

*EARLY STAGE
COMPANY
LEADERSHIP*

Establishing the
Best Team in
Your Industry



Spencer Stuart / Haas School of Business

**Contact: Michael F. Lynch
mlynch@spencerstuart.com**

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Presenter

Michael F. Lynch

Mike Lynch is based in Spencer Stuart's Silicon Valley office and is a member of the firm's Technology, Communications & Media Practice. A technophile at heart, he focuses on senior general management assignments in a variety of technology sectors, including electronics manufacturing services, semiconductors, security and professional services. From a functional perspective, Mike successfully has completed assignments in general management, operations, sales, professional services and R&D. His clients range in size from large multinationals such as Cisco, Hewlett-Packard and Solectron, to early-stage, venture-backed businesses. As a firm quality officer, Mike takes a hands-on approach to his search work and drives thorough, consistent results.

As a result of his client-side experience in technology-based companies, Mike brings firsthand understanding of the leadership and cultural issues that feed world-class management teams. He began his career as a systems engineer with IBM Labs in Toronto, where he worked on early-stage distributed computing services. After completing his M.B.A., Mike moved into management consulting with EDS and Accenture, where he focused on technology strategy and services design and delivery. Prior to joining Spencer Stuart, Mike held the position of vice president of operations at two early-stage startups, one in the eMarketing field and the other in India-based offshore systems development. His broad industry experience includes high tech, financial services, travel, transportation and public safety.

Mike earned a degree in electrical engineering from the University of Victoria (Canada) and an M.B.A. from UCLA.




Practice Specialties

Technology, Communications
& Media

Contact Information

San Mateo office
mlynch@spencerstuart.com
dd 650.356.5531



“Many Venture Capital firms will say that talent is the most important thing, but their behavior does not often reflect this belief.”

