



Building Effective Boards: Challenges and Opportunities

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Alliance of CEO's

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Boards Face Similar Challenges Whether They are Public or Private

- **A wide variance exists in the application of best practices in board governance in both public and private companies**
 - **Some boards are very effective**
 - **Some boards are dysfunctional**
 - **Most boards are not as effective as they could be**
- **High profile public boards reputed to be “professional” have devolved into crisis and scandal**
 - **Enron and HP come to mind**
- **Directors and CEO’s must communicate honestly and openly in order to manage expectations properly**
 - **Handle the hard questions FIRST**

How Much Value Do Boards Really Add?

- **Relative to a great CEO, boards add far less value.**
- **But a bad board can take away far more value than any CEO can contribute...**

AND DO SO VERY QUICKLY

Effective Boards ...

- **Establish a clear and mutual understanding of expectations between the Directors and the CEO**
- **Conduct a formal annual performance evaluation of the CEO**
- **Have routine executive sessions among non-executive board members only**
- **Have directors who work as a team and want to get together**
- **Encourage open/honest communications**
- **Resolve differences of opinion constructively and quickly**
- **Have directors who are accountable to each other**

Effective Directors ...

- **Know and understand their responsibilities as directors**
- **Are informed when they arrive at the board meeting, know the industry, and know the company's context in it**
- **Do not attack the CEO or other board members when he/she answers their questions.**
- **Participate in free and easy communication outside of the boardroom**
- **Are willing to give an outlier perspective as an individual member of the group**

Ineffective Boards...

- **Fail to communicate— both in and out of the boardroom**
- **Suffer from Denial Syndrome—they fail to act and make decisions.**
- **Fail to reconcile diverging viewpoints.**
- **Avoid conflict**
- **Regularly hold excessively long board meetings (over three hours without a strategic planning or other extraordinary agenda)**
- **Allow the use of Treo/Blackberry's and computers during a board meeting**

Ineffective Directors...

- **Feel compelled to say something and to be heard, disregarding whether they are relevant or effective in their comments.**
- **Become disengaged because they no longer feel that their opinion matters—this could be over a strategic disagreement.**
- **Fail to resolve disagreements quickly and constructively**
- **Do not maintain regular board meeting attendance.**
- **Deliver inconsistent messages between the actual meeting and their post-meeting behavior— Passive-Aggressive syndrome.**
- **Succumb to lead investors who discourage constructive discussion from the rest of the board**
 - **In VC, smaller firms in particular are afraid to break ranks with the lead investor for fear of not getting into future deals.**

Addressing Board Management Issues in VC

- ***“Rites of Passage: Managing CEO Transition in Venture-Backed Technology Companies”***
- **White paper reviews actual situations and recommends VC industry best practices**
- **Released in January 2006, amplifies concepts introduced in *“After the Term Sheet”*, (November 2003)**
- **Both are available at www.levp.com/news**
- **Identifies several key warning signs indicating the need to make a CEO replacement**
- **The result of a collaboration between 20 domain experts: 17 leaders in the technology sector and 3 academics**

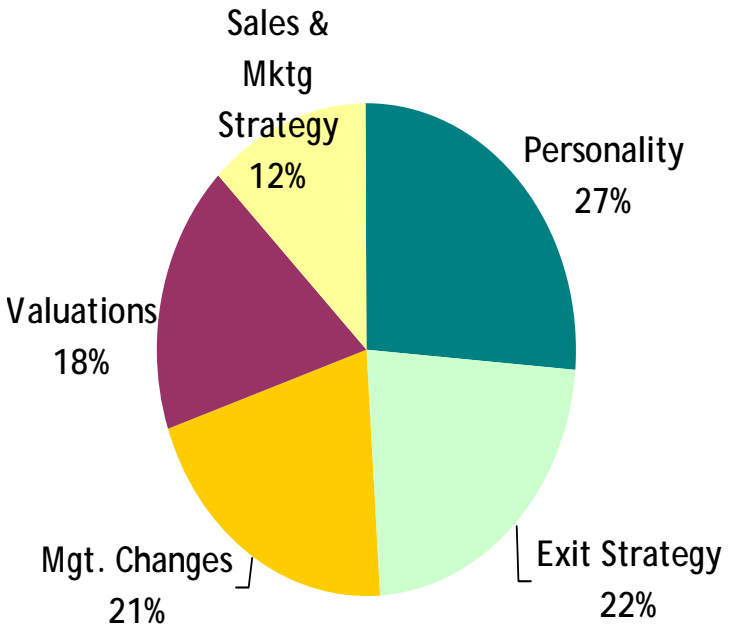
What Makes VC-Backed Companies Unique? “Paradox of Success”

