CHAPTER 9

NEW CEOS & BOARD RELATIONSHIPS

YOU CAN'T BE AFRAID OF YOUR BOARD AND AFRAID TO CHALLENGE THEM. IF YOU ARE, THEN YOU ARE ALREADY VULNERABLE. BUILD RELATIONSHIPS WITH YOUR BOARD LEADERS. BRING THEM INTO YOUR CIRCLE AND THEY WILL BECOME SUPPORTERS.

PUBLIC COMPANIES

In a public company, when a new CEO comes in, the statistics are that two-thirds of the time you promote from within. And additionally, the actual success rate tends to be higher from internal promotions. If you're an internal promotion, it will be easier and more natural for you to already have relationships with the board because you likely will have been a known successor who presented in board meetings with some regularity.

If early entrepreneurs and CEOs don't have strength, they end up getting replaced. You have to build up your courage and fortitude. If you want to be the long-term leader and not end up being the first leader, the second or the third leader, then you want to actually be the leader. If you want to be the Steve Jobs, the Bill Gates, if you want to take the journey, then you have to own the board as an asset and a resource. And you have to lead them and get value from them. They are expensive in terms of your time and your psychic energy if you let them go awry. They will eat you up; they'll replace you. It will be a lot of extra work and wasted energy in managing them, so you should engage with them and lead them. And if you do that proactively, it's way better.

THE KEY THING FOR YOU TO DO IS TO ESTABLISH DIRECT PERSONAL RELATIONSHIPS WITH EACH OF THE BOARD MEMBERS. EVEN MORE IMPORTANT IS FOR YOU TO ASSESS THE POWER DYNAMIC IN THE BOARDROOM.

There is always the rule of one-third, one-third, one-third. What I mean by this is that one-third of the people on the board are the leaders. They're the thought leaders; they're the influential people whom the other two-thirds of the board follow. Then there is the middle third; they pretty much follow and they are the group that you have to get some support from. The bottom third are the naysayers, the skeptics, and the people who are generally less helpful. These are the board members who are disengaged and not highly effective. They tend to be quiet; or in a bad scenario, they tend to be the negative, opposing board members.

The key for you will be to establish a relationship with that first third. They are most likely the committee chairs, your chairman of the board or your lead independent director, your head of audit, your chair of compensation, and your chair of nominating and governance. Those four people are usually the most influential and they are the people who will actually end up deciding your fate—if you succeed and stay, or if they lose confidence in you.

If you build a really strong and solid relationship with your committee chairs and your lead independent or chairman of the board, you'll be in good shape. If you are not regularly engaging—I would say on a monthly basis with each of those leaders—you will not be able to build a close rapport, trust, and confidence.

I would recommend that you set up a monthly cadence call with those four people on the board. It doesn't have to be long; it can be a 10 or 15-minute call. It can be a quick text. It can be an unscheduled quick phone call to say hello and ask their opinion. The key is regularity of monthly touch points to build rapport. If you are distant and not in touch, and they only see you once a quarter, then it's very easy to get out of alignment and for them to not have confidence in your leadership because they don't have insight and they don't have a sense of what is really going on in the company. If they understand how you think and have confidence in how you problem solve and how you set the course for the company, then you will be in good shape.

In the scenario where you are a new CEO for a public company who is recruited from the outside, this to me is the single most vulnerable scenario for a CEO. Here's what often happens: the board determines they need to change the course of the company and that's why they have to seek an outside leader. The internal leaders tend to have a view of incrementally taking the current strategy forward. If the company needs more radical change, they may not have confidence that the internal successors have the radical external perspective needed to take the company in a new direction. For example, let's say that you are Borders Bookstore, and you think that you need to have more online content. And when you look at a traditional bookseller model, you look at the leadership from Borders Bookstore. They don't have online web-centric content curation and outreach direct to consumer on a web go-to market model. So they might, in that case, look to a new CEO outside the company who has deep web expertise. That doesn't mean, however, that the board is actually going to be comfortable with the new agent of change that they have selected to bring in. In fact, what often happens is that they decide they need a new external CEO to help lead change, but then they get nervous and uncomfortable with the change. And the most vulnerable person in a CEO role for a short term is the CEO who's recruited from outside the company. I believe that, in that circumstance, getting alignment around the plan for evolving the company and taking it to a new changed state is a very delicate process that needs a heavy amount of engagement. And that is the circumstance in which you really need very regular board meetings and discussions in between to make sure that there is true buy-in to move forward to a future changed state of the business.

PRIVATE BOARDS

On a private board, the dynamic is slightly different. Again, there will be the same rule of one-third. But since there are no committee chairs, it will likely be your investors, either the senior people from the private equity company or the senior partners from the venture firm. Normally, it's the venture or private equity company that puts the most money in that is the most influential and powerful. Those same senior people will have the say on whether you are supported and continue in your role, or whether they lose confidence. Those senior investors from either venture capital or private equity often have more than one seat. The key people to spend time with are the senior partner and/or the independent board member whom they nominate to sit in that seat.

Look at your board and figure out who your strongest players are. As in any collection of people, you have one, maybe two, good ones, a couple of neutrals, and a couple of pain in the necks. So you need to engage and co-opt your good ones, and ask them to work with the others and figure out who your go-to people are for different things. And early on, suss that out so that if it's a financing issue, you go to this person; if it's a people leadership team issue, you go here; if it's a strategy question, you go there; if it's a bad behavior question (and there will be those because people have different liquidity horizons, different patience, different maturity levels), you need to have the board member who will help you, the fireman, to deal with the jerk in the boardroom. And you need to co-opt that person early and give them a different status and recognition and engage them to help you. I spend a lot of time between my board meetings with my colleagues getting aligned. Getting engagement and working an issue where there's a disagreement offline is better than hashing out those disagreements in the boardroom. You have to read the tea leaves. This is very important for early stage CEOs. Just as in poker, you have to know when to hold and when to fold, and when to take it off the table and zip it.

KEY TAKE-AWAY

- Determine who on your board are the leaders, gain their support, and engage them on a more regular basis to ensure your longevity as CEO.