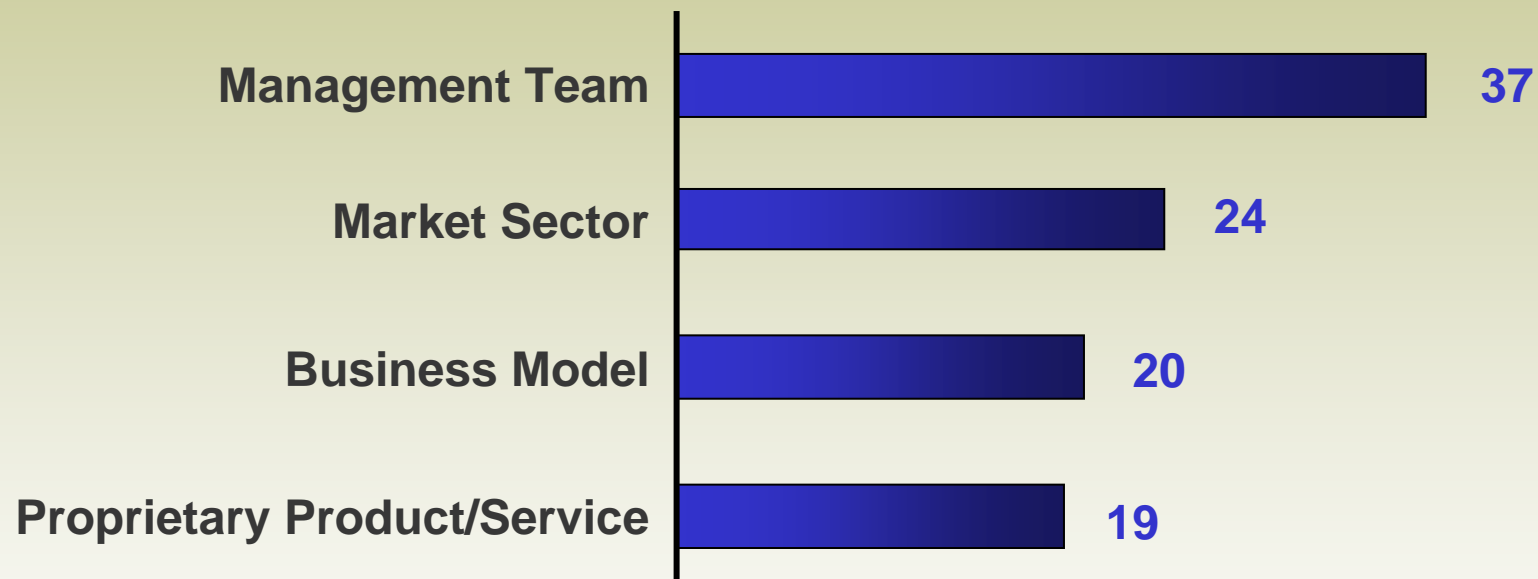
- Partner, Venture Capital Firm

Invest In Talent

Talent is clearly viewed as the most significant factor in a funding decision

Factors considered most important by investment professionals

Weighted importance out of 100*



Percentages of respondents that agree*

“My firm is able to recruit the most talented CEOs for our portfolio companies.”

Top Quartile Firms

60.9%

Other Firms

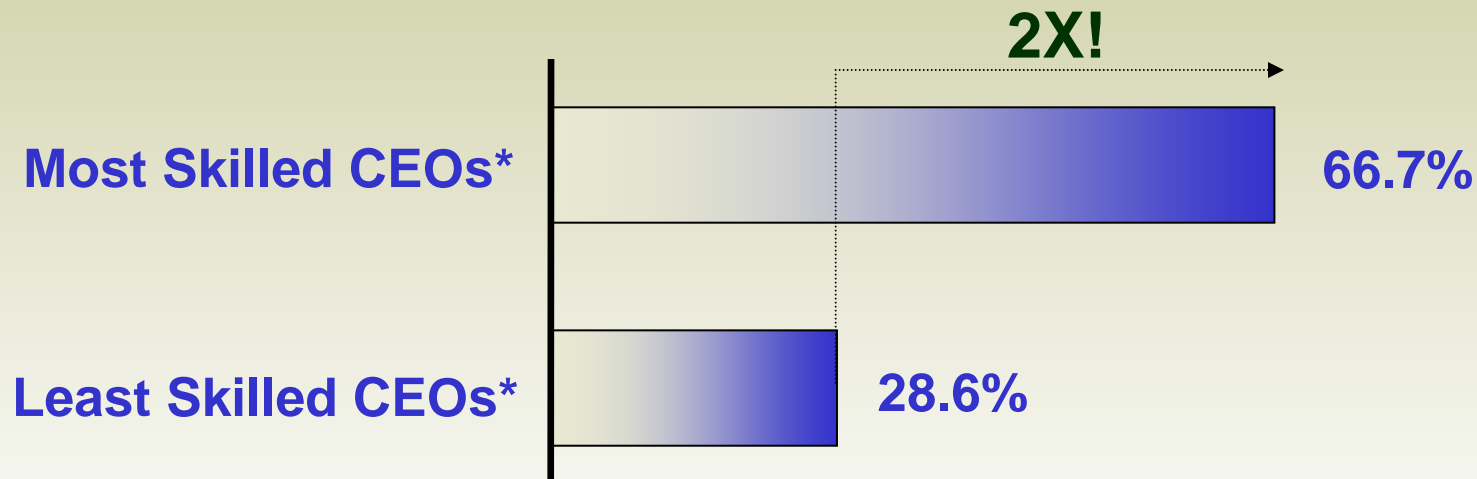
41.9%

Source: NVVA member survey respondents, Spencer Stuart/NVCA VC-backed Leadership survey, 2001
Spencer Stuart venture capital/private equity firm interviews

Invest In Talent

The best talent wins...BIG!!!!

Percentage of Companies Analyzed that Met or Exceeded Investor Financial Objectives



A portfolio stewarded by only the most talented CEOs may be more than twice as likely to meet financial performance goals.