- **Founder-CEO succession correlates most highly with:**
 - Completion of product development; and/or
 - Completion of each round of financing
- **Technically-strong founder-CEO’s often lack key skills required to successfully grow the company:**
 - Sales & marketing
 - Leadership (“People skills”); and/or
 - Communications skills
- **Behavioral change is required from both CEO’s and directors to recognize the higher probability of CEO succession at different inflection points and either**
 - minimize the disruption from the transition
 - address the skill set mismatch and try to work around it to avoid the transition

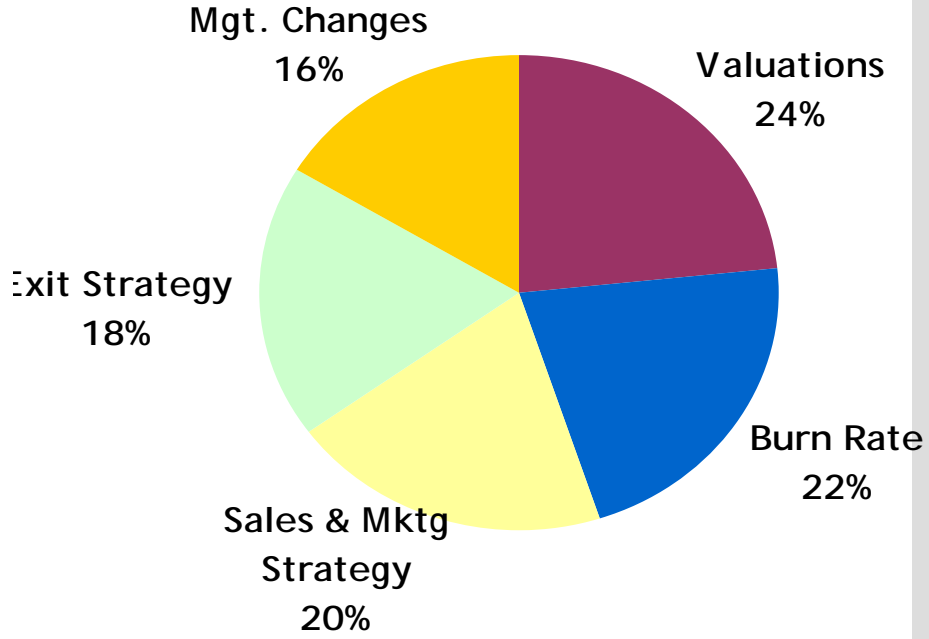
Challenges to Effective Boards

Most Common Conflicts Between Board and CEO

Venture Capitalists



CEOs



Do's and Don'ts for an Effective Board Meeting

- **Do call your directors in advance of the meeting to discuss important issues that will be covered at the meeting**
- **Do send the material out at least 48 hours in advance– one week may be wishful thinking, but 24 hours or less is unfair to your directors**
- **Do budget time appropriately across the entire meeting**
 - **Stay on schedule!**
- **Don't squeeze the executive session– this is very important time**
- **Don't bury your board with details and useless slides– this raises more questions than it answers**
- **Don't save surprises for the board meetings**
 - **Directors do not like surprises**

Best Practices

- **Explicit expectations and periodic review**
- **Identify a fair and aggressive corrective plan**
- **Director Self-Evaluations**
- **Being honest about answering a host of questions**
- **Communicating clearly when the board has decided on a CEO transition plan**
- **Do not blame past management for the company's problems when the new team is in place**