

**Role Play**

**Spiral Flow:**

Confidential Instructions for Alex

06/2024-6917

This role play was written by Astrid Schrader, Jonathan Ong, Katrina Yavash, and Ankit Kedia, INSEAD MBA Alumni, under the supervision of Martin Schweinsberg, Associate Professor of Organisational Behaviour at ESMT Berlin, Horacio Falcão, Professor of Management Practice of Decision Sciences at INSEAD, and Eric Uhlmann, Professor of Organisational Behaviour at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The authors gratefully acknowledge funding from the Hoffmann Institute.

To access INSEAD teaching materials, go to <https://publishing.insead.edu/>.

Copyright © 2024 INSEAD

Copies may not be made without permission. No part of this publication may be copied, stored, transmitted, translated, reproduced or distributed in any form or medium whatsoever without the permission of the copyright owner.

You are Alex, a co-founder of Spiral Flow, a company that provides financial institutions with a technology platform to facilitate back-office services. You were a top student at a leading US law school and joined a prestigious corporate law firm in Silicon Valley. There you gained significant exposure to tech entrepreneurship and financial deals. After a few successful years, you decided that it was time to go back home to South Africa and started to think about your next steps. You felt returning home would be a great time to shift careers and embrace entrepreneurship.

Your South African flatmate Jacob, a practicing litigation lawyer with a joint degree in risk management, chose to partner with you to pursue an idea that you have been tinkering within your head for a while now. You suspected that you could leverage technology to perform legal and other back-office services to financial institutions more efficiently. After running your idea by your network, going through several iterations of your business plan, and finally receiving genuine encouragement, you raised some seed capital in Silicon Valley to start Spiral Flow.

Starting the business was tough, and creating a technology company away from Silicon Valley was tougher still as the entrepreneurial ecosystem was thinner in Johannesburg. But it also presented an opportunity as you could hire great developers with less competition to program Spiral Flow’s proprietary digital platform, and reached a workable product before schedule. You and Jacob made a great team, and despite a lack of business training, you were pretty good at this entrepreneurship thing. You kept in touch with your investor-mentors back in the US, and regularly received updates on the latest Silicon Valley trends. You leveraged the creative and disruptive ideas they shared with you, together with entrepreneurship best practices to help you grow at a fast pace. You had a good product that quickly turned in profits. Your investors, who initially argued against the South Africa move, were now thrilled with your success. Spiral Flow became the local media's entrepreneurship darling story, and you became somewhat famous.

As money poured in, you invested some of it with the top local investment bank. Given your media exposure and the fact that this bank used Spiral Flow’s services, it assigned you one of their rising stars, Mansour, a Middle Eastern expat living in Jo’burg for a few years already. Funnily, you had met Mansour shortly after returning to South Africa and found him to be a frank, smart, and caring person. Working with him was a pleasure, and he was as sharp as they come. He quickly grasped what you wanted, and, in the years he serviced you, he delivered.

Five years ago (Y-5), you and Jacob agreed to expanding Spiral Flow into a unicorn. As you discussed your plans, Mansour suggested that your platform, with a few tweaks, would fit the funds industry. While you knew nothing about the funds industry, you learned that it was a vast global market valued at double-digit trillions of dollars and projected to grow at over 10% a year over the next decade. Mansour was incredibly generous with his time and expertise for the next year as you bombarded him with questions to set up Spiral Funds, a subsidiary of Spiral Flow. You hinted at an invitation for Mansour to be the Spiral Funds’ CEO, but he politely declined.

Together with Spiral Funds, you were planning the geographical expansion for Spiral Flow, so you decided to open the new Spiral Funds office in Abu Dhabi. This way, you could bundle your two expansion efforts, more easily manage them together, and increase their success chances. You hired a promising commercial banker as CEO, but he never turned a profit during his 2-year tenure. The relationship soured pretty fast, and you had to fire him. Part of your dislike for the CEO was his banking attitude. He was self-centered, arrogant, combative, short-term-focused, highly hierarchical, and only cared about money. He was the opposite of the more relaxed, collaborative, flat-hierarchy, long-lasting company you were working so hard to create.

Unfortunately, given your lack of experience hiring a CEO before, you had agreed to give him an over-the-top 20% stake in Spiral Funds. You therefore had a long and painful negotiation to get rid of him and reacquire the equity for the hefty exit payment of US$500K. Given that Spiral Funds was unprofitable, parting with that money felt particularly painful and unfair. You got scolded by your investors, but you learned your lesson.

