

*VENTURE  
BACKED  
LEADERSHIP*

Mastering  
Investment in  
Human Capital



**EXECUTIVE SUMMARY**

Spencer Stuart **N|V|C|A**

**May 2002**

# Summary of Findings

## ■ Individual VC Opinions Differ Dramatically

⇒ But perceptions of the group are highly accurate - there is great value in collaboration of knowledge!

## ■ Success Requires Assessment

⇒ The highest performing firms are more diligent, thorough and consistent in their management assessment process

## ■ To Maximize Returns, Invest in Talent

⇒ There is a direct correlation between the quality of the CEO and Return on Investment

## The Study

# The most comprehensive analysis of venture backed leadership ever conducted

**Qualitative Interviews**

80 Firms, 100+ Hours

**100 Case Studies**

**Broad VC Survey**

240 NVCA member respondents

**What CEO attributes correlate to success or failure, as seen through eyes of the Board?**

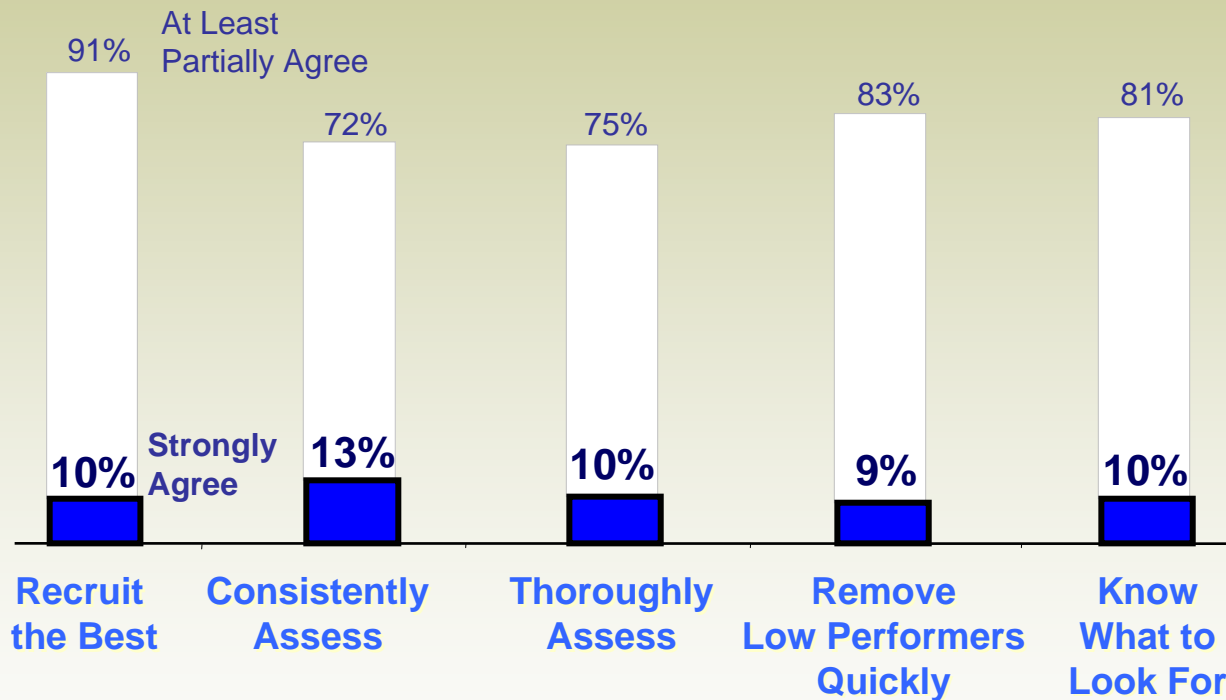
**What are the processes, perceptions, and behaviors of the top performing firms?**

## Current State

# Investing professionals' realize there is great opportunity for improvement

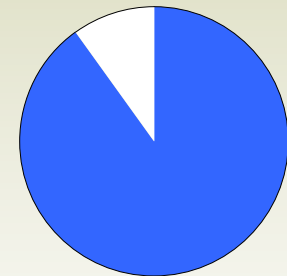
## Related to Portfolio CEOs

Percentages of respondents who agree



**Only a handful of VCs are highly confident in their process and perceptions**

“CEO is a primary contributor to the success or failure of the company”