* As evaluated by board director(s) of venture-backed companies

Source: NVVA member survey respondents, Spencer Stuart/NVCA VC-backed Leadership survey, 2001

Master The Art of Human Capital Acquisition

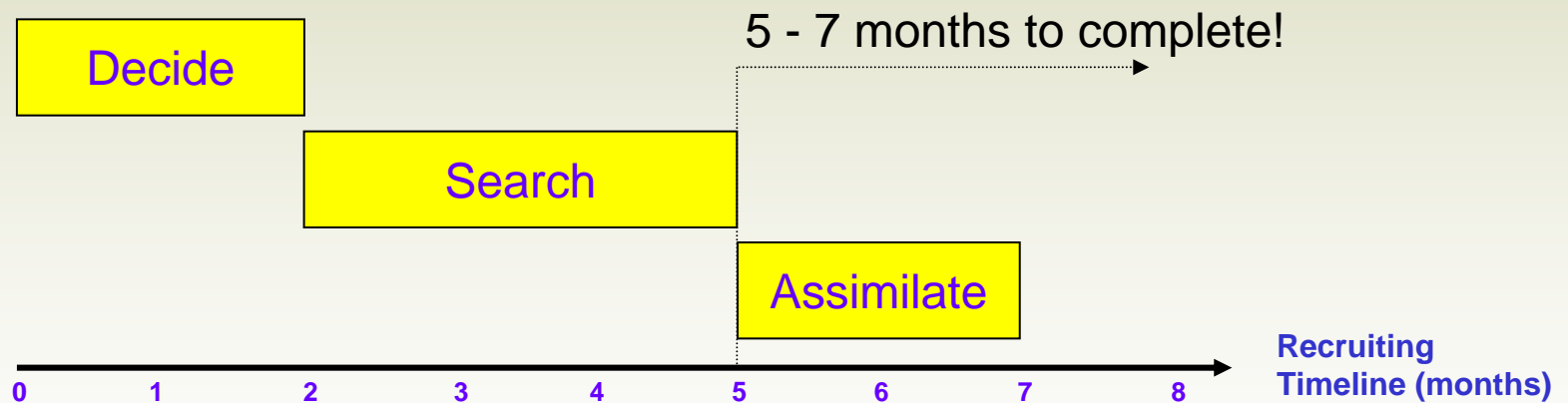
Ten guideposts to follow when recruiting executives for an entrepreneurial company.

- 1 Take action when needed. Don't procrastinate.
- 2 Hire competencies, not name recognition.
- 3 Hiring the right industry / domain expertise can be the difference between profit and peril.
- 4 Unearth the actions behind the experiences.
- 5 Look for emotional intelligence.
- 6 Don't let "resume myopia" limit the success of your search.
- 7 Due diligence is a critical part of the recruiting process -- do it!
- 8 Match candidate skills to the company's next growth stage.
- 9 Pay for quality.
- 10 Manage the assimilation process before and after the close.

Source: "The Ten Deadly Sins of CEO Recruitment", Richard A. Smith and Jonathan Visbal, The Venture Capital Review, November 2001.

Rule #1: Take action when needed. Don't Procrastinate.