Luck had it that you received an email from Mansour announcing his departure from his bank just a few days later. You learned that he had applied and not been selected to the C-suite, thus his decision to leave. You called Mansour, expressed your sadness that he would not be your banker anymore, and told him that you were looking for a new CEO for Spiral Funds, based in Abu Dhabi. To avoid repeating your recent mistake, you only offered him 5% of shares vesting in five years on a semester basis. You did not mention the details of the previous CEO’s compensation.

You were so excited to hire him that you matched his latest salary and bonus at the bank and offered him several expat perks for him and his family to move to Abu Dhabi. Fortunately, your efforts did the trick, and Mansour was happy with the package. Jacob shared by email your ambitious revenue projections for the next ten years (Y-2 to Y7 in Exhibit 2), which mimicked the successful growth story of Spiral Flow. You mentioned that you and Jacob wanted Spiral Funds to be an AED100-million business by Y7. Still, Mansour signed the Memorandum of Understanding (MoU) (Exhibit 1) sent by Jacob. Of course, the MoU had more details than what you verbally shared with him, but nothing inconsistent. Mansour started the following week.

Despite his lack of experience as a CEO, Mansour was a natural. He redesigned Spiral Funds’ strategy and business model, optimized its operations, aggressively cut non-value-added initiatives, improved its core product, expanded the product portfolio, and leveraged his network to sell. Soon, Spiral Funds was profitable – surpassing your projections. Still, you evaluated Mansour at “Meeting Expectations” as he had barely started to get out of the red. You wanted him to continue not satisfied with the status quo. Mansour shared his disappointment but doubled his efforts to successfully grow Spiral Funds and its profits in the subsequent months. Six months later, his performance was deserving of an “Above Expectations” appraisal. He was ecstatic!

But with time, Mansour started to grow distant and show a side you had not seen before. He was uninterested in activities beyond Spiral Funds. You were told that he instructed his staff to deprioritize aiding other business units, as they were non-essential to Spiral Funds’ performance. His financial success started to go to his head, and Spiral Funds employees began to behave as if they worked in a separate company. Together with Jacob, you reminded him that Spiral Funds was part of the Spiral Flow group and that he worked for you guys, not the other way around.

Mansour became skeptical and cynical in leadership meetings. He was the only one who needlessly and aggressively kept confronting you and Jacob at every turn and without knowing when to stop or let go. For every idea, either of you brought, Mansour would inevitably criticize and reject them. He would attack your ideas as nonsensical and value-destroying. Mansour would say that you were deviating resources from direct revenue-generating activities without understanding that some indirect costs are necessary for a growing company's well-functioning. He would always finish blaming the two of you for not understanding Spiral Funds nor knowing what you were doing. While you encourage employees to speak their minds, you want them to be well reasoned and stick to the merits of the ideas without getting personal. Even if you do not understand the funds' industry as well as Mansour, you have plenty of success running businesses. So, it would not hurt for Mansour to listen to your views a bit more, give you and Jacob a bit of the benefit of the doubt, or at least be more respectful when disagreeing. For example, you championed a few company initiatives to enable growth, reduce risk, harmonize processes, and save costs, notably:

* The Strategic Compliance Task Force (SCTF): A project across all business units to document, quality-check, and harmonize internal compliance processes so Spiral Flow and its subsidiaries would conform to governance standards and rules imposed by regulatory bodies. Most importantly, risk assessment had to be carried out by a centralized body as a necessary step to manage the growing complexity of Spiral Flow and continue its geographical expansion safely.
* The Vision Quest: A ten-month communication campaign to align company values across business units and raise much-needed employee engagement. According to a recent employee survey, you are proud to report that the Vision Quest reduced silo-thinking within Spiral Flow and substantially raised employee engagement. This initiative was essential as recent growth had disconnected employees from the company. Spiral Flow was losing its entrepreneurial spirit, innovation, flexibility, and talented individuals. With lots of hard work, you were able to turn all of that around.

Sadly, Mansour was unhelpful with SCTF as he kept defending his turf as he argued that it would create rigidity and reduce Spiral Funds’ ability to deliver. He also criticized Vision Quest as a project that did no more than “sticking post-its on a flipchart while bathing in the illusion of a happy work environment.” Not only was this an arrogant and short-sighted comment, but given it was your project, Mansour hurt your feelings seemingly for no good reason.

