

The role of the Board Chair within privately held growth businesses

How to drive exceptional company performance
through understanding and aligning interests
– *a guide for all stakeholders*

RESEARCH AND RECOMMENDATIONS

spectrum



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Introduction

Much has been written about the role of the Chair within established, publicly listed (PLC) organisations – but much less so in the context of fast-growth, privately held ventures.

Our experience at Spectrum – we are a UK-headquartered, retained board and executive search firm with a focus on delivering leadership solutions to investor-backed, growth-focused, technology enabled businesses – is that the role of the Board Chair is increasingly valued, but yet to be fully professionalised.

Before the collapse of Lehman Brothers, we had not been asked to conduct a Board search. Afterwards, we were. This was initially driven by investors who wanted to de-risk and better understand their portfolio companies. And, in more recent years, Board Chair recruitment has equally been driven by founding management teams who wanted the experience, advice and mentorship that an appropriate Non-Executive Chair could offer them.

However, the emergence of the Board Chair role is still relatively new in smaller, private businesses. There is little in the way of formal training, and although there are some publications that have sought to explore the role in earlier-stage businesses, we have not found any guides that have been research based.

So, we undertook a survey of Non-Executive Chairs to establish their views and experiences. And, as stakeholder alignment is everything, we also asked Investors, and CEOs, to provide their views on the Board Chair role. We are grateful to the 95 board members who completed surveys (45 Board Chairs, 27 Investors, 23 CEOs) as their feedback forms the core of this report.

The purpose of this report is to facilitate a greater understanding of the role and contribution of the Board Chair amongst key stakeholders, and to optimise the contribution of the Chair to the private, growth company.

We primarily use the term Board Chair for the purposes of this report. This title is interchangeable with Chair, Chairman, Non-Executive Chairman, and Chairperson. Where Chairman is used, it is as a term of office, and has no reference to gender. Regardless of the term, the context is where the Chair and the CEO roles are split. Therefore, this report does not explore the role of Executive Chairman.

The CEO view on the Board Chair role

CEOs told us that:

- The overwhelming characteristic they seek in a Chair is personal chemistry – 74% of CEOs said this was critical
- The next most-valued characteristics are: integrity and ethics (57%), and investor network and fundraising experience (also 57%)
- Prior experience as either CEO or Chair was not hugely valued
- Surprisingly, coaching & mentoring, and ability to drive growth, were considered of lower value

...the overall feedback suggests to us that CEOs are not seeing – or not getting – the full value they should expect from a high-performance Board Chair.

When we asked CEOs to define ‘What makes an outstanding Board Chair?’, the responses were not particularly crisp or consistent.

However, CEOs provided much greater clarity when asked to think about the best Chair they have worked with: there was very clear consistency around the Chair’s understanding of, interest in, and involvement with the business.

In general, CEO feedback about the Chair role was soft-skill focussed.

Feedback was also very much about the journey – rather than on achieving an ultimate objective.

This feedback was rare: *“Chair had total focus on building enterprise value.”*

The other quote we liked was: *“Chair understood the value drivers in the industry, and helped me (the CEO) shape the company to drive for growth, without getting involved in the small things”.*

And although 95% of CEOs said their experience of working with a Chair is that they added sufficient value to justify the appointment, the overall feedback suggests to us that CEOs are not seeing – or not getting – the full value they should expect from a high-performance Board Chair.

Only 17% of CEOs say their key business relationship is with the Chair.

The Investor view on the Board Chair role

Investors told us that:

It is essential that a high-quality Board Chair is in place (or appointed) if they are to invest (37%), whilst 37% said it was advantageous. 26% said it was not a significant factor in investment decision-making.

Overwhelmingly, 100% said the key value of a Chair is in their ability to mentor the management team.

Strategic input, enabling higher-quality decision-making, and acting as a “bridge” between investors and management were the next most highly rated characteristics of a good Board Chair.

They judge the performance of the Chair by:

- Support provided to the management team (85%)
- Uplift in decision-making quality (78%)
- Board meeting quality (62%)

When hiring a Board Chair, Investors primarily look for:

- Ability to drive growth and strategy (70%)
- Management team mentor (59%)
- Chemistry with the CEO (52%)
- Specific industry or functional experience (52%)

The most valuable Board Chair attributes from an investor perspective are:

- Mentor to the CEO / founders / management team (100%)
- Strategic input (56%)
- As an enabler of higher-quality decision-making (41%)
- As an effective “bridge” between management and investors (41%)

Investors say their key relationship is with the CEO (78%).

Investors clearly believe the optimal board size is five members (as do Board Chairs).

