Betting on the Right Jockey

The number one indicator of investment success!

Welcome!
January 28, 2015

• Use chat to submit questions

• Yes, you’ll get the slides

• We’re recorded, so come back and listen again
Mission:
Fuel the success of angel groups and accredited individuals active in the early-stage landscape

- World's largest trade group for angel investors
  - 220+ angel groups
  - 12,000 accredited investors
  - Voice of accredited individuals, portals, and family offices
- 50 US states + Canada
- Research/education partner

Member Groups & Accredited Platforms

- Golden Seeds
- Life Science Angels
- Nashville Capital Network
- FundersClub
- band of angels
- Angellist
- alliance of angels
- LAUNCHPAD VENTURE GROUP
- TECH COAST ANGELS
- TiE ANGELS
- CommonAngels
- New York ANGELS
- New Dominion Angels
- Houston Angel Network
- Ohio Tech Angels
- Sand Hill Angels
- Sierra Angels
Our Speakers - and a little about them

Chairman and Co-Founder, Queen City Angels

Executive Consultant, Culture Index
Dallas, Texas
Topics We’ll Explore Today

Educating Portfolio Companies CEOs for Success
• Who’s on the Team?
• Definition of an A Player
• Three jobs of an entrepreneur/CEO
• Early growth stage lessons learned
• Hiring System
• ACA Leadership Management Survey
• The Culture Index Tool

Who’s on the Team?

• Internal Team Members, CEO, C-Level members, Others
• External Service Providers – Attorney, Accountant, Consultants, etc.
• Board/Advisory Members
• Strategic Partners, etc.
• Investors

Order of Importance?
Developmental Stage of Company
Team Expansion Example

Background

• Early-stage company – Revenue now at $500k.
• Need to hire VP of Sales.
• Candidate (Finalist) has:
  • 20 years of increasing experience in sales management;
  • Primarily worked for large corporations; and,
  • Has domain expertise and is willing to adjust comp package to fit company’s budget.
• CEO likes the candidate.

Move ahead, right?

You Decide

• Candidate’s experience largely in Fortune 500 companies – no startup experience.
• Person wants to manage, not “Do.”
• CEO spent approximately four hours interviewing candidate.
• Candidate did what sales people do – sold the CEO on his/her background.

End Result?
Outcome

• Person hired; after six months, CEO terminates relationship.
• Cost of incorrect hire?
  • Recruiting time and costs?
  • Impact on budget and overall plan of company?
  • Impact on customer base?
  • Total cost of incorrect hire?
  • Other factors – Investor’s confidence in CEO

What else?

An A Player is defined below, and is usually the top 10% of those available for a position.*

<table>
<thead>
<tr>
<th>Performance</th>
<th>A Player</th>
<th>B Player</th>
<th>C Player</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>Facilitates the Creation and communication of a compelling and sound vision</td>
<td>Vision lacks credibility; is somewhat unrealistic or strategically flawed</td>
<td>Embraces tradition over forward thinking</td>
</tr>
<tr>
<td>Intelligence</td>
<td>≥130 IQ; a quick study, able to rapidly perform complex analyses</td>
<td>120-129 IQ; smart, but not as insightful as A Player</td>
<td>110-119 IQ; has difficulty coping with new, complex situations</td>
</tr>
<tr>
<td>Leadership</td>
<td>Initiates needed change; highly adaptive and able to “sell” the organization on change.</td>
<td>Favors modest, incremental change, so there is lukewarm “followership”</td>
<td>Prefers the status quo; lacks credibility so people are hesitant to follow</td>
</tr>
<tr>
<td>Drive</td>
<td>Passionate; extremely high energy level; fast paced; 55+ hour work weeks</td>
<td>Motivated; energetic at all times; 50-54 hour work weeks</td>
<td>Dedicated; inconsistent pace; 40-49 hour work weeks</td>
</tr>
<tr>
<td>Track Record</td>
<td>Exceeds expectations of employees, customers and shareholders</td>
<td>Meets key constituency expectations</td>
<td>Sporadically meets expectations</td>
</tr>
</tbody>
</table>

For a For High-Growth Company Leadership, An A Player is Not Good Enough – An A+ Player Is Needed

* From Top Grading
Top 3 Jobs of Entrepreneur/CEO

• Develop the Strategic Vision
• Be the Top Sales Person
• Select and Develop a World Class Team

Consequences of not hiring a great team?

“If we don’t get the people thing right, we lose it; it is the most important thing in all our businesses.”

Jack Welch
Early Growth Stage Lessons Learned

- Develop a Strategic Planning System
- Install Hiring System
- Be Prepared to Upgrade Staff
- More Systems Needed to Manage and Operate the Business
- CEO Training – Vistage or other similar program; CEO University; Other.

Hiring System

- Accounting System
- Average Time Spent to Hire Someone
- Cost of Hiring the Wrong Person
Hiring System

• Identify Candidates
• Create Job Profile/Picture of Success at 3 Months; 1 Year
• Recruit Applicants – Note: Set General Compensation Expectations Early
• Create Short List and Telephone Interview

Hiring System

• Internal Interviews Using Well-Designed Questions
• Select 1 or 2 Finalists
• Reference checks (Mgr., Peer, Reports)
• Interview by Industrial Psychologist
• Job Offer

Note: Momentum is Everything – Close people when you can.
Additional Hiring Tools

- Survey Salaries
  - E&Y Annual Survey, RCCF, Compensation Pro and Noam Wasserman’s Founder Frustration’s Blog.

