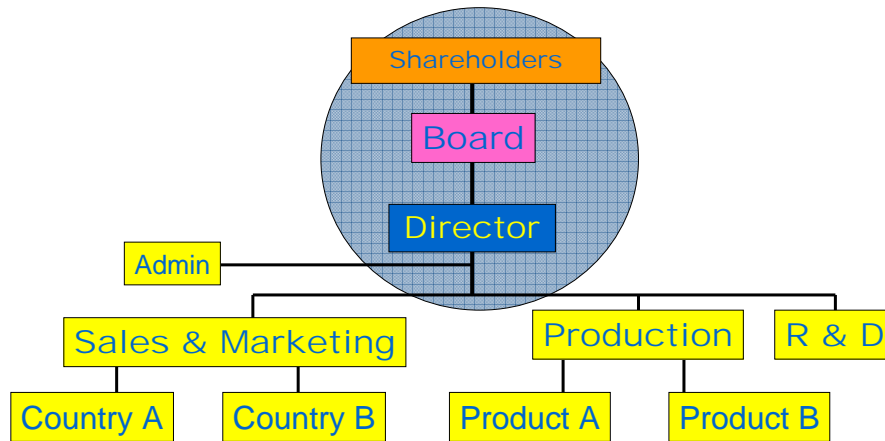


Business Management in High tech Start-ups



1 DTU Management Engineering, Technical University of Denmark

LEADERSHIP is ---
 --- the Noble Art of ---
 --- achieving Results ---
 --- by means of *OTHER PEOPLE*



2 DTU Management Engineering, Technical University of Denmark

The Importance of Incentives



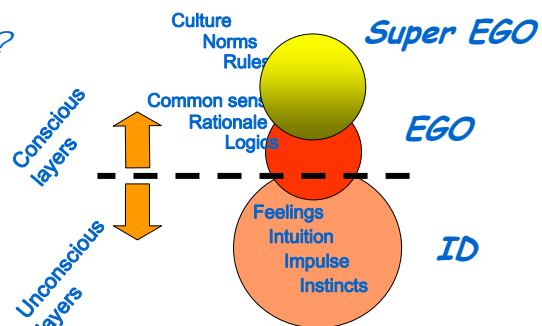
3 DTU Management Engineering,
Technical University of Denmark

Man's Behaviour is a Result of --- CONTEXT!

Sigmund's Personality Model

*What is sensitive
to CONTEXT?*

How sensitive?



4 DTU Management Engineering,
Technical University of Denmark

Milgram's Obedience Study:
What proportion of a group of normal adults would
voluntary deliver whatever they believed to be a fatal
electrical shock to another human being?

65%



Integrity is rare in humans

Context at Work



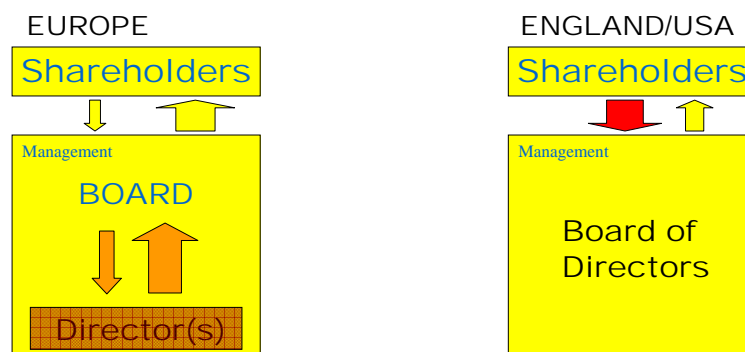
Create the Appropriate CONTEXT

1. **Develop and maintain corporate values** like honesty, trust entrepreneurship, good behaviour, social responsibility - **and a sense of business and profit**
2. **Set the course = combine values with realistic and logic objectives** that are easy for everybody to act upon => develop a corporate culture with a high degree of self governance = set realistic winning criteria
3. **Corporate culture** needs continous maintenance and development
4. **Set your team: be specific when hiring (and firing)**
5. **Set the standards by being a role model yourself**
6. Errors and failures are side effects of independant employees. Accept them – and correct them discretely and with empathy.

Personal preconditions for being a good manager:

- a. Integrity
- b. Some intelligence

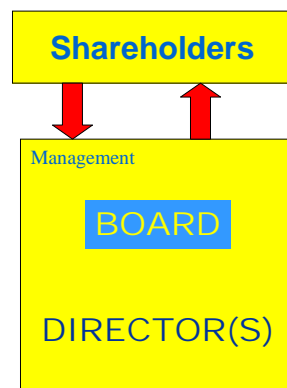
The Balance of Power



The Balance of Power

- **EUROPE**
- Alliance between board and directors => stability and long-term objectives.
- Higher rate of survival
- Distribution and shareholder value adjusted to long-term objectives
- Companies are governed by their objectives. (Profit, values, sustainability)
- **ENGLAND / USA**
- Board of directors are hired and fired by the shareholders => shareholders' interests impact management directly
- Often very efficient and productive companies but vulnerable due to high distribution of profits and short term maneuvering to increase share prices
- Companies are governed by shareholder value. (Cash contribution and share prices)
- **Summary: Europe: Sustainability. US: Profitability**

The Balance of Power in the Large Company



The roles and assignments of the board: Control and management

- Return on invested capital = cash contribution and price of shares
- Longterm development
- Sales & production
- Supervision of daily management
- Strategic issues and decisions

The Balance of Power in the Start-up Company



A variety of interests represented

The assignments of the board often unclear. Yet full responsibility, misty insight and limited influence.

Main assignments:

- Competencies
- Experiences
- Inspiration
- Consultancy
- Networks
- Capacity
- Control

Summary:

The board is the CEO advisory group – adding credibility and proficiency to the management of the start-up venture

BOARD ASSIGNMENTS

Implementation of CONTROL

- INFORMATION
- Sales and production: actual results comp. to. projections
- Daily management: transactions recorded?
- Contracts: duties met?
- Creditors and debtors
- Staff: employment, corporate culture

- CHECK ON -
- Auditor's reports
- Assets + liabilities – in particular: equity capital
- Cash in hand compared to obligations
- Authorities
- Shareholders

BOARD ASSIGNMENTS

Implementation of MANAGEMENT

- **DECISIONS**
- Hiring /firing daily management
- Major financial transactions – like funding or loans
- Major new responsibilities – like contracts, projects etc.

- **BUSINESS DEVELOPMENT**
- Major changes in preconditions (Threats & opportunities)
- Revision of the business plan

- **MENTORING**
- Informal action – case by case as required.

BOARD Legal Responsibility = joint and several responsibility + personal responsibility

In Denmark: the Danish Companies Act. § 54

- **CULPA! Display Due Diligence and record it**
- **Apply proficiency, awareness, common sense, high ethic standards - and act when needed.**

- Read the Auditor's Reports – and react when necessary
- Make sure that minutes reflect actual decisions and statements
- Make sure that minutes are signed by all boardmembers
- Study the backgrounds for major decisions carefully
- Insist on updated quality economical reports
- Insist on dissent notes in minutes if you disagree or if decisions are illegal
- Check cash resources and relate them to obligations
- Insist that the board's specific instructions to the director are written into the minutes – in particular when cash resources are low.
- Reject transactions that the company cannot pay for
- **RESPONSIBILITY** requires **INSIGHT** and **INFLUENCE**. Resign if this precondition is not met, (Use resignation with caution – not as a threat but as a consequence following a legitimate though unmet request for change or preventive action)

BOARD work: MEETINGS

STRUCTURE, ORDER & DISCIPLIN!

- Board-activities are traceable. Meetings are numbered for reference
- Call meetings at least one week before meeting time
- Send out minutes no later than one week after the meeting
- Be on time and well prepared
- The chairman runs the meetings according to the protocol
- Minutes and notices incl. enclosures are filed in a separate binder

STANDARD ATTACHMENTS to Notice of Meeting

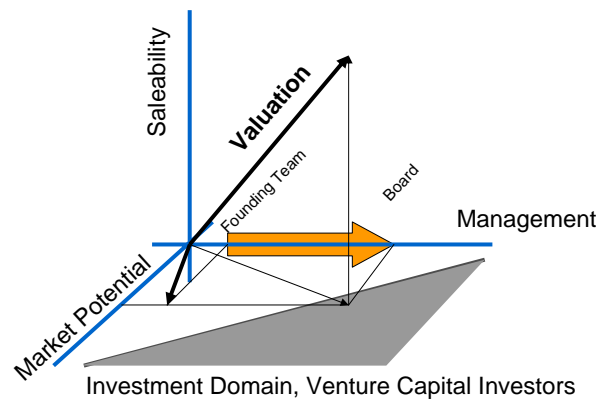
1. The Directors report to the board (situation report)
2. Economical report
 - Budget
 - Realised
 - Forecast
3. Individual case memoranda for all essential decisions

The IDEAL Board

A Professional Management Unit

1. **Board members are chosen from**
 1. Experience
 2. Networks
 3. Character
2. **Competencies cover all important aspects:**
 1. Sales & marketing in the domain
 2. Human resources
 3. Finance
 4. Business administration
 5. Technology & production
3. **The board is a smoothly running team**
4. **The chairman and the director have frequent contacts**
5. **ONE dominant objective only: make the company a SUCCESS**

The IDEAL Board: what is it worth:



Find Your Board Members

It's a marketing job!

- The Business Plan must be finalized – and clearly indicate success
- Find your chairman at first. Look for a real networker with general management experiences + an interesting position in the business community
- Start your quest for board members in the chairman's network – together with the chairman
- Avoid conflicting interests = no competitors, no suppliers and no customers in your board or your founding team

- And they cost!

- Quality is related to price in this game
- Pay when your company is capable. By example:
- EBITDA < ½ Mio DKK: 10.000 DKK per member per year. 20.000 to the chairman
- EBITDA > ½ Mio. DKK: 2% of annual profits to each boardmember. 4% to the chairman.
- You may consider stock options and bonus programs. E.g. After a successful funding round, boardmembers are paid a bonus = 1% of the capital raised. Chairman gets 2%

TIP of the Day

- 1. The Chairman and the CEO need to work well together: they are the core management team**
- 2. The Chairman must operate in the interest of the company, and at the same time cater for all legitimate interests of all the stakeholders**
- 3. The board has one single objective: pursuing the interests of the company. The individual board member is obliged to this objective while at the same time representing specific stakeholders' interests.**