

Kauffman Fellows Program

Class 17 Session Guide

Module III

Dear Kauffman Fellows Class 17,

Welcome to Module 3 of the Kauffman Fellows Program here at the Silicon Valley Four Seasons in East Palo Alto. The focus of this module is on **“Investment Optimization: Board Best Practices”** and the content will emphasize best practices as a board director. Also, the theme of personal branding as an investment professional will permeate every session. While we will complete some discrete exercises around branding, we encourage you to keep it front and center in your thinking throughout the week. The high-level concepts of Module 3 are:

1. Excellent board conduct creates commercial value and enhances returns. From the sessions in this module, what does “excellence” mean and how do you measure it?
2. Sub-par board behavior occurs even with good intentions. It destroys value, lowers returns, creates legal exposure, and damages reputations. What form does that behavior take?
3. Thorough knowledge of legal requirements and maintenance of good corporate “hygiene” does not in any way ensure “excellent” board conduct. What it does provide is a good foundation and it goes a long way toward preventing expensive mistakes that can come back to legally and financially bite funds and individuals.
4. Board roles can last 5-7 years and the dynamic is greatly influenced by the original investment structure and those whom you choose to bring into the deal.
5. Because of this time commitment and the important role of BODs, much of your reputation – and good investment opportunities – stems from your conduct on boards.

It won't come as a surprise to you that many of the faculty coming to speak are concerned about the state of the industry and what it means for each investor's future. You are going to hear a broad spectrum of perspectives from these faculty, from “doom and gloom” to “once in a lifetime opportunity.” The reality, most all of them will tell you in the end, is probably somewhere in between. Where that “somewhere” actually lies is the question we all want to answer.

Our view at the Center for Venture Education is that we are moving into a potentially golden age of innovation. Though we believe that the venture world will survive and ultimately thrive again, tectonic changes in technology needs, geography of problems, and government policy and politics create uncertainty as to what the industry will look like in its next stage of growth. The next few years are going to be a crucible that will reduce the industry to its raw elements and – if you're truly committed to this industry long-term – it's a great time to be starting out. We do think the heat and pressure will force each of you to be clear on who you are and where your vision as an investor and a leader stands. We need to recognize the great potential we have as investors to impact the success of any startup, and that ultimately this impact begins with individual leadership.

Again, welcome and we look forward to an enjoyable and insightful week together.

Jane Chinen
*Recruiting
Coordinator*

Vincent Micciche
Associate

Kirsten Owens
*Fellows
Coordinator*

Neddy Reyes
*Director of
Operations*

Bill Tobin
Faculty

Phil Wickham
CEO

Session 1: Successfully Launching on a Board of Directors

Speakers: Patrick Chung (Class 9), NEA
Josh Stein (Class 9), Draper Fisher Jurvetson

Session Goals:

To gain insight into best practices for optimizing relationships with fellow board members, firm partners, and management teams. Additionally, to learn how and when to make a value-added splash as a board member or observer, how to find your role, and how to stay out of ruts.

Questions to Ponder:

- What defines an effective board member and what should a board member be doing?
- What is my responsibility to the company?
- What should keep me up at night?
- What is a good board observer?
- As a board observer, how can I add value and what are my limits?
- When is the transition from observer to board member appropriate?
- What information do I need to know to add value to the company in the financial, marketing, IP, and other arenas? Where do I source this information?
- Which board members should I see in advance of board meetings?
- What is the proper format, forum and specificity for reporting back to partners?
- What materials are helpful for board meetings?
- How should I manage the syndicate of partners and other board members? How will this affect future funding?
- What are the informal roles that develop – good cop/bad cop, cheerleader, etc.?
- What techniques can boards employ to avoid groupthink?

Notes:

Session 2: Directors' Roles, Values & Responsibilities

Speaker: Pascal Levensohn (Mentor Class 14), Levensohn Venture Partners

Session Goals:

This session will be an advanced discussion of real business situations that test a private company board of directors. It will be an opportunity for you to synthesize your board expertise to date and prepare for the next set of discussions in the Module. The primary goal of the session is to appreciate that there is always a big opportunity (even on the average board) to help build commercial value and establish your brand and that of your firm. Additionally, we will discuss and understand how fine the line is between value-addition and value-subtraction.