Investors’ advice to Board Chairs includes:

- *“Do everything possible to help the management team grow the business” and “add as much value as possible to the founders”*
- *“Assist the team to make better decisions” and “help drive decisions, but not make them”*
- *“Address problems early and vigorously”*
- *“Strategy, and execution on strategy is key”*
- *“Get involved” and “spend more face-to-face time with the management team”*
- *“Ensure good communications with all stakeholders” and that there are “no surprises”*
- *“Create an effective board environment, and a strong relationship with the CEO”*
- *“Ensure the company has the right leadership in the CEO, CFO, and CSO seats”*

Only 7% of Investors say their portfolio company key relationship is with the Chair.

And the view from the Chair

Board Chairs told us that:

82% of them were performing portfolio careers, 18% also held a full-time executive role in addition to a Chair role.

The optimal board size is five members (but of those that experienced a board of four members or fewer, 100% would prefer a bigger board. Of those with boards of seven+ members, 90% would prefer a smaller board).

Their contracts as Board Chair are either structured on an ongoing basis (86%) or fixed term (14%).

Contribution is on: set days per month (54%), annual draw-down (12.5%), other (33.5%).

Time commitment is:

- less than 24 days per annum (19%)
- 24-36 days (62%)
- 37-48 days (12%)
- 48+ days (7%)

Reward is:

- Cash & Stock (73%)
- Cash only (41%)
- Pro bono (20%)
- Stock only (11%)

Day rates are:

- Less than £1,000 (7%)
- £1,000-£1,200 (26%)
- £1,200-£1,400 (17%)
- £1,400-£1,600 (14%)
- £1,600-£1,800 (7%)
- £1,800-£2,000 (17%)
- £2,000-£2,400 (7%)
- £3,000+ (5%)

Stock allocations are primarily at:

- up to 0.5% (9%)
- 1% (30%)
- 2% (21%)
- 2.5+% (27%)

Vesting is typically: 3-year vest (55%), on exit only (30%), other (15%).

Stock allocations above 2% are noticeably more predicated towards vesting on exit, or longer-term vesting schedules.

67% of Chairs personally invest, 33% do not invest in the companies they chair.

36% of Chairs say they have received formal board training.

53% of Chairs conduct formal board appraisals.

Chairs also tell us that the primary reasons they accept roles are:

- Feel they can add real value (75%)
- Chemistry with the CEO (71%)
- Potential of the company (66%)

Board Chairs tell us that they believe the primary reason they were offered roles is because:

- They can help drive growth and strategy (64%)
- Their industry and functional experience (47%)
- Ability to mentor (38%)
- Their prior experience as CEO (31%)

The key reasons Chairs have declined roles are because:

- They consider the company to be unattractive (60%)
- Lack of chemistry with the CEO (51%)
- Lack of time (40%)
- Personal reputational risk (38%)
- Board / Investor dysfunction (27%)
- Insufficient funding (27%)

The traits Chairs value most in other board members are:

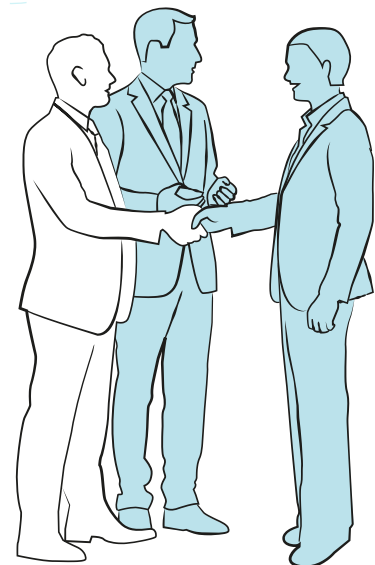
- Commitment
- Contribution
- Honesty
- Integrity

The traits Chairs most value in Investors are:

- Patience
- Long-term approach
- Consistency
- Support

When asked to describe the personal value they provide as Chair, the answers were very varied, albeit with some consensus around providing experience. As one respondee said: *“The ability to assist solving most challenges the company will face, proactive, confidant of the CEO.”*

There is a core consensus from Chairs that they build high-performing boards by focusing on board skills, composition and chemistry – i.e. a balanced board. One succinct respondee said his role was in “helping everyone to be effective”.



Creating alignment to drive performance – some suggestions

The data – perhaps unsurprisingly – suggests that different company stakeholders (Chair, CEO, Investors) each have different expectations of the Board Chair role within privately held, fast-growth organisations.

