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VENTURE CAPITALISTS EXPRESS CHANGING ATTITUDES TOWARD VENTURE-BACKED LEADERSHIP AND CEO ASSESSMENT

New Spencer Stuart/NVCA Study Reveals Shifts Over the Past Decade in the Requisite Skill Sets and Best Practices for VC-Backed Leadership

June 23, 2010, Arlington, VA — Executive search consulting firm Spencer Stuart and the National Venture Capital Association (NVCA) today released the results of its new collaborative study of VC-backed company leadership. Following up on a similar 2001 study, it includes data from in-depth interviews with VC firm leaders as well as survey results from more than 200 NVCA members on their attitudes and strategies regarding the chief executives who run their companies.

The new study reveals a number of trends and best practices that have changed for VC-backed portfolio company leadership over the past decade:

- People remain paramount. In both the 2001 and 2010 studies, venture capitalists
 considered the strength of the management team as the most important factor in deciding
 whether to fund a venture, followed by market sector. Proprietary product or service and
 business model both trailed slightly behind market sector.
- Vision and fundraising are more important skills for CEOs today. Vision ranked fourth among important CEO skills in 2010, but only seventh in the 2001 study. Fundraising ranked fifth in 2010 up from eighth in 2001. Both results reflect shifting priorities in an environment where both raising funds and the path to liquidity have become more challenging for VC-backed companies.
- Venture capitalists favor proven venture-backed CEO talent. When seeking talent for
 emerging sectors (such as clean technology) with a limited CEO pool, 2010 survey
 respondents clearly favored proven venture-backed CEOs from unrelated sectors (58%)
 over sector entrepreneurs with no CEO experience (31%) or industry leaders from large
 companies who lack experience in an entrepreneurial environment (11%).
- VC-backed CEOs earn more than they did 10 years ago. Forty-seven percent of
 respondents said that they are paying CEOs greater cash compensation and granting
 more equity. VCs say this is because of the longer-term nature of the role today and
 because today's CEO roles require executives with a broader skill set.
- Venture capitalists are recruiting more independent board members. Seventy-five
 percent of those surveyed said they are recruiting more independent/outside board
 members now that they face a longer path to liquidity.
- Investors are growing more confident in their executive assessment practices. Only 4 in 10 venture professionals in 2001 agreed that their firms recruit the best talent, consistently and thoroughly assess management teams and remove low performers quickly. In 2010, 84 percent agreed that their firms recruit the best talent, 63 percent

agreed that they consistently and thoroughly assess management teams, and 67 percent agreed that they remove low-performing CEOs from portfolio companies quickly.

Yet opportunities exist for VC firms to assess management in a more rigorous, ongoing way. While 2010 respondents are diligent about assessing the management team before investment, only 25 percent agreed that they conduct formal, ongoing management assessments after the hire. In part, this is because VCs feel that they already link the CEO's goals and accomplishments to their compensation structure. But it also highlights what could be the area of greatest potential improvement for talent management in the industry.

"The challenging exit market has changed the role of top executives at venture-backed companies, as different skills are required during various stage of company growth," said NVCA President Mark Heesen. "Today's venture-backed CEOs will need leadership skills that address a longer runway to liquidity, creating a need for a more systematic performance evaluation over time."

The study also revealed that these longer timeframes to liquidity are spurring VCs to develop boards of directors that more closely resemble those of public companies, with more independent directors brought on for specific expertise that strategically complements the rest of the board.

"As they strive to build their next generation of game-changing companies, VCs are starting to take a more scientific approach to recruiting and assessing CEOs and directors," said Spencer Stuart consultant and study contributor Ben Holzemer. "As they face mounting challenges, firms also have a tremendous opportunity to become more successful in selecting the innovative, entrepreneurial leaders who can guide the industry profitably into the future."

For the complete study results, please visit www.nvca.org.

Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 51 offices in 27 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments.

National Venture Capital Association

The National Venture Capital Association (NVCA) represents more than 425 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 2009 Global Insight study, venture-backed companies accounted for 12.1 million jobs and \$2.9 trillion in revenue in the U.S. 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.