While Mansour’s numbers were growing, they were not above expectations anymore as you learned to expect more from him on the financial side. However, his leadership and broader contribution to Spiral Flow were below expectations. As a result, he received two “Meeting Expectations” evaluations in a row. In the last one, he insisted that the assessment was unfair. He argued he knew his team and peers had evaluated him as “Above Expectations” in the company’s 360o survey assessment. First, his knowledge of his employees’ evaluation of him looked suspicious. Is he pressuring them for good assessments? Besides, even if they indeed gave him such a positive evaluation, you and Jacob own Spiral Flow, and it is fair that your evaluations have a disproportionate weight on his final appraisal. As you two poorly evaluated him for the reasons above, his overall formal performance evaluation was just “Meeting Expectations.” You provided him with the feedback that you two wanted to see more leadership and company-wide collaborations to its culture and vision. He was furious and kept blaming you and Jacob for short-changing him on evaluations to give him fewer shares.

A few days later, to show Mansour that your differences had nothing to do with money, you sent him an email communicating that you had raised his shares for the semester from 0.25% to 0.325%, the maximum possible under the “Meeting Expectations” appraisal. In the message, you added that you kept his appraisal, not as a petty act, but to remind him of his need to improve his leadership contribution. Despite your generous act, you never even received an email acknowledging, let alone thanking you. You soon regretted your gesture as Mansour became increasingly absent from company-wide events and initiatives. Mansour seemed impervious to feedback about his leadership and headstrong in not changing his ways. He probably felt that his financial results were all that mattered and the only necessary evidence of his performance.

Jacob was so frustrated that he repeatedly mentioned how he never trusted Mansour’s team spirit. Jacob kept saying that it is a mistake to hire bankers as managers as they only think about two things: money and themselves. To some extent, that is how Mansour has been behaving and it was negatively affecting other leaders within Spiral Flow, even if he did not know or care. For example, Mansour disappeared for a couple of weeks at the end of Y-1 and was nowhere to be found. December is one of the most critical months for Spiral Funds and its clients, and you and Jacob had to step in a few times during his absence to save the day. Luckily there were no aftershocks. He also missed the end-of-year party, which may sound silly, but is the forum where the leaders thank everyone and share their future vision. This party celebrates the Spiral Flow family and members. Not showing up was a slap on the faces of his employees, and yours as well.

You and Mansour were no longer cordial and hardly communicated beyond professional exchanges. Still, by Y0, Spiral Funds performed beyond belief as it achieved revenue figures seven years (Y7) early compared to your initial revenue forecasts (Exhibit 3). But Spiral Funds felt like an orphan business, given how isolated Mansour was and his lack of ownership or care. He continued his hostile attitude towards you and Jacob, your initiatives, and the rest of Spiral Flow. So, by the end of Y0, you rated Mansour as “Meeting Expectations” once again. You knew he would dislike it, but his impressive numbers only met one of three evaluation criteria and his leadership had worsened proportionately. You allowed him to vest shares at the top of the “Meeting Expectations” range to reinforce that the appraisals he resented so much have never been about money (Exhibit 4). However, after a stormy appraisal meeting in which Mansour once again ignored all of your feedback to him, you received the following email:

“Alex,

I am disappointed with “Meeting Expectations” five semesters in a row. I am proud of the work that my team and I have achieved at Spiral Funds. However, I am not getting commensurate recognition of my contribution. I have exceeded all projections you shared with me before joining Spiral Flow. The results are seven years ahead of schedule, which means “Above Expectations.”

I know that you are investing a lot of time to carry out performance appraisals, but our views about my performance have been highly divergent. I do not see any other alternative than to negotiate an exit. Please let me know when you are available to talk.

Regards,

Mansour”

His email was a shock as you had gotten used to his complaining, but without threats of leaving. You prefer Mansour to stay. He produces amazing financial results and it would avoid many leaving costs. But if he is to stay, he needs to change his attitude towards you and Jacob and his efforts to build a collaborative company culture; otherwise, he will have an unacceptable lasting negative impact on your company. You still like Mansour despite his resistance to change, but his resistance does make you believe a bit less in his potential to become a well-rounded CEO.

Unfortunately, or maybe on purpose, this message comes at a terrible time. You recently announced your plans for the upcoming Spiral Flow IPO. His departure will have an inevitable adverse effect on your listing price, potentially by -10% or more. His positive reputation in the industry, the negative signaling about the firm’s condition pre-IPO, and the fact that you fired the previous CEO just about three years ago all play against you. Besides, most of Spiral Funds clients came through his network, so you fear that they may leave with him, depreciating Spiral Flow’s value further. As such, you are delighted that you had included a comprehensive non-compete clause in his contract (Exhibit 1). You also can repurchase all of his shares from the previous year, which is preferred because it creates a clean cut in the relationship. Since it is January of Y1 now, the valuation should, as per the contract (Exhibit 1), use numbers from last year or Y0 results. However, since you still do not have the Y0 audited numbers, you can argue that last year means Y-1, when results were much smaller, and you would pay significantly less for Mansour’s shares.

Mansour may ask for an exit settlement, which his contract does not anticipate. A quick research revealed that it is customary to pay up to three times the executive’s base salary, to account for salary, bonuses and other monies, anywhere from a couple of months to a year or more. You could refuse it if Mansour were a “bad leaver,” due to breach of contract, theft, other illegal behavior, or switch to a competitor. However, as a high financial performer, who did nothing genuinely wrong and has the power to undermine the upcoming IPO and your reputation as an employer of choice, you are open to an exit settlement. Besides, you have known him for years and, if he leaves, you prefer it to be quietly, quickly, and on friendly terms. This approach may avoid legal disputes, and prevent your current employees, especially top performers, from seeing you negatively.

Still, Spiral Flow is not cash-rich given all your reinvestments to grow it as fast as possible. Any monies saved count many times over to make your financial statements look much better pre-IPO and lead to a better valuation. Your investors do not want Spiral Flow to overpay (whatever that means). You do not want a bad precedent, to reward Mansour for ignoring your feedback, or exempt him from his fault at just “meeting expectations.” Mansour was a star financially, but there is more to a business, and he should have learned that by now.

Prepare for your meeting with Mansour.

Exhibit 1

Memorandum of Understanding [summary]

Mansour & the Founders (Alex & Jacob) hereby agree that:

1. Mansour will take the CEO position for Spiral Funds, a Spiral Flow subsidiary, and report directly to the founders.
2. Mansour will start immediately and his contract has no fixed end date.
3. Mansour will receive a yearly fixed salary of AED 500k (five hundred thousand dirhams)
4. Mansour will have a housing, car, and kids' schooling allowance up to his yearly salary.
5. Mansour will receive a profit-sharing bonus of up to 100% of his salary whenever Spiral Funds generates profits. This bonus will be dependent on the profits generated above the yearly revenue and profit targets.
6. Mansour will receive shares vesting[[1]](#footnote-1) at 0.5% per semester up to five percent within five years.
7. Mansour’s vesting shares are dependent on Spiral Flow’s semi-annual performance evaluations:
	1. “Above Expectations” = 0.5% vesting,
	2. “Meeting Expectations” = between 0.125 – 0.325%
	3. “Below Expectations” = 0%.
8. The Spiral Flow 360o performance appraisal is based on three variables:
	1. Leadership within Spiral Flow;
	2. Performance of your business unit;
	3. Contribution to the Spiral Flow culture
9. The Founders will consult with Mansour and then decide on Spiral Funds' yearly revenue and profit targets.
10. In the event Mansour leaves Spiral Funds, the founders have the option to repurchase part or all of Mansour’s vested shares, at their discretion, for a price based on a valuation of 8.5x EBITDA from the previous year’s consolidated results.
11. Mansour agrees to a worldwide non-compete clause where he is forbidden to work with capital markets for two years from his departure from Spiral Flow. In exchange, Mansour will receive 50% of his salary during this period.

Exhibit 2

Spiral Funds Projected Revenues (AED millions) shared by the Founders

Previous CEO is fired

Exhibit 3

Spiral Funds Projected and Actual Revenues (AED millions) shared by the Founders

Mansour joins as CEO

Exhibit 4

History of Mansour’s evaluations and vesting shares

|  |  |  |  |
| --- | --- | --- | --- |
| Period | Appraisal | Vested Shared | Potential vesting |
| Y-3 2nd semester | “Meeting Expectations” | 0.375% | 0.50% |
| Y-2 1st semester | “Above Expectations” | 0.500% | 0.50% |
| Y-2 2nd semester | “Meeting Expectations” | 0.375% | 0.50% |
| Y-1 1st semester | “Meeting Expectations” | 0.375% | 0.50% |
| Y-1 2nd semester | “Meeting Expectations” | 0.25% raised to 0.375% | 0.50% |
| Y0 1st semester | “Meeting Expectations” | 0.375% | 0.50% |
| Y0 2nd semester | “Meeting Expectations” | 0.375% | 0.50% |
| Total |  | 2.750% | 3.50% |

1. **“Share vesting**  is the process by which an employee, investor, or co-founder is rewarded with shares or stock options but receives the full rights to them over a set period of time or, in some cases, after a specific milestone is hit – usually one that's established in an employment contract or a shareholders' agreement. Normally, share vesting is a tool to help achieve three potential goals: (1) incentivising long-term commitment to the company, (2) demonstrating a commitment to company growth, and (3) protecting the company in case the relationship doesn’t work out.” Retrieved on from [Share Vesting - What Is It And How To Best Use It (linkilaw.com)](https://linkilaw.com/startup-advice-tips/what-is-share-vesting/). [↑](#footnote-ref-1)