T +1 416 777 7201
E Rosanna.Lamanna@ca.gt.com

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