Questions to Ponder:

- How do you propose to handle conflicts of interest between your role as a fiduciary and the demands of your partnership when the two diverge?
- Does your partnership have a clearly articulated policy on the above?
- What will you do when a syndicate partner drops out and will not support the continuing investors in a financing round?
- How do you plan to deal with replacing a CEO? Do you have a process?
- What will you do if you and your partnership are sued by founders who claim you have fraudulently conveyed value to yourselves and away from them in a new preferred round?
- How will you remove non-performing board members who have contractual rights to a board seat?
- How does capital from friends/family/angel investors prior to the first institutional VC round impact board dynamics in seed and early stage companies?

Notes:

Session 3: Personal Brand: Developing a Market Identity

Speaker: Bill Tobin, Strayer Consulting

Panelists: Dave Whorton, Tugboat Ventures; Greg Sands, Costanoa Venture Capital

Session Goals:

One of the ongoing threads of the KFP is that of establishing a “personal brand”: developing a distinctive identity in the market. This session focuses on positioning yourself in the mind of your “customer”, whether a fellow partner in your firm, an LP, a co-investor from another firm, an entrepreneur, or someone in your larger ecosystem. What is it that will have you be top-of-mind when they need something that only you can provide?

Questions to Ponder:

- How do I want to be known in the marketplace?
- For what am I the “go to” person in my firm, ecosystem, and larger market?
- What is a catchy, two-word tag line that represents my brand in the market?
- How do I learn from those who have gone before me (the senior people at each table) and my colleagues beside me to continue to distinguish myself, and also to support them and build on what they are doing?

Pre-Work Background Questions:

- Who you are starts with your **character**: the questions to ask here are:
 - What are my core values?
 - What are my operating principles in life?
 - Do I have integrity with those values and principles?
- Next come my **concerns**:
 - What’s important to me?
 - What do I care about?
 - Do I act consistently with those declarations?
- Where does my **passion** and **energy** come from? When we find our essence, we find what we are compelled to do.
 - What is it that you can’t not do? [Part of this is nature, part has been nurtured in us.]
 - What are my desires and motivators?
 - What unleashes my creativity?
- What are my **styles** and **preferences**?
 - How do I communicate?
 - How do I build relationships?
 - How do I deal with conflict?
 - How do I see the world?
 - How do I interact with that world?
- What is my **vision**?
 - What is my story for the future, professionally and personally?

- What is my **product**?
 - What are my strengths and qualifications?
 - How do my training, experience and expertise fit together?
 - What have I done (track record) and what can I be counted on to do going forward (market trust)?
 - What level of Intellectual (IQ) and Emotional Competencies (EQ) do I possess and can I develop?

Notes:

Session 4: Investing in Community: Our Social Responsibility

Speakers: Russ Hall, Legacy Venture
Andy Rappaport, August Capital

Session Goals:

A career in venture capital carries a bit more complexity than average. It's a privileged profession on many levels, but also one that carries a greater degree of responsibility and obligation as well. Venture investors possess unparalleled data and pattern recognition when it comes to understanding the startup process, which is society's main engine for economic growth. Venture investors also control most of the startup resources through the power of their checkbooks. This session is an opportunity to learn from two of the more influential leaders in the venture capital world, each of whom has crafted a unique path of social leadership and then adapted it to their professional lives.

Questions to Ponder:

- What is the definition of "social responsibility?"
- Do you have an obligation to be socially responsible or at least avoid the socially irresponsible?
- Isn't generating returns for pensioners and charities and creating jobs and tax revenue responsible enough?
- Are LPs demanding social responsibility or can I satisfy them with great returns?
- What skills as a professional venture investor translate to solving social problems?
- What role does personal passion play in such investments?

Notes:

Session 5: Building, Evaluating, and Optimizing a Board

Speakers: Brent Ahrens (Class 5), Canaan Partners
Susan Mason (Class 2), Aligned Partners
Bill Gerhart, Founder/CEO
Laura Bezerin, Hogan Lovells US

Session Goals:

Engage in real-world scenarios to gain insight into challenges and skills needed in building a board, saying “no”, understanding your role when joining an existing board, and optimizing your board role for the good of the company. Examine to what degree – and how – you perform the delicate task of due diligence on an existing board of a prospective investment. Discuss responsibilities, effectiveness, processes, and dynamics that highlight pitfalls and best practices.

