Dow Jones VentureSource

NVCA
National Venture Capital Association

For More Information:
Emily Mendell
National Venture Capital Association
610-565-3904
emendell@nvca.org

Kim Gagliardi
Dow Jones & Co.
603-864-8873
kimberly.gagliardi@dowjones.com

FOR IMMEDIATE RELEASE

VENTURE-BACKED BOARDS MORE ACTIVE, BETTER ALIGNED AMIDST FINANCIAL CRISIS

Dow Jones VentureSource , National Venture Capital Association Study: VCs, CEOs Agree on Top Strategic Concerns, Board Size; Disagree On Control, Ideal Activity Levels

WASHINGTON, DC and NEW YORK, NY (November 10, 2009)— U.S. venture capitalists (VCs) and the chief executive officers (CEOs) of venture-backed companies are spending more time on board activities and do not expect the pressure to lessen in the foreseeable future, according to the second study on venture capital-backed boards from the National Venture Capital Association (NVCA) and Dow Jones VentureSource. The "A Seat at the Table" study also found a strong agreement between VCs and CEOs regarding the key challenges and strategies for venture-backed boards, but highlighted continued disparity regarding the number of boards on which VCs should sit.

First conducted in 2006, this survey was completed in late October 2009 and includes responses from more than 300 VCs and 200 CEOs in the U.S.

"Board members today are under more pressure than they were a few years ago," said Jessica Canning, global research director for Dow Jones VentureSource. "The lag in liquidity has them locked into their positions longer and hunting for later stage financing to keep companies alive. But the difficult environment has brought some unity as VCs and CEOs now agree on their top three strategic issues."

"The pressure faced by venture-backed boards is going to get worse before it gets better," said Mark Heesen, president of the NVCA. "As the venture industry contracts, those venture capitalists who remain will be faced with greater responsibilities for a longer period of time. Consequently, not only will strong relationships with CEOs be critical, but a productive and efficient interaction between co-investors will become more important. As the composition of the board changes over time, a consistent commitment to strong corporate governance must prevail if the company is to move effectively forward."

VCs' Board Activity Increases; CEOs, VCs Disagree On Ideal Levels of Engagement

Given the lackluster exit market of the last two years, it is not surprising that VC respondents sat on an average of 4.4 boards, an increase from the 2006 study when VCs sat on an average of 4.0 boards. West Coast VCs on average sat on more boards (4.7) than East Coast VCs (4.5), and those VCs in mid-America (3.8). VCs at smaller firms (less than $500 million under management) sat on fewer boards than those at larger firms (more than $1 billion), averaging 4.2 and 5.0 seats respectively.

As it was in 2006, this year's study found that VCs were comfortable sitting on more boards than CEOs would prefer. According to the 2009 survey, VCs believed that the ideal number of board seats on which a VC should sit averaged 4.6 for early stage companies and 5.4 for later stage companies. CEOs felt the ideal number of boards on which VCs should sit averaged 3.8 for early stage and 4.2 for later stage companies. Both VCs and CEOs preferred a lower average number of seats overall than they did in 2006.

"The numbers of boards VCs sit on, the amount of time dedicated to those companies, and how much control VCs should take are three key areas of disagreement between VCs and CEOs," said Ms. Canning. "While these issues are not easily resolved, open communication – the hallmark of an effective board - can ease the tensions."

West Coast VCs had a greater comfort with more board seats than their counterparts on the East Coast and mid-America. West Coast VCs felt the ideal number of board seats for early stage companies should be 5.1; East Coast and mid-America VCs came in at 4.4 seats. For later stage companies, West Coast VCs thought on average 5.7 seats was ideal; East Coast VCs, 5.3 seats; and mid-America VCs, 5.1 seats.

West Coast CEOs were also more comfortable with their VCs sitting on more boards, with the ideal number for early stage companies averaging 4.0. East Coast CEOs thought 3.7 early stage board seats were ideal while mid-America CEOs believed 3.5 seats were ideal for early stage companies. For later stage companies, West Coast VCs believed 4.5 boards were ideal; East Coast, 4.2 boards and mid-America, 3.7 boards.

Two-thirds (67%) of the VCs and 60% of CEO respondents have spent more time on board related activities over the last three years than in years past. Over the next two years, 52% of VCs expected their number of board seats to increase. Eighty-two percent of the VCs surveyed required a board seat held by their firm or a trusted co-investor as a pre-requisite for investment.

