

he Founder and the lead PE Partner Are Not Aligned. You Are in the Middle.

By

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You are a “Gray Director” at Acme Software. Legally, you are considered an “independent” director of a private equity portfolio company. You owe your Board role to Gretchen Urban, a private equity partner at Sand Hill Capital (SHC). And you would hope to get additional Board opportunities with Sand Hill Capital portfolio companies.

When Sand Hill Capital invested in Acme, they knew they were investing in the Alex-Matt team. Gretchen wishes to break up the team and the **key** Founder threatens to destroy the company.

Alex-Matt Team History:

Alex and Matt served as CTO **and COO, respectively**, of a software company that had gone public during the original dot com boom. Alex was a technically brilliant computer scientist but not a good manager. He relied on Matt’s leadership abilities. Alex trusts few people in the **worldworld**, but Matt is one of them.

When Alex came up with the idea of his next company, Acme Software, he recruited Matt as co-founder and Acme’s CEO.

Acme raised money from excellent venture capital funds with storied histories. One fund, Sand Hill Road Capital, had two board seats and an observer seat. You occupy one of the seats as an independent director.

The other Sand Hill Road (SHR) board seat is occupied by Gretchen Urban.

One day Gretchen took Matt to lunch and said, “Investing in start-ups is risky. Frankly, you’re the biggest risk this Company has because you don’t come from the sector, don’t understand it, and are a lousy fundraiser.”

Matt angrily shared this conversation with Alex and Chuck, VP of Business Development and Sales.

Matt Lives in Fear.

Unsurprisingly, Matt lived in fear of losing his job at any moment. When one of the VCs would call him, he would return the call at midnight or later, ensuring he’d never have to speak to someone live.

Acme closed its first big-name customer (Walmart) shortly before the VCs invested. After the investment, Acme blew through its sales pipeline (closing everything) in one quarter. During the subsequent quarter, Acme failed to **close** any sales.

In your experience, this happens with new start-ups, as they lack the staff to build up a pipeline and create repeatable sales. Gretchen, however, was furious. She stated that was justification enough to fire Matt.

Matt is Fired.

Without consulting any of the Board members or Alex, Gretchen invited Matt for lunch. She said, “Matt, you’re not a good operator, but our board observer, John, is a great operator. You’re a terrible fundraiser. John is a great fundraiser. Why don’t you plan on leaving at the end of the week?”

Matt came back to the office, took Alex into a closed-door meeting with the VP of Sales (Chuck), and told them what Gretchen had said. They asked their sales exec what to do. He responded, “Well, when VCs want you to leave, in my experience, you leave.”

Alex calls you.

You are legally an independent board member, but you do have a relationship with Gretchen. Alex phones you to complain that Gretchen is destroying the company. Has she consulted with you about her decision? You reply that she has not.

Alex responds that unless Gretchen backs down within the next 24 hours, he will organize a meeting with Acme’s 15 employees. He will urge them to quit. And he will quit.

When the phone call ends, you are still holding the mobile device next to your ear wondering what your next call will be.