Questions to Ponder:

- What is my responsibility to the board?
- What makes a good board member?
- What are the legal requirements of board service?
- How can I, as a board member, ensure that the board functions most effectively?
- Which committees take the most time and in which ones should I participate? Why? What are the roles of these committees? What qualifications are needed to chair certain board subcommittees?
- What are some best practices in board presentations?
- From a good CEO’s perspective, what are the qualities or behaviors that distinguish great board members from mediocre or ineffective ones?
- How do boards get evaluated and optimized in practice? What are practical solutions for BOD evaluation for a small company?
- How do board directors from venture funds negotiate their way between obvious conflicts of interest? When should one recuse oneself from a discussion or vote?
- Should one “spec” and fill a syndicate partner role as a CEO would a member of the management team?
- How does one say “no” to competing syndicate partners?
- What weight should one put on the board members and board dynamic in the due diligence process of a prospective investment? How does this compare to the weight placed on the management team, market, and technology?
- How should the team recruit an independent BOD member?
- How should the team select the chair and set the term? How to avoid (or fix) a situation where the founder or seed investor is “stuck” as chair with no mechanisms for turnover?
- How and when should the team bring in strategic investors, and how open should strategies be to inner workings of the company?

Notes:

Session 6: Harvesting Investments

Speakers: Rod Ferguson (Mentor 15), Panorama Capital
Faysal Sohail, CMEA

Session Goals:

By analyzing real-world case studies, understand harvesting strategies through building an understanding of key issues and questions. Different exit strategies and timing will be reviewed and the thinking behind the decisions will be discussed. Emphasis will be placed on thinking about exits when first building a business as well as how to preserve optionality. A key objective will be to understand the role and the limitations of board members during both acquisition offers and IPO filings. Fellows will also gain insight into the human dynamic during an exit, particularly patterns of management behavior.

Process and Methodology:

1. **Individual Partner Presentations (10 min each)**
2. **Harvesting case study with cohort breakouts (30 minutes)**
 - Identify the key dynamics of the liquidity event.
 - What considerations do you think the investors weighed most heavily when deciding to exit: timing, valuation, startup competition, incumbent competition, others?
 - When was significant value harvested by each of the major shareholders (management, founders, investors)?
3. **Cohort readouts (20 minutes)**
4. **Insider version of what probably would happen and Q&A (15 minutes)**
5. **Q&A (15 minutes)**

Questions to Ponder:

- How does original structure influence eventual exit?
- How does one position a company for a sale?
- How does a board prepare a company for harvest?
- What steps are involved in achieving a successful exit?
- What are the red flags that indicate an exit isn't going as planned?
- What are some best-case scenarios in a successful harvest and exit?
- What can go wrong in the M&A and IPO process (what to watch out for)?
- What are the dynamics and economics of M&A vs. IPO re: banker fees, carve-outs, lock-ups, picking a banker? What data do you need to decide what to do?
- Path to an exit – what are the process steps and influence steps?
- Should alternative investment vehicles be considered (e.g., SPACs and reverse mergers)?
- Revisit BOD/investor conflict of interest issue specific to exit options
- What does it take to IPO these days? Historical perspective, current environment, trends.

Notes:

Session 7: Entrepreneur's Perspective

Entrepreneurs: Matt MacInnis, Inkling
Kristin McDonnell, former CEO Limelife
Seth Sternberg, Meebo
Ken Song, Ariosa Diagnostics

Session Goals:

Develop an understanding of best practices that work for board members from the perspective of venture-backed entrepreneurs. Develop an understanding of the common road-to-hell-paved-with-best-intentions mistakes that board members commit, from the perspective of entrepreneurs.

Questions to Ponder:

- What do entrepreneurs see as BOD best practices?
- Are there any surprises or disconnects from the venture capitalists' conventional wisdom?
- In what ways do an entrepreneur's priorities differ from those of an investor?
- How do these insights influence your conduct in initial meetings, in due diligence, and on boards?