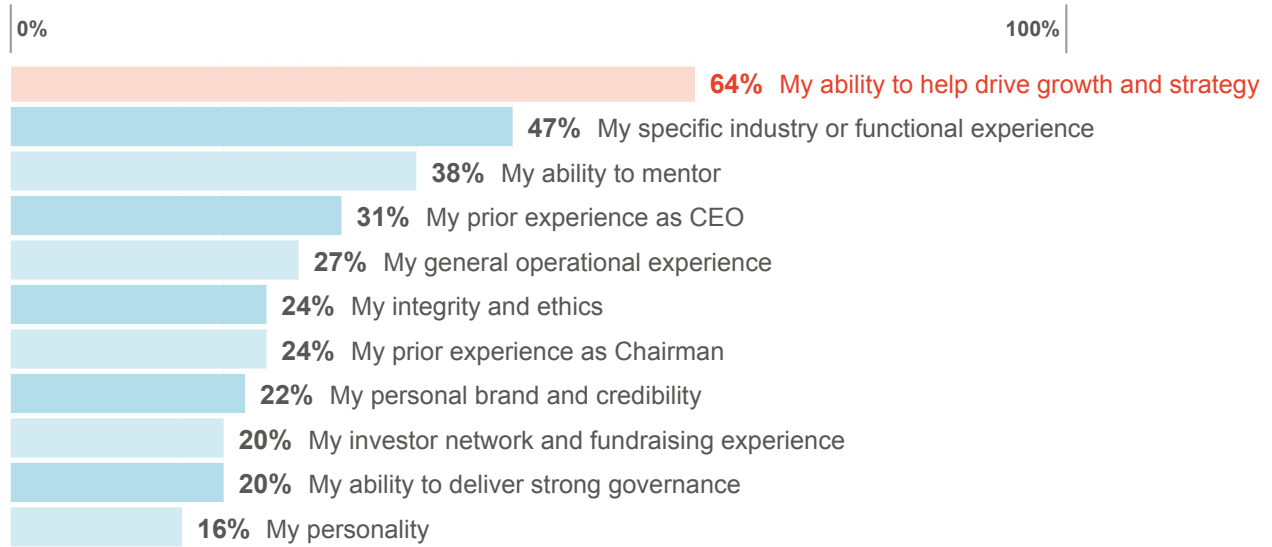
Shared understanding by stakeholders of the role and its value could certainly be enhanced, and some of the following may be worthy of reflection and subsequent action:

- Board Chairs should be crystal clear as to the personal value they add to each company they Chair, and ensure that both CEOs and Investors understand and can articulate that value.
- Board Chairs should be more structured in terms of how they drive board performance, and, in turn, how boards drive executive team performance.
- Board Chairs need to win the confidence of CEOs to deliver what Investors primarily want, but which CEOs are reluctant to receive, namely: support, coaching and mentoring of the management team; and helping to drive company growth.
- CEOs should ask their Chairs what they, as Chair, are going to commit to deliver to the business – and what value the CEO can expect from the Board as a whole.
- CEOs should “let Chairs in” and allow the Chair to contribute to growth and management team support in a meaningful way that drives company performance.
- Investors should place more value on the Chair’s role in delivering optimum board composition.
- Investors should place more emphasis and priority on the Chair’s integrity and ethics when appointing.
- All stakeholders should place a higher value on governance, and not ignore the growth: risk balance.

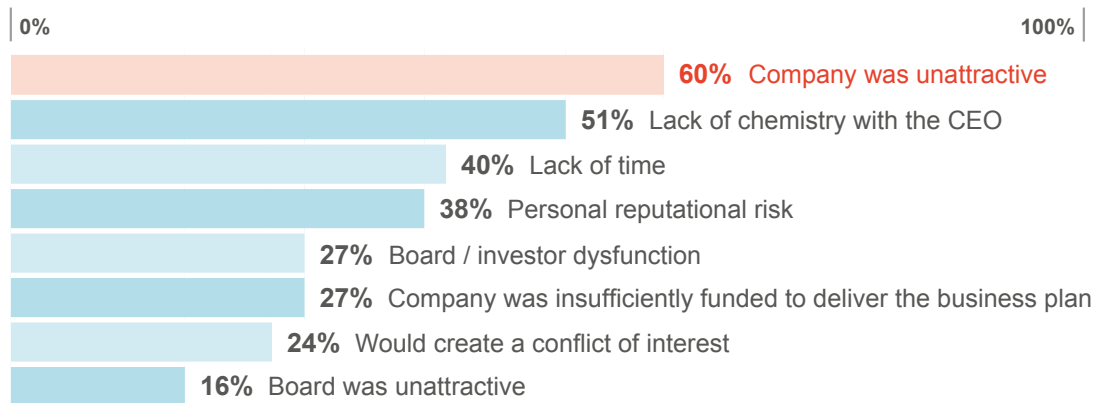
***17% of CEOs say their key relationship is with the Chair.
7% of Investors say their key relationship is with the Chair.***

Chairs must focus on delivering real value to improve these statistics.