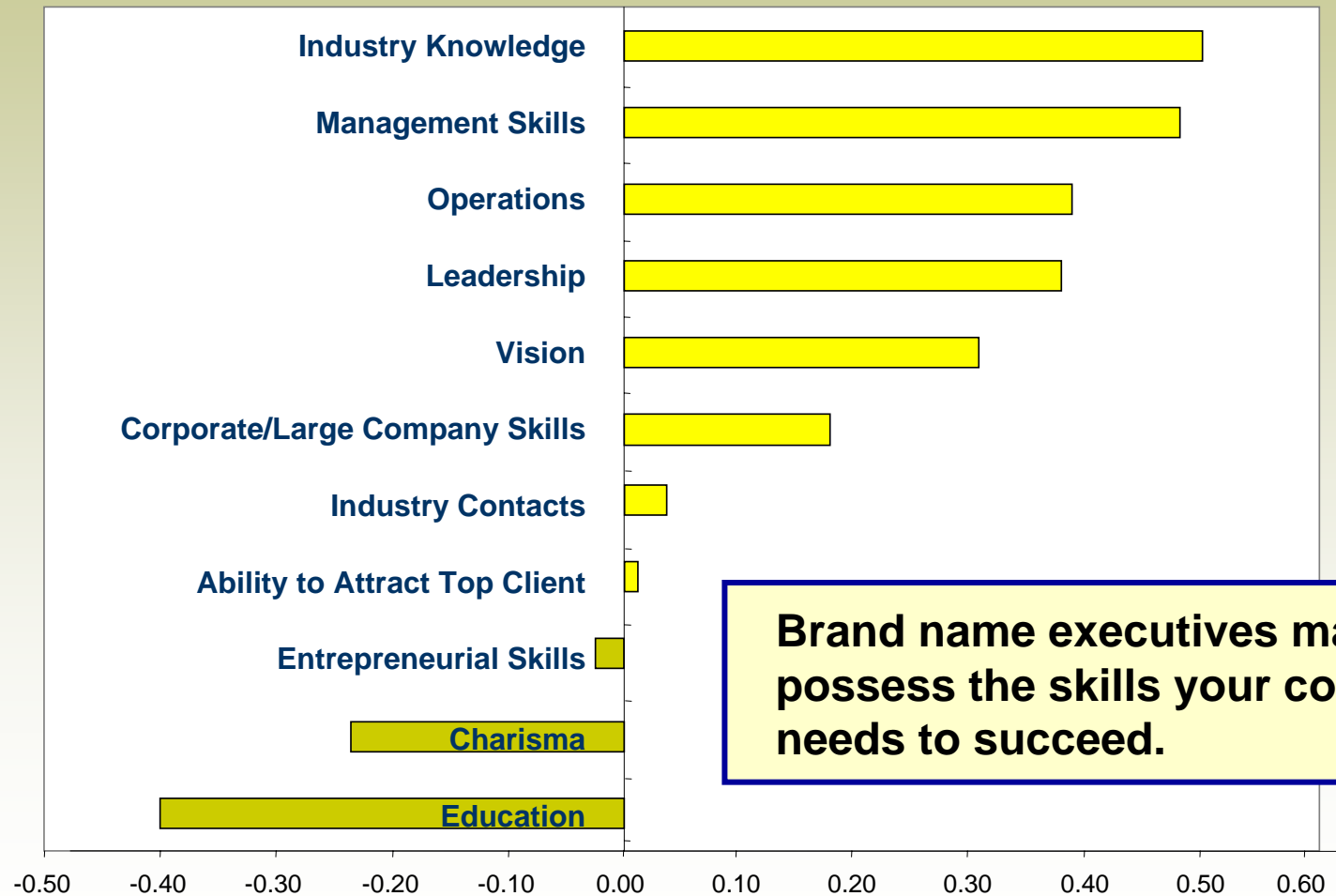
- Skirting the issue is a losing strategy.
- Identify issues related to faltering performance and address all issues.
- The time between decision and solution could be longer than you think.



Be a decisive CEO. Decide before the Board decides for you!

Rule #2: Hire competencies, not name recognition.

Correlation of Executive Skills and Performance



Brand name executives may not possess the skills your company needs to succeed.

Source: Spencer Stuart investor client/placement survey respondents, historical analysis, 2001

Rule #3: Hiring the right industry / domain expertise can be the difference between profit and peril.

- Decisions must be made faster - and smarter - than the competition.
- Act quickly. Act decisively.
- Build confidence in the leadership team.

Executives with relevant industry experience can “hit the ground running”!

Rule #4: Understand the difference between leadership style vs. business results.