Notes:

Session 8: Real World Ethics: Our Personal Code

Speaker: Clint Korver (Class 14), Ulu Ventures

Session Goals:

A code of conduct defines our ethical boundaries and aspirational values. It provides guidance when facing challenging interpersonal situations. When thoughtfully developed and lived, it allows us to practice our profession with honor and effectiveness.

While we will start the conversation with a draft of SKF's Code of Conduct, the most effective codes are custom built, reflecting our personal values. They address our individual challenges in realizing the best in ourselves; they are anchored in meaningful personal experiences.

Developing a code of conduct takes more than one session. It requires reflection, practice, and revision. By the end of our time in this program, the goal is for everyone to have mastered the fundamental ethical distinctions necessary to think clearly about ethics, to be committed to a set of ethical principles (our personal code of conduct), and be able to exercise disciplined decision-making skills to choose wisely.

We all yearn to realize the best in ourselves. What confidence can we have that we are succeeding if we feel uncertain about whether we are handling ethical decision-making the right way? By developing new thinking habits, we learn how to respond intelligently to ethical challenges and live lives of meaning and integrity.

Questions to Ponder:

- Do principles such as honesty and integrity limit economic success or enable it?
- Of our KFP speakers, which have been personally influential? How much of their influence comes from how they conduct themselves?
- Do you think they are intentional about their conduct?
- What situations do you find ethically challenging?
- What situations do you find personally challenging?
- What principles do you want to guide your behavior in these situations?
- How do you think your conduct in these challenging situations affects your ability to be successful in this business?
- What does it take to consistently act in accordance with your principles?
- How important is honesty to success in this business? Integrity? Keeping commitments? Transparency? Respect?

Notes:

Session 9: Field Project Clinic

Facilitator: Phil Wickham (Charter Class), Center for Venture Education

Session Goals:

While the field project is a requirement for graduation from the program, it should be viewed as a powerful and unique opportunity that has a measurable window of opportunity. Your field project should be an extension of your personal journey – the same story that got you into the program. It should reflect your personal and career interests, as well as those of your firm or organization. In this session, we will dig deeper into the field project process and explore areas for further investigation.

Questions to Ponder:

- What ideas or opportunities close to your expertise can the Society help you explore more deeply?
- What do you want the brand of “you” to be when you graduate from the Program in July?
- How does this project impact that brand?
- How can you leverage the work of those Fellows before you?
- How might your work inspire those who come after you?
- Who else besides your firm will care about your insights?
- Who else might you get involved in the project early on?
- How else might your insights get distributed?

Notes:

Session 10: Conflict to Creativity

Speakers: Ward Ashman, Ian Schmidt, Amy Huang, Trimergence LLC

Session Goals:

Conflict naturally occurs when people have differing opinions and tend to see their own opinion as accurate and ultimately correct. Creativity is activated when people are open to diverse points of view, which are then integrated into a new and innovative perspective. By using Trimergence' Conflict to Creativity model you can apply the skills to successfully navigate these conflict situations to collaborate and generate creative breakthroughs. Key to using these skills is to remember that conflict is actually an indicator of the opportunity for collaboration, potential for synergy, and creative outcomes.

Leaders require this communications skill set in order to activate and drive highest quality solutions. Those leaders that use this simple, yet powerful tool can grow quickly and master their interpersonal relationships, thus naturally rising to the top. Those leaders who use conventional interpersonal styles erode their influence, and miss opportunities by getting stuck in relationship breakdowns, which then require a command and control approach. Those leaders who are not able to manage conflict well lose their influence via the relationship breakdowns they unwittingly create. Which type of leader are you now? Most importantly, which type of leader do you want to be?

Questions to Ponder:

- What is my approach to conflict? Do I aggressively push my position or do I back off to avoid conflict?
- Which do I value more in my conversations: convincing people of my perspective or listening thoroughly to the point of view of others?
- Where have I seen the value of diversity of perspective that has led to new and creative breakthrough solutions?
- How have I facilitated creative breakthroughs and conflict transformation in the past?
- How can I better facilitate other's authentic expression of charged and/or vulnerable thoughts and feelings?
- What aspect of my conflict style am I most familiar with and how do others perceive me in conflict historically?
- What loss have I incurred in the past by choosing my historic style of conflict?
- How would I like to show up in conflict in the future? What would this look like?
- What would I gain by managing conflict as an opportunity for creative partnership?

Notes: