

Nanogene technologies inc case study examples

[Business](#), [Company](#)



NanoGene Technologies, Inc. is a young start-up company established to specialize in the manufacture of nanotech solutions for medical purposes. The company is currently composed of five founders and top-notch scientists from Eastern Institute of Technology's (EIT) Advanced Materials Sciences Lab (AMSL), namely Will Tompkins (currently serving as CEO), Don Rupert, Mark Masterson, Ravi Rhoota and Gary Garfield. The company is currently in the process of raising US\$10 million in equity through Venture Capital (VC) funding. The company is also in discussions with Paige Miller, a business consultant with considerable experience in biotechnology operations and management. As it is in every start up, the company must decide on the capital structure of NanoGene Technologies, Inc. to effectively reach their desired outcomes.

1. Evaluate the founders' decisions regarding the split of equity and compensation level. As potential investor, would these decisions concern you?

Reading the case files I do not have any doubt in mind about the commitment and dedication the founding partners have. I believe that after giving up their lofty posts doing what they are very good at doing (i. e. research); the five founders will try their best to develop their scientific research into a commercially viable business.

It is evident that none of the founding partners have any degree of understanding of what business requires of them. I am not agreeing to their current equity distribution structure and compensation scheme. Using the numbers proposed, a US\$ 10 million total company valuation in " Series A" preferred stock means each partner will receive 333, 000 shares (3. 15%

equity) at US\$1.54/share. I think that the founding partners are too unassuming of their importance in the business to accept only 3.15% shares a piece, especially at this stage of financing.

In terms of balancing their shares, each one believes that their contributions will be the same hence, similar expectations by way of similar shares and salaries. In truth, at US\$ 120,000 a piece, these scientists will exhaust their initial US\$ 600,000 funding in a year, making the acquisition of the US\$10 million investment a do-or-die situation. What would be business-world equitable would be compensation commensurate to their business contribution to the company, with the CEO making more to reflect the level of involvement needed for that post.

2. Evaluate the size and composition of the founding team. What is the difference between being a founder and an early employee?

I do not share the insight of this group being "too large". The peculiarity of the business is such that the founding partners all contribute individually, hence are all required to be part of the business. However, there is a thin line between being a founder and being an early employee. In both instances, a "leap of faith" is required because both will leave their current employment posts and venture into something new. For founding partners, the risks are greater since they will be putting in cash and resources of their own while employees simply move into another job, albeit less stable than their previous organization in the financial sense.

3. Evaluate Paige Miller as an addition to the team and assess her compensation demands. Would you hire her on the terms she seeks?

There is no question about the need for a business person to help NanoGene

in achieving their goals. I think that their current and best option, Paige Miller, should be hired on the following merits:

- a. She has considerable business background and operations management background in the life sciences industry.
- b. Miller's contribution will be her ability to negotiate with VCs and other investors in behalf of NanoGene. Remember that the founding partners of NanoGene are all highly technical; none of them have actually ran a business. Miller's contribution will be to organize the company, help in identifying and funding the company and lead in ensuring that the company reaches its business potentials.

In terms of compensation, Miller demanded for what she believes is her market rate, which is US\$ 175, 000 in salary plus 3% of the equity (after Series A financing) which translates to an equity of 7. 81% post Series A financing (computed as $3.15\% \times 2.5$ which is vested at 20% starting on year 1, 20% at the end of year 2 and the balance of 60% at 2% increase per 12 months). I think there will have to be some rationalization in this case for Miller and for all the founding partners. Miller is needed and should be hired, her salary of US\$ 175, 000 cannot be higher than the CEO's hence the CEO's salary must be increased, and the shareholdings must be rationalized to ensure that Miller becomes a part of the organization but does not control more shares than the founders. I think that this would be the hardest thing to do for the founding partners, that of recognizing that they cannot have the same level of equity into the company. The other issues, such as Miller's different views on hiring and capital structure could be resolved easily, once the partners and Miller sit down to discuss capital structure and

organizational direction, with emphasis on the fact that the founding partners should focus on getting the science right and Miller should focus on getting the organization upright.

4. Assess the company's progress on each of the specific issues discussed in the last section of the case: the hiring process; a compensation policy; the company's culture. Specifically, in each of these areas, what should the company do?

I agree that the hiring process must be streamlined. I think that they cannot guess the number of people they need and who these people will eventually be reporting to. When the organizational meeting happens between the five founders and Miller, the issue of manpower must be spelled out fully, including how many help is required, what criteria is desired, and how to compensate the hires. The interview process should be conducted by all, with any of them given the power to veto any candidate. This is to ensure that all the hires fit into each and every possible category required by each founding partner and Miller. Compensation should be the same. A set compensation schedule must be finalized and adhered to, regardless of how interviewees react. The idea is for the company to sell the vision of NanoGene and the promise their work holds. If hires do not see that vision and see the opportunity as just another job, then they automatically fail to qualify to participate in what is the most important thing in the lives of the founding partners and Miller.

Finally, the company is a technology company but it is a business first before a scientific experiment. Hence the company culture must be highly professional and dedicated, with no room for business errors especially in

terms of organizational dynamics. Instilling the one-vision concept early on will help the company move in the right direction, hire the right kind of people, and make their vision a successful commercial reality.