- Background checks
  - Credit History, Driving History, Google, Facebook, etc.

- Use of Stock Options
  - ISOs (employees) and NQSOs (non-employees).

- Job Boards
  - Venture Loop, The Ladders, Startuphire.com, CareerBoard, Monster, LinkedIn, etc.

CEOs of Venture Backed Cos.

With this in mind, we should be aware of some basic facts and realities:

- Uncommon for founder to be CEO at Exit.
  - After 3 yrs., 50% of Founders remain CEO.
  - After 4 yrs., 40% remain.
  - At IPO, fewer than 25% remain.

- “On Average, VCs replace half to 2/3s of Founder CEOs before exiting – some replace up to 95%.”
ACA Leadership Survey

39 Angel Groups responded to the four questions related to assessing CEOs and their teams:

• Q1 – Do you have tools/processes to evaluate the skills of a CEO?
  • No – 21 groups
  • Yes (18) – SuperDecision(1); LinkedIn; “built my own;” DISC Profile; Culture Index(1); extensive interviews; other.

Comment: “No; that said, this is probably what my angels pay the most attention to.”

ACA Leadership Survey

• Q2 – Do you have tools to assist a portfolio company in hiring a new C-level manager?
  • No – 32 groups
  • Yes (7) – Culture Index(1); use search firms/recruiters; other.

Comments: “No, but wish I did.” “Use LinkedIn and personal network.”
ACA Leadership Survey

Q3 – Do you have tools to evaluate CEO annual performance?
  - No – 28 groups
  - Yes (11) – Milestone based Board level reviews; Annual (and quarterly) updates; 360 reviews and self review; other.

Comments: “We conduct an annual portfolio evaluation which includes the review of the CEO’s goal metrics and how he/she has performed against those metrics.”

ACA Leadership Survey

Q4 – Do you have a program to help a CEO increase their skill set?
  - No – 35 groups
  - Yes (4) – Ad hoc one-on-ones; educational programs offered by the angel group; others.

Comments: “We use fear of being fired.”
The Culture Index Tool

Jason Kos, Applied Behavioral Analytics

Correct Placement of the Right People in the Right Jobs

• Understanding Job Fit Analysis
• Talent Management & Retention
• Team Building and Leadership
• Employee Performance against Job Performance
• Succession Planning
• Employee Accountability for Human Resource Decisions

Tony Shipley

![Diagram showing data points and labels: A, B, C, D, EU = 29, L, I, X-axis from 0 to 10, Y-axis from 0 to 10.](Diagram.png)
TRAILBLAZER

ENTERPRISER
Wrap Up

Concluding thoughts:
• Best Practices for Due Diligence on Mgt. Teams?
• Other Methods/Processes for Team Selection/Retention/Development?
• Need for CEO University?
• Need for a Coachability Index?
• How should Investors/Board Members assist Portfolio Companies with the “people” issue(s)?
Audience Resources

Suggested Reading
• *Topgrading*, by Bradford D. Smart
• *Topgrading for Sales*, by Bradford D. Smart
• *Early Exits*, by Basil Peters
• *Strategic Entrepreneurism*, by Jon Fisher, et al.
• *The Breakthrough Company*, by Keith R. McFarland.

Additional Resources

Marianne Hudson  
Executive Director  
Angel Capital Association  

Christopher Mirabile  
Managing Director, Launchpad; Vice Chair, Angel Capital Association  
Thank you!

Audience Questions

Upcoming Webinars at Noon Eastern
February 25, 2015: What Angels and Entrepreneurs need to know about Steve Blank’s Lean Launchpad
March 25, 2015: Savvy Syndications - Pitfalls and Possibilities
May 13, 2015: Josh Lerner, Professor of Investment Banking at Harvard Business School
June 10, 2015: Brad Feld, The Foundry Group

Webinar programs archived at:
www.angelcapitalassociation.org/events/webinars/

REGISTER ONLINE
www.angelcapitalassociation.org/2015summit
ACA Members: $820 early bird, $895 after February 3
Non-Members: $1120 early bird, $1195 after February 3
Additional fees apply for programs on Tuesday, April 14

ACCOMMODATIONS
A room block is reserved for Summit attendees at the Marriott Marquis San Diego Marina, 333 West Harbor Drive, San Diego, CA.

Act by March 27 to secure your discounted room ($229) or ($249).

Reservations can be made by calling the hotel at 619-234-1500 (reference “ACA”) or via the ACA Summit website.

• COME LEARN THE LATEST INVESTING IDEAS
• FIND CONNECTIONS THAT MATTER
• PROGRAM HIGHLIGHTS
  • Pre-Summit (April 14)
  • ACA Summit (April 15-16)

2015 ACA Summit
April 14-16, San Diego, CA

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Sunset Keynoter Steve Blank