VCs typically leave a company board within 18 months of an IPO or acquisition. However, the speed at which they leave varies with the exit. Eighty-four percent of VCs leave a company board within six months after an acquisition while only 54% leave the company board within six months after an IPO.

VCs and CEOs in Sync on Top Strategic Concerns

According to respondents, the top three concerns of venture-backed boards were financing strategies (57% of VCs cited; 60% of CEOs cited), exit strategies related to acquisitions (30% VCs; 35% CEOs) and sales and marketing concerns (26% of VCs; 25% of CEOs). The poor exit environment for IPOs was also cited by 17% of the VCs and 15% of the CEOs as one of the top five concerns for venture-backed boards.

VCs and CEOs also concur on the biggest value-add that VCs bring to the board, with 63% of VCs and 64% of CEOs citing "network of contacts" as being most important. VCs subsequently listed "mentoring the CEO" (54%) and "raising follow-on financing" (48%) to round out their top three value-adds. CEOs cited "raising follow-on financing" (64%) and "exit market knowledge" (34%) as their second and third highest value-adds from VCs.

The two groups diverged when citing the most common driver of conflict between the board and CEO. Fifty-six percent of VCs cited "executive management searches and changes" as the top driver of conflict, while 51% of CEOs named valuation as most commonly causing board strife. Conflict over "exit strategies" (42% of VCs; 47% of CEOs) and "personality conflicts" (51% of VCs; 42% of CEOs) rounded out the top three conflict drivers for both groups.

While only 16% of VCs and 9% of CEOs had specific metrics that they track for board effectiveness, both groups agreed that open communication is the most important characteristic of an effective board (60% of VCs; 66% of CEOs). According to VCs, active participation by members (47%) and useful feedback (38%) were the second and third most important qualities. CEOs also cited useful feedback (51%) and active participation (43%) as being most important, but in reverse order.

The majority of CEOs were satisfied with the VCs on their board. Yet there are some who believed there could be improvements. Eighteen percent of CEOs were not satisfied with the amount of time VCs spent on their company's board activities, 19% were not satisfied with the level of feedback given by VCs; and 27% were not satisfied with the quality of feedback.

"Never before has the venture capitalist/CEO relationship been tested as it has been during the last year," said Mr. Heesen. "The financial crisis has made it imperative that all members of venture-backed boards work together to weather the storm for the good of the company and for the long term economic health of the country. The growing alignment of interest between CEOs and venture capitalists as evidenced by this study suggests that while differences of opinion and attitudes exist, they pale in comparison to the shared goal of creating a lasting and viable company."

VCs and CEOs Agree on Board Size, But Not Control

The majority of respondents thought that the total number of board seats should be in the 4 to 5 range for an early stage company and in the 6 to 7 range for a later stage company. Only 8% of the CEOs surveyed have boards with more than seven seats.

Fifty-four percent of VC respondents typically held 41-60% control of the board. While most VCs (52%) think that percentage was ideal for early stage companies, only 34% of CEOs believed that this level of VC control is appropriate. Forty percent of CEOs believed that a 21-40% ownership stake for VCs in early stage companies is correct. The same holds true for later stage companies where 48% of CEOs believe a 21-40% ownership stake is appropriate.

For a complete report, including charts and deeper analysis, visit http://fis.dowjones.com/VS/2009boards.html.

# # #

About Dow Jones & Company

Dow Jones & Company (www.dowjones.com) is a subsidiary of News Corporation (NASDAQ: NWS, NWS.A; ASX: NWS, NWSLV; www.newscorp.com). Dow Jones is a leading provider of global business news and information services. Its Consumer Media Group publishes The Wall Street Journal, Barron's, MarketWatch and the Far Eastern Economic Review. Its Enterprise Media Group includes Dow Jones Newswires, Factiva, Dow Jones Client Solutions, Dow Jones Indexes and Dow Jones Financial Information Services. Its Local Media Group operates community-based information franchises. Dow Jones owns 50% of SmartMoney and 33% of Stoxx Ltd. and provides news content radio stations in the U.S.

About National Venture Capital Association

The National Venture Capital Association (NVCA) represents more than 400 venture capital firms in the United States. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy and support entrepreneurial activity and innovation. According to a 2008 Global Insight study, venture-backed companies accounted for 12.1 million jobs and $2.9 trillion in revenue in the United States in 2008. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org or follow us on Twitter @NVCA.