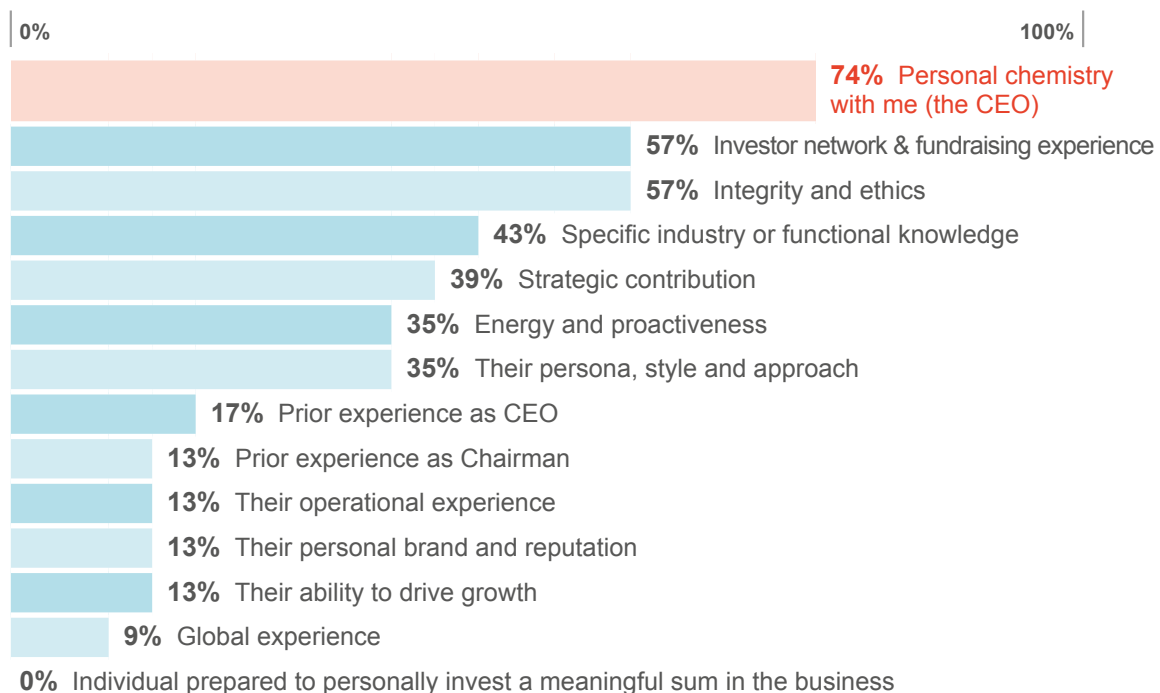
Board Chairs were asked to select the top four reasons why they believe they had been offered Non-Executive Chair roles:



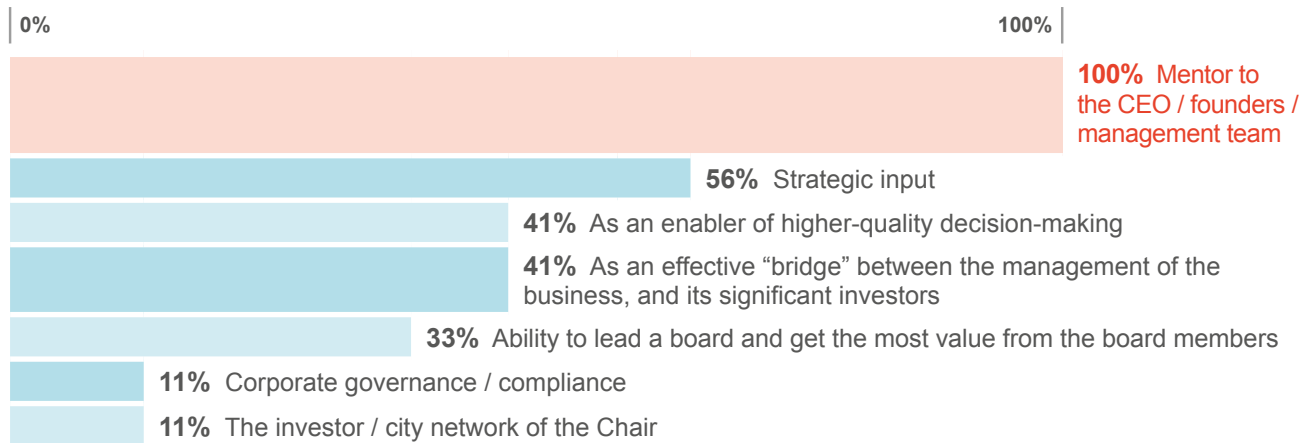
Board Chairs were asked to select the top four reasons they declined offers to be Chair:



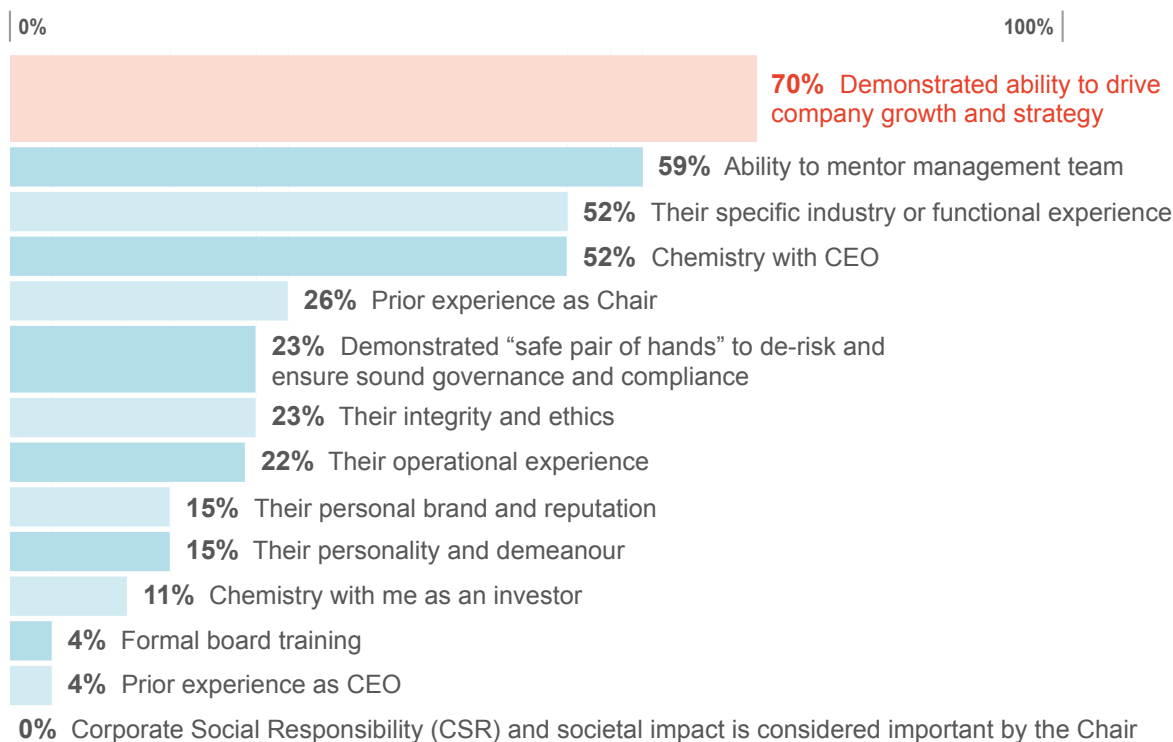
CEOs were asked to select the four key attributes they look for in a Chair:



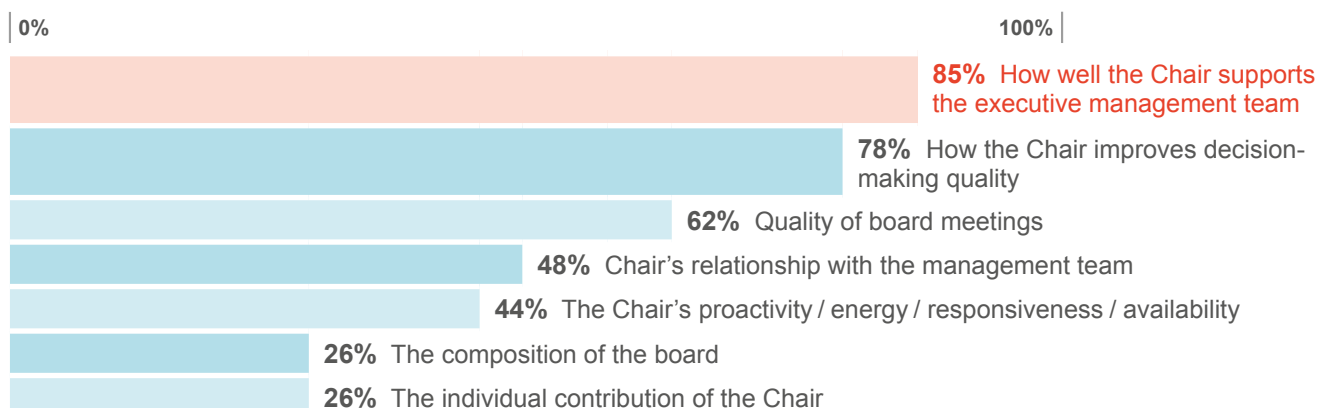
Investors were asked to select the three most valuable attributes of a portfolio company Chair:



Investors were also asked to select the four most important criteria used when hiring a Board Chair for a portfolio company:



Investors were asked to select how they primarily judge the performance of the Chair:



Headhunter considerations when conducting retained Board Chair searches

When conducting a search for a Non-Executive Chair, we will advise and take a Brief from the client. Each search requirement is therefore unique. Nevertheless, there are some common characteristics we seek in Chair candidates:

Operational experience. We seek Chairs with a depth of operational experience in growth (scale-up) environments. This experience is invaluable, particularly if the Chair is to work with a 1st time CEO. In his essay *54 mistakes of a Start-up CEO*, Anand Sanwal, the co-founder and CEO of CB Insights, succinctly outlined where he went wrong. An experienced Chair will help the CEO avoid such errors, simply by having trodden the path previously. There is no substitute for experience.

Board experience. The Chair will need to know how a Board works, but this typically does not need to have included experience as a Chair (unless the client deems it a pre-requisite). Candidates will need to demonstrate a capability to lead a Board – rather than simply contribute as an individual.

Relevance. The skillset of the Chair must be relevant today. What worked a few years ago, may no longer apply.

Comfort. The Chair has to be someone the CEO can personally relate to and does not feel threatened by, who Investors trust, and who is deemed credible by staff, customers and the market.

Additive. The skillset of the Chair should complement that of the CEO, and not duplicate it. The Chair skillset must also be additive to the composition of the Board.

Pragmatic belief. We seek Chairs who believe in the company and its potential, but that this enthusiasm is not blind, *Tigger-like* enthusiasm.

Understanding. The Chair just “gets it” (the business model and potential), and sees strategic opportunities beyond those already articulated by the business.

Dynamism. The most attractive trait in a Chair! The Chair is absolutely “on it” and demonstrates top exec-like focus, energy and application. This is often what sets candidates apart.

Founder friendly. Put simply, the Chair “has the founders’ backs”.

Value realisation. In all likelihood, the Chair will have a track record of creating, and realising, enterprise value via an exit.

Facilitation. Draws the best out of others and does not personally seek the limelight. Well-rounded management skillset and balanced personality.

Motivation. Is involved for the right reasons and not simply seeking to add to their portfolio of roles.

Longevity. Can add value over the long term. Sometimes clients say “we need a Chair who can help with product development” or “enter the US market” or “raise funds”. All of which is fine as long as the Chair can add value once this tactical (but albeit significant) objective has been achieved. The Chair must “maintain the ear” of the CEO and Investors for a long time.

Discovery. Often the candidate who is offered the Chair role will have offered something completely new and valuable during the selection process that neither our client, or we, had previously thought of.

Other Insight

Our research did not attempt to evaluate the actual performance of Boards.

However, *The Evershed's Board Report* (April 2013) researched whether board composition affects the share price performance of some of the largest companies across the globe.

Whilst the focus of its research was clearly **not** privately held, growth businesses, it is worth noting the key findings of their report, which were:

- Smaller boards tend to deliver better share price performance
- Companies performed better with a serving CEO as one of its NEDs
- Companies with a better share price performance showed a higher ratio of Executive Directors to NEDs
- Whilst the average age of directors is increasing, better performing companies tend to have younger directors
- Having NEDs with experience in a different sector is related to better company performance
- A board's key challenge is how to balance growth and risk
- Chairman's leadership is crucial to set the tone of the board, to drive the company's culture and values, and to ensure its integrity

Smaller boards tend to deliver better share price performance.

The Board Chair role: establishing the basics

The following information is based on our experience of hiring Board Chairs, and is designed to establish a basic framework for the Board Chair within emerging, fast-growth, privately held organisations.

The CEO and The Chair

This should be a key relationship for any successful organisation.

The role of the CEO is to manage the business and is operational, and day to day. The role of the Chair is to manage the board, and is strategic and of a part-time nature.

A key task of the Chair is to improve CEO effectiveness. The role of CEO is lonely. The business will have ups and downs. It is essential that the Chair delivers to the CEO input, coaching, support and mentoring – as well as challenge.

The Chair and CEO relationship must be constructive and collaborative, and feedback to the CEO has to be constructive, focussed, actually be of help to the CEO, and be actionable. And the board should not create too much work for a CEO, or take up too much of management's time.

However, at times, the Chair may also have to control the CEO. **Failure to do so has been identified as one of two key board contributors to corporate failure.**

The Chair is not there just for board meetings, and should be consulted by the CEO regularly.

The two things the Chair must do for the business

There are two essential elements to the Chair role within growing ventures:

Provide stewardship: ensure company survival, that it doesn't run out of cash, ensure compliance, and that appropriate risk and financial controls are in place, and that the business is soundly governed.