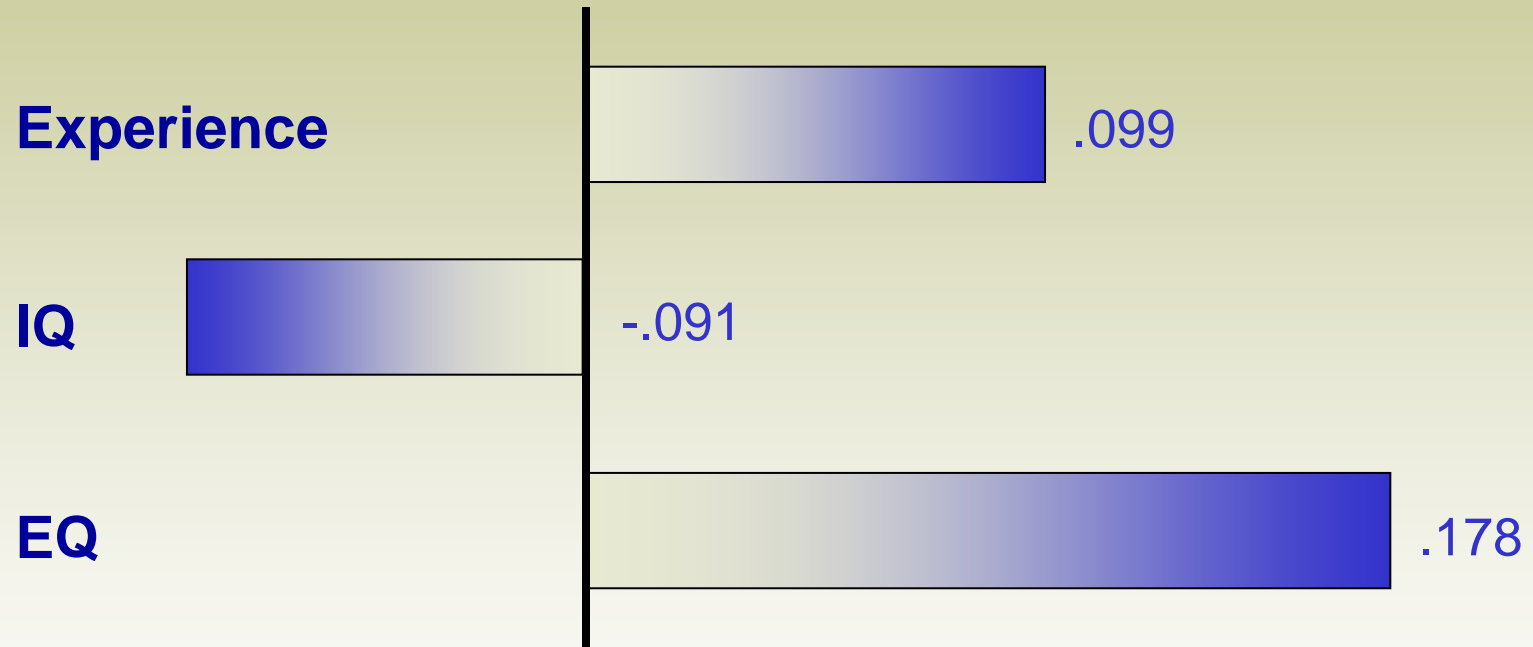
- The best predictor of success is past behavior.
- Competency-based assessments focus on behavior.
- Although work situations will change, an individual's stylistic traits probably won't.

Focus on the “how” behind the “what”.

Rule #5: Look for emotional intelligence.

Correlation with Success

(only those three factors)

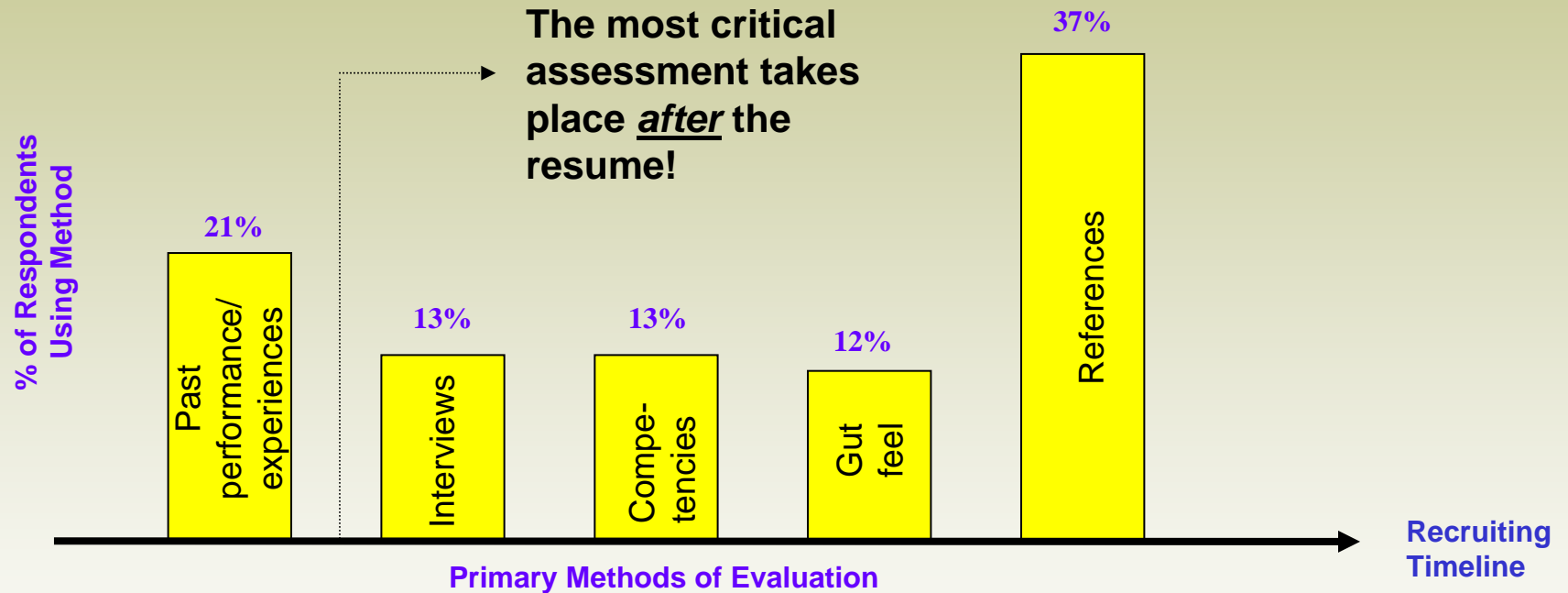


“Leadership and Judgement are the two most important qualities we look for in a CEO. Judgement is emotional intelligence.”

- Andy Rachleff - General Partner and Co-Founder, Benchmark Capital

Source: Spencer Stuart investor client/placement survey respondents, historical analysis, 2001

Rule #6: Don't let "Resume Myopia" limit the success of your search.



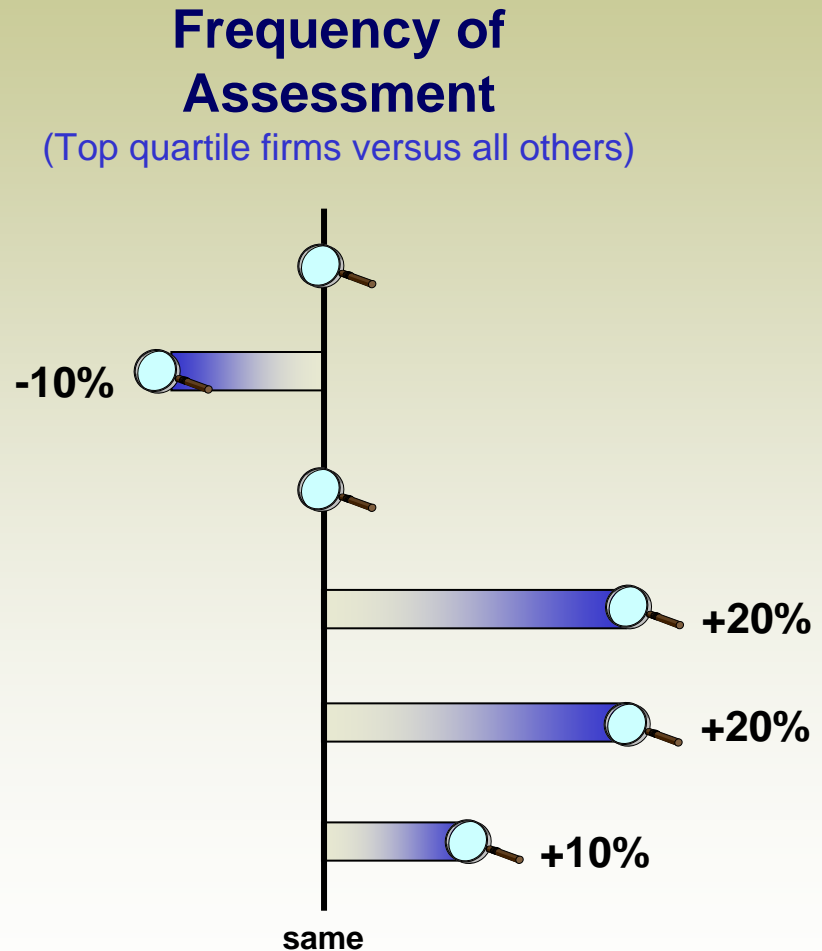
Seek out both objective and subjective data.

