The relationship *guru*

An executive coach and expert on leadership excellence, **Claudio Toyama** excels at inspiring lasting transformations in C-level executives and their companies. His satisfied clients, which include Bosch, the Brazilian government, Nokia, DSM, Reuters, UNICEF and TED Fellows, span the globe, but we got Toyama to stay in one place long enough to answer our questions about maximizing the entrepreneur-investor relationship.

Q What's the best way for an entrepreneur to build trust with his investor?

A I am a very strong proponent for getting to know the human being behind the title. So many times people forget that behind a title lies a person who has his or her own set of likes and dislikes, mannerisms, etc. In his book *The Thin Book of Trust*, my colleague, Charles Feltman, splits trust into four distinctions. They are:

1. Sincerity: You say what you mean and you mean what you say.
2. Reliability: You keep your promises.
3. Competence: You are able to do what you said you would do.
4. Care: You have the other person's interest in mind.

If a CEO wants to build trust, he or she should run any potential promises by these four distinctions to see if the promise passes. If it doesn't, change the promise.

Q What are your tips for CEOs looking to develop their leadership skills?

A So many startup CEOs that I have worked with are great experts in a specific field. They saw a gap in the market, and set up a company to address that gap. But the set of skills that makes the CEO successful in his or her own field is very different from the set of skills needed to run a company, such as managing employees, working out the best systems to be used, and working with the best marketing, sales and communications teams. If you are a CEO and you're serious about your leadership skills, you should go through a leadership 360 assessment to understand what you're good at and what you need to improve. I use the Leadership Circle 360 model, as it is one of the most comprehensive assessments and has been internationally validated. Once you have a good idea of your strengths and the areas you need to improve, you can work with a mentor or executive coach to help you become a more well-rounded leader.

Q Good investor-founder relationships are critical to a startup's success. What's the best way for an entrepreneur to maintain a complementary relationship with investors once a deal is signed?

A A number of business relationships derail due to a lack of communication or poor communication. In the investor-founder relationship, both parties need to review the basics of the partnership before they start working together. Go over the terms of the financial investment, the company's objectives and the exit strategy before you begin. Make sure your values are aligned with your investors'; otherwise you run the risk of finding out you want to build very different companies.

Q What's the worst thing a CEO could do to violate the CEO-investor relationship?

A I cannot emphasize enough the importance of communication. Always keep your investors in the loop and get their feedback, especially if there are any changes from the original agreement.

Q The startup CEO depends on his or her investor, but the investor, who has the money, typically has most of the power. Should startup CEOs deal with those in power differently than they do, say, peers or subordinates?

A Treating people differently due to their status or power is one of the biggest mistakes that I see people making. I agree with this quote attributed to Malcolm Forbes: "You can easily judge the character of a man by how he treats those who can do nothing for him." And in this era of authenticity, you should try to be yourself all the time, as people can tell when you are trying too hard or not hard enough.

Q **It's often said that the relationship between a CEO and an investor is like a marriage. Do you agree?**

A If you consider that both relationships require frequent and open communication to avoid misunderstanding, then yes!

Learn more about Claudio Toyama, MA, ACC, DTM, at www.toyamaco.com.
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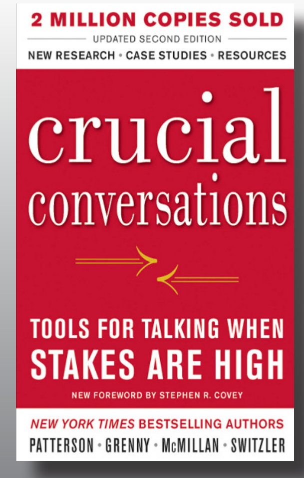
Want to learn more? Toyama recommends a book called *Crucial Conversations: Tools for Talking When Stakes Are High*, by Kerry Patterson, Joseph Grenny, Ron McMillan and Al Switzler.



How to make effective use of your investors, and how to keep them happy: **CI's Venture Team sounds off**

On communication.

"Like a college student's relationship with Mom and Dad, don't just come to me when you need money. Keep me informed along the way. Then when you really do need money, I may be more inclined to help out." ***–Douglas Roth***

"Being authentic and respectful is a good practice. Through frequent updates, provide good and bad information promptly. It would be helpful to share ideas and deal flow opportunities too." ***–Mike Wisnewski***

"If your investors are not the major equity holders in the firm or are not on the board, send periodic updates or board packages to keep those individuals or firms engaged. Ask for feedback from those updates, because they'll allow you to test proven strategies and learn from others' experiences, mistakes and failures." ***–Dan Wagner***

"Communication means letting us know the bad [news] as it happens. It also means letting us know what the company needs so that we can provide resources. Give out metrics and board packages ahead of meetings to allow for meaningful discussions on important topics [during the meeting]." ***–Pauline Murphy***

On trust.

"Entrepreneurs should work to establish trust [with investors] just like they do in any relationship, particularly because investors bring value other than capital and can open doors to other beneficial relationships. Understand that the investors' reputations are on the line when they make introductions on your behalf, and that's where the trust comes in." ***–Mike Wisnewski***

"You and your managers need to regularly interact with your lead investors to leverage their network and knowledge. Without interaction, [your management team] will find it hard to rely on your investors for support, both financial and business-wise, in time of trouble or uncertainty." ***–Dan Wagner***

On transparency.

A Few Good Men: 'You want the truth! You can't handle the truth!' Actually we can handle it, and we have likely seen it before and won't be surprised by it in your case. Savvy investors have been around the block and have likely seen it all already. We know that it takes longer and costs more than expected and that your 'conservative' projections were way too optimistic. Investors can't help you if they don't know what you're up against." ***–Douglas Roth***

On dilution.

"A good investor isn't looking for a bigger piece of the pie (a greater percentage of ownership); rather, he or she is looking to grow the size of the pie substantially. Would you rather have 50 percent of a $10 million company or 11 percent of a $50 million company?" ***–Douglas Roth***

"Let's work together to help the company understand the long-term impact of dilution from a larger investment today. I think there is an educational component that needs to occur, and these discussions should be collaborative and not contentious." ***–Pauline Murphy***

On using the board.

"Understand your strengths and weaknesses. Leverage your board and investors who have different experiences than you, and who may be able to provide some valuable perspectives." ***–Matthew Storeygard***

"Your management team will always be interested in customers, talent and funding. Remember, then, that your investors are constantly interacting with these exact individuals and companies that might be a match."
–Dan Wagner

"Key management positions should be filled with input from the board and key investors." ***–Pauline Murphy***

"Recognize the board for what it is. Generally, at an early-stage company, there is significant investor representation on the board. The board's responsibilities include things like representing all shareholders and advising management. The expectation is that the CEO works for the board." ***–Douglas Roth***

"The relationship is like any other: It takes two. If a firm has invested in your company, it is obviously incented to support your firm to realize a positive investment outcome. Most [investors] are willing to help in countless ways." ***–Dan Wagner***

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What's next starts here.