90.0%

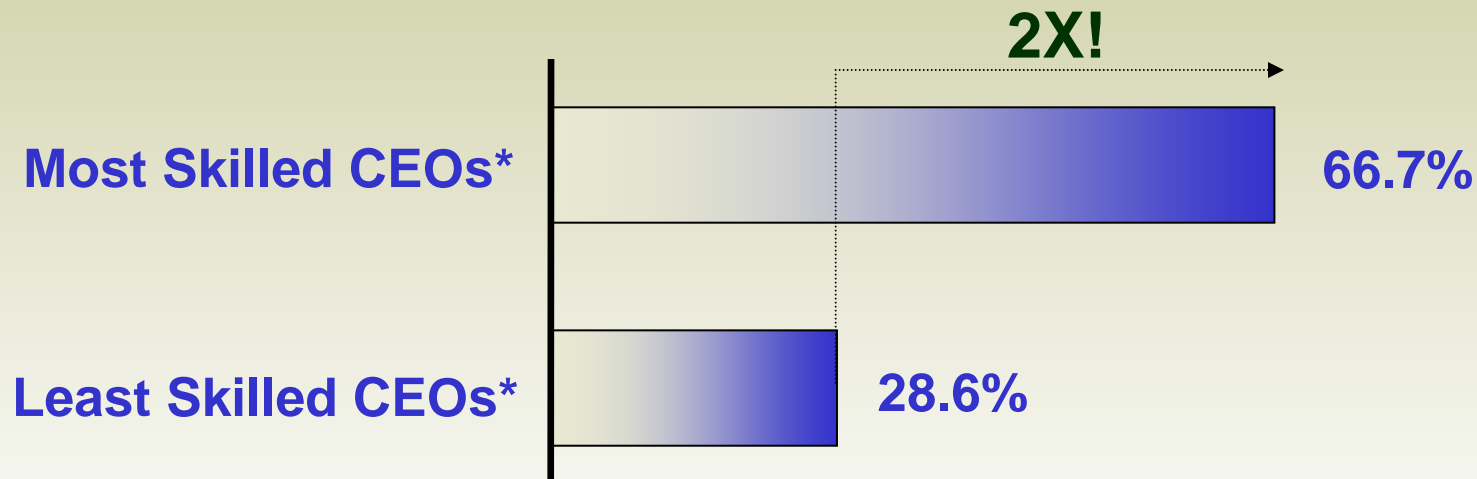
**...yet the majority know that finding the right CEO is critical!**