But in a fast-growth, typically investor-backed organisation, providing stewardship alone is not enough. The Chair must also:

Create value: every role in a growing business must be essential, and for the Chair, that means s/he has to deliver – as an individual and through the board as a whole – real competitive advantage to the business. **The Chair must ensure the board drives the business forward.**

The Chair must ensure the board drives the business forward.

Leading the board

The Chair provides leadership to the board.

S/he will ensure that the board is balanced with the right blend of skills and experience for the business. **Failure to do so has been identified as one of the two primary board contributors to company failure.**

The Chair will be responsible for aligning the board and managing conflict, and to ensure that it is working as a cohesive and collaborative unit.

The Chair should create mission and purpose, and **directors should look forward to board meetings**, and also be comfortable that it is an environment for open and real discussion and debate.

Discussion should then lead to **consensus, closure, and an action plan.**

The board must then ensure that the management team is executing the strategy.

Ultimately, the Chair must ensure that the board is effective and collaborative, and that the value it is providing is clear whilst maintaining an independent mentality.

Creating company culture

Company culture is defined and embodied by those at the top of the organisation.

The Chair is instrumental, and a good starting point is to set high expectations of the board, as well as of management.

Transparency creates trust amongst board members.

Being personally proactive is essential to ensure board and business vitality.

The Chair should ensure that the business understands its responsibilities to shareholders, but also to understand its broader societal and economic impact.

When to appoint a Chair

The role of the Chair will evolve over different stages of a company's lifecycle.

The value of the right Chairman can be applied to a company even at a very formative stage in its development.

Forming a board early can help CEOs avoid mistakes that hinder the rapid progression of a business.

Investors attach value to the quality of governance and leadership of companies at all stages.

Start-up boards are very basic, but help to build the company.

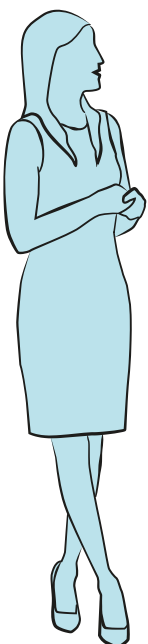
The Chair will support and mentor the CEO through the tough, early stages of a company's development.

Chairs of early stage ventures are operationally experienced and can help the CEO with customer development, product development, business model development, recruiting and fundraising, and PR.

Chairs can also, for a short term when the management team is incomplete, perform key tasks that might be typically performed by an executive.

An early board appointment professionalises the business right from the start.

Entrepreneur CEOs are typically specialists and benefit from the support of an experienced generalist.



The characteristics of a good Non-Executive Chair

Exceptional communicator.

Commits time and intellect.

Very experienced operationally, provides breadth of knowledge.

Highly respected.

Responsible, committed, dedicated, loyal to the organisation.

Focussed on substantive issues that create real enterprise value.

Honest, ethical, great judgement, integrity, engenders trust, humility.

Calm, emotionally balanced, people person, a facilitator – able to ensure all board members contribute.

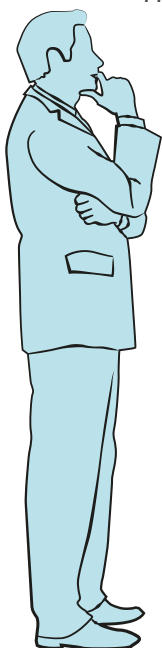
Natural style, energetic, responsive, proactive, gets things done, entrepreneurial.

Has great chemistry with the CEO.

Cuts to the chase, but remains impartial.

Asks good questions, and listens to the answers.

Does not dictate, lets management run the business.



Why Chairs get hired

Prepared to get involved early – some risk, and well before a company has cachet.

Clearly excited by, and genuinely committed to the opportunity, gets “stuck in”.

Has achieved operational success previously and can pass on the lessons learned.

Appreciates that what worked in the past is unlikely to work in the future.

Does not rely on their reputations.

Does not clock watch, is available.

CEO does not need to educate the Chair on the business.

Specific experience that sets the individual apart from the rest of the shortlist.

Meeting quality

Effective board meetings are a visible product of the Chair’s work.

Chaired, focussed, planned, annual agenda, papers in advance.

Good meetings are facilitated, efficient, focussed, results oriented, strategic, actionable, sets the right tone, follow up with exec session. **CEO is fully prepared.** Punctual, well attended in person.

Reward and time commitment

The reward for the Chair of a fast-growth tech company will typically comprise: agreed fees, out-of-pocket expenses, and equity participation.

Equity grants align interests with those of shareholders, and motivate.