Source: Spencer Stuart investor client/placement survey respondents, historical analysis, 2001

Rule #7: Due diligence is a critical part of the recruiting process -- do it!

Assess candidates based on:

- Resume Review
- Informal Discussions/Interviews
- Gut Feeling
- Formal, Competency-Based Interviews
- Check References Provided
- Check Independent References

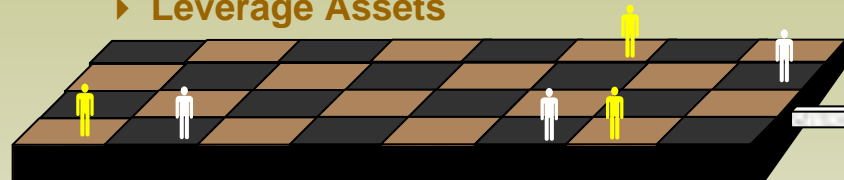


Source: NVVA member survey respondents, Spencer Stuart/NVCA VC-backed Leadership survey, 2001
Spencer Stuart investor client/placement survey respondents, historical analysis, 2001

Rule #8: Match candidate skills to the company's next growth stage.

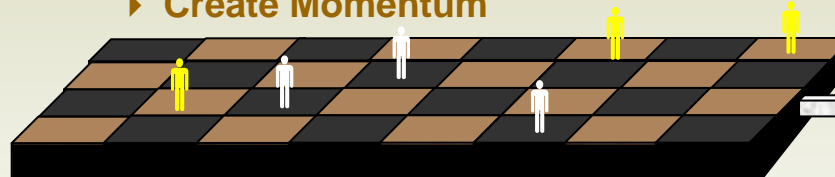
Post-IPO

- ▶ Scale, Scale, Scale
- ▶ Implement Policies, Procedures and Controls
- ▶ Leverage Assets



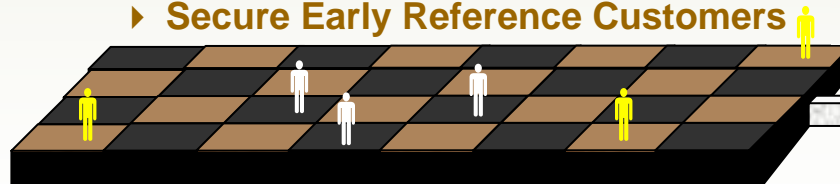
Pre-IPO

- ▶ Refine Business Model & Vision
- ▶ Expand Scope and Reach of Customer Base
- ▶ Create Momentum



Early Stage

- ▶ Identify Business Model
- ▶ Raise Capital
- ▶ Develop Products
- ▶ Secure Early Reference Customers



Rule #9: Pay for quality.

- Star talent is expensive.
- You will compete with other companies for the best of this talent.
- Don't let the founding team's compensation position hinder your willingness to hire the best people.

Rule #10: Manage the assimilation process before and after the close.

Recruiting Stage

Best Practice

Decide

- Communicate the decision to go to search.

Search

- Enlist the founding team's support during the search

Assimilate

- Setup a formal assimilation process

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