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

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 company

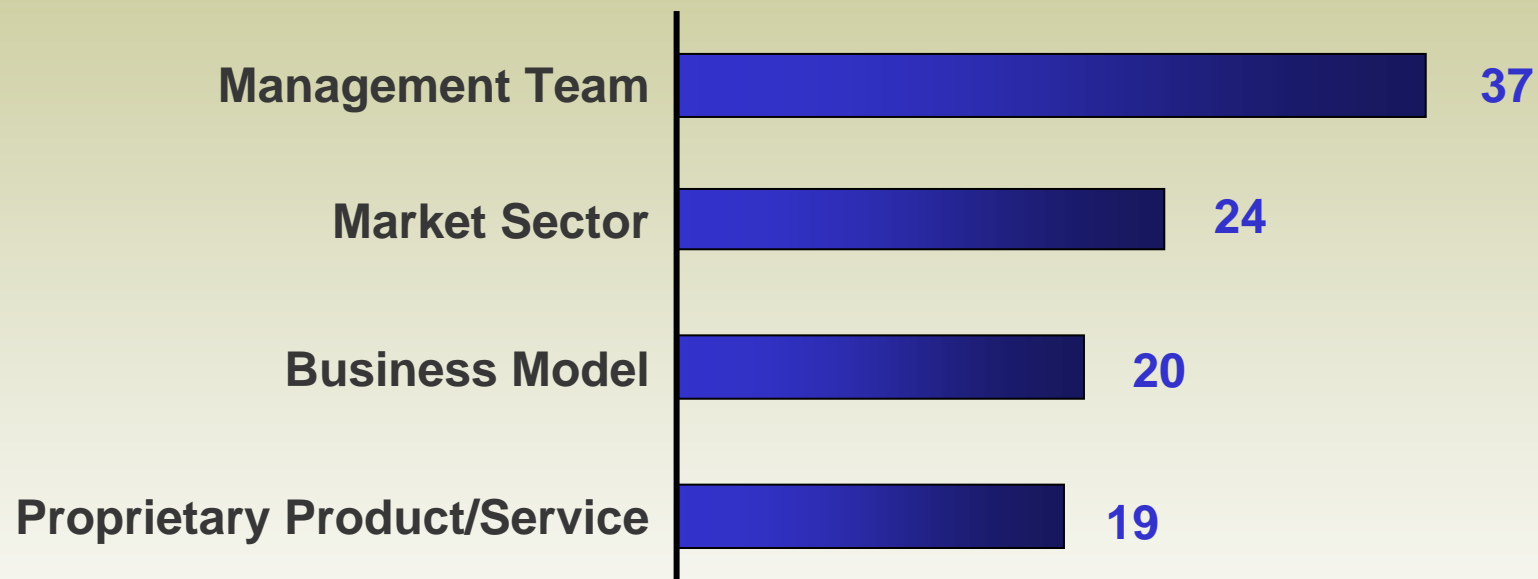
Source: Spencer Stuart investor client/placement survey respondents, historical analysis, 2001

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

## Know Who You Are Looking For

**Analyses of specific skills support the need for stewardship, speed and not a lot of fluff**

### **Ideal CEO**

- ⇒ Certain skills and attributes are highly correlated with CEO success. Some, such as charisma, have a surprising negative correlation
- ⇒ Successful CEOs tend to be more seasoned, loyal and humble
- ⇒ Entrepreneurial and fund raising skills are prerequisites, leadership and management are differentiators
- ⇒ The best CEOs excel at a particular stage of a company's lifecycle, but are also cognizant of future stages of company growth

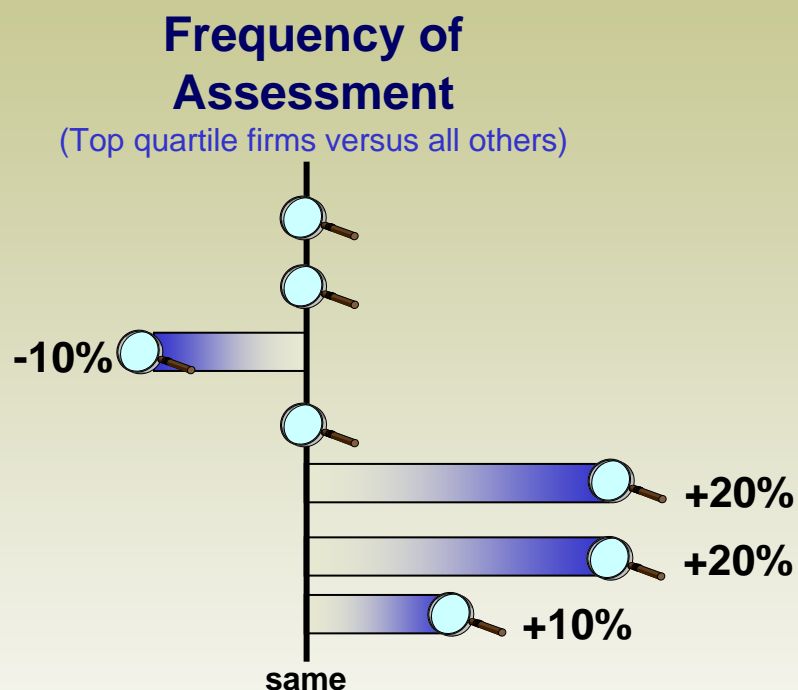
**Strong industry collective thinking exists, thus emphasizing the need for collaboration both within and across firms.**

## Do Diligence

# The top performing firms are more diligent, consistent and thorough in their assessment of talent

## Assess CEO/Exec Team based on:

- Presentation of Business Plan
- Resume Review
- Informal Discussions/Interviews
- Gut Feeling
- Formal, Behavior Based Interviews
- Check References Provided
- Check Independent References



	Top Quartile Firms	Other Firms
<b>My firm has a consistent process of CEO assessment</b>	<b>43%</b>	<b>30%</b>
<b>My firm has a thorough process of CEO assessment</b>	<b>32%</b>	<b>21%</b>

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

## Summary Findings

# Our Recommended Best Practices Approach and Related Findings

### Invest in Talent

- ⇒ Top firms are using creative ways to build “talent deal-flow,” retain star performers in portfolio and improve firm’s human capital skills

### Know Who You Are Looking For

- ⇒ Corporate experience, coupled with entrepreneurial skills is valuable
- ⇒ Speed is king; lack of knowledge/experience of the industry or the CEO role can be a significant disadvantage

### Do Diligence

- ⇒ What VCs consider “basic assessment” is not adequate to determine the most critical skills and competencies
- ⇒ Top firms use best practices to improve assessment process and results

### Master the Art of Human Capital Acquisition

- ⇒ Success requires strong adherence to best practices, with diligent follow through, and effectively working with executive recruiters when necessary

## About the Study's Author



### **RICHARD A. SMITH**

As co-managing director of Spencer Stuart's Venture Capital/Private Equity Practice, and a core member of the firm's Technology, Communications & Media Practice, Rick Smith specializes in recruiting general management, board directors and other senior executives for companies at all stages of maturity.

Prior to entering the search profession, Rick was a Senior Principal with Diamond Technology Partners, Inc., providing leadership when the firm experienced tremendous growth and was taken public (Nasdaq: DTPI). Rick began his career in international marketing and business development with Electronic Data Systems, where he held senior positions throughout North America and in Europe.

Rick holds a Master of Management in Entrepreneurship from the J.L. Kellogg Graduate School of Management at Northwestern University and a Bachelor of Science, with honors, from the University of Florida. He is currently a faculty member for the Venture Capital Institute, the first and only search professional ever appointed. He has written numerous articles about the impact of leadership on global competitive strategy, and authors a bi-annual feature article for the Venture Capital Review. In addition, Rick is a certified Management Accountant and moonlights as a semi-professional singer/songwriter.

*Richard A. Smith, Co-Managing Director, Venture Capital & Private Equity Specialty Practice, Spencer Stuart*  
*Phone: (404) 504-4421 e-mail: [rasmith@spencerstuart.com](mailto:rasmith@spencerstuart.com)*

# About the Study's Partners

## NVCA

- **The National Venture Capital Association (NVCA)** represents over 440 venture capital and private equity organizations. NVCA's mission is to:
  - Foster the understanding of the importance of venture capital to the vitality of the U.S. and global economies
  - Stimulate the flow of equity capital to emerging growth companies by representing the public policy interests of the venture capital and private equity communities at all levels of government
  - Maintain high professional standards
  - Facilitate networking opportunities
  - Provide research data and professional development for its members

## Spencer Stuart

- **Spencer Stuart**, founded in 1956, is the leading, privately held, international consulting firm specializing in senior-level executive search and board director appointments
- With 51 offices in 24 countries, the firm is staffed by more than 300 consultants worldwide and is organized in industry practices that specialize in meeting clients' recruitment needs in different business sector
- Spencer Stuart consultants conduct more than 4,500 senior-level searches annually for clients ranging from Fortune 500 leaders to smaller and emerging companies with excellent growth potential

*For more information regarding this study or a copy of the white paper, contact:  
Patty Block, Marketing Consultant, Technology, Communications, and Media Practice, Spencer Stuart  
Phone: (650) 356-5525 e-mail: [pblock@spencerstuart.com](mailto:pblock@spencerstuart.com)*