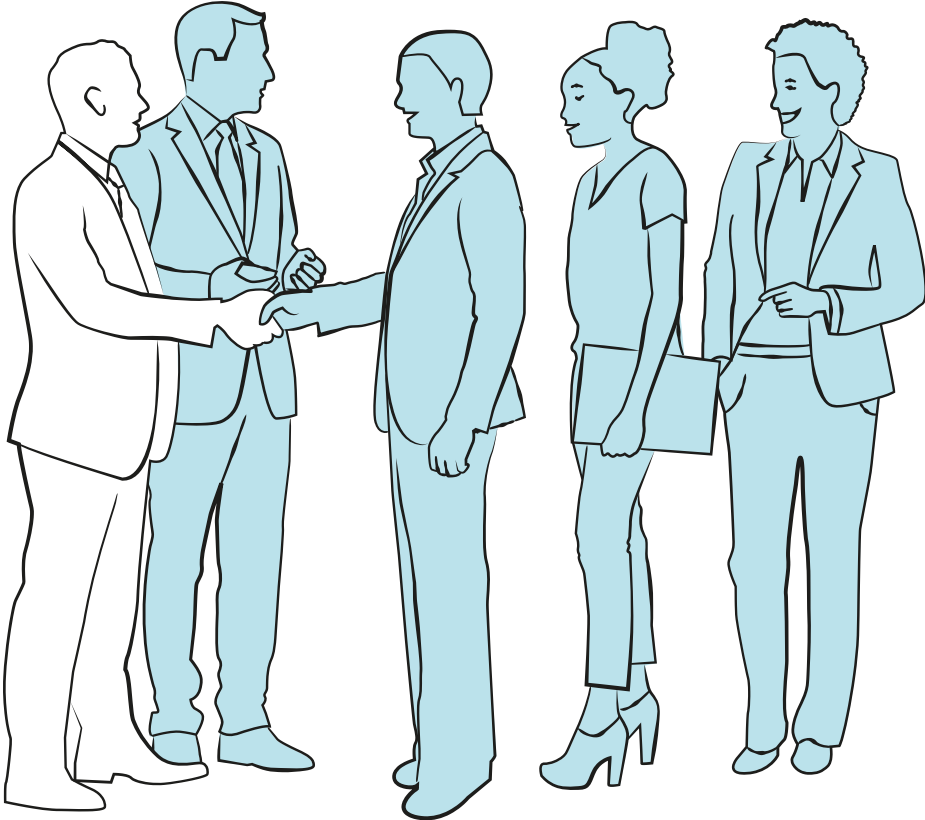
Hiring a Chair

Companies should recruit the best candidate to ensure the value of this key role is delivered.

As with all hiring activity there are two key questions: 1) Can the person do the role? 2) Do they want to do the role? Question two is the one that people often forget, or attach less credence to. Our advice is that your incoming Chair must demonstrate that they really, really want the role through thought, word and deed.

The hiring process should be structured. Letters of appointment should be followed with an induction programme to ensure your new Chair is productive as soon as possible.

The process used for board hiring informs candidates about the quality of the business.



About Spectrum

This report was authored by Daniel Osmer, the Managing Partner at Spectrum.

Daniel holds a BA (Hons) Personnel Management, and began his career in corporate HR with Nortel Networks, ICL and Cable & Wireless. He moved into executive search in 1998 and founded Spectrum in 2001.

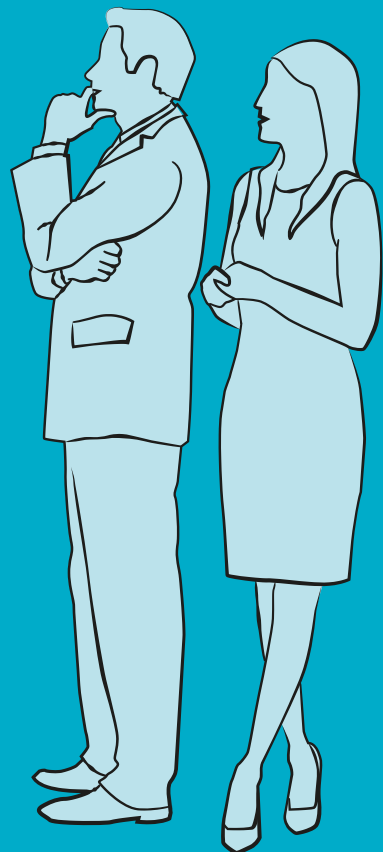
Spectrum is a London-headquartered, board-level HR professional services firm. We primarily work for privately held (often investor-backed), growth technology businesses.

Our core services are:

- Retained board search and executive search
- Executive HR support and strategic HR projects
- Board evaluation
- Board and executive team assessment and development
- Coaching

More about the firm is available at

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