



Tony Tjan, CEO of Cueball

Taking the Long View: Looking For Entry Strategies Rather Than Exits



Adam Bryant



For the next installment of our interview series, "The New Director's Chair," my colleague David Reimer, the CEO of The ExCo Group, and I sat down with Tony Tjan, the CEO of Cueball, a VC firm. Tjan always has smart and provocative insights, and he shared his thoughts with us on board dynamics and fighting short-term thinking.

Reimer: You've talked a lot about the importance of taking the long view. How is that reflected in the investing approach of Cue Ball?

Tjan: We look for marketplace inefficiencies in early stage, early growth that can potentially lead to durable growth. To borrow an aspirational analog, it's really a mindset of trying to build a Berkshire Hathaway of venture capital, and having the mindset of not being overly focused on what the exit strategy is. Instead, we think more about the entry strategy and finding assets that you want to keep doubling down on. We believe there are many great opportunities where others have not looked because they require a different framing and certainly a different time horizon.

Bryant: I imagine you have a point of view about how much of American business

operates.

Tjan: The most obvious one is the lack of a long-term view, and there's a good tie-in here to directors and director accountability. The role has shifted. How many public companies are traded today based on fundamentals? A majority of the trading has shifted now to quant-based momentum trading, where it's almost playing a game, looking at indicators on a screen and guessing at movement up or down to buy and flip or short. It has nothing to do with the underlying fundamentals of a business.

There is a mismatch of alignment between people's stated objectives of long-term value creation and the way the markets have moved that have allowed for near-term value capture.

Reimer: As as a director in a private context, are you able to operate differently and stay focused on the long term?

Tjan: I think the private company directorships are generally more interesting now than the public ones for a few reasons. The quarter-to-quarter earnings cadence is just not as prevalent in most well-run private companies. That's not to say you shouldn't have some way to measure progress and to know if you are winning. But the quarter-to-quarter pressure of public companies puts management and directors under a different scrutiny.

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Second, there is a higher level of exposure for a public-company director -- not just from a legal standpoint, but from a public reputational standpoint. You may be on a public company board and have very little to do with the day-to-day operations, but in the current environment, you are potentially guilty by association if anything bad emerges.

Reimer: One of the challenges that board members have faced, and Wells Fargo gets to be the poster child for this, is that the board may be unaware of the culture of the organization. In a private company, what's the board's role in asking the right questions about culture?

Tjan: It starts with how directors think about their purpose for being on a board in the first place. My philosophy is that a director's role is to support the CEO until you don't, and then either the CEO has to leave or you have to leave. That ties into the cultural question, because your role on a board is to play a supporting actor role and to serve as a sounding board to the CEO.

A plausible cultural metric is the engagement level of employees. If the CEO is not a great culture builder -- if they're not self-aware, and not building purpose and engagement -- I do think it's a responsibility of the board to bring that up.

The flip side is that boards should go in with the underlying assumption that things will go wrong in an organization. It is not realistic to say, "We're not going to ever be liable for anything because we have such a great culture." That is just folly. They should say, "Let's understand that these types of things may happen, and do we have the strength of cultural values and policies and risk mitigation to know how to deal with them? And when those things happen, because they will, are we learning, being transparent and communicating, and have strong clarity on how we deal with them?"

Bryant: Any other do's and don'ts for directors and CEOs, beyond the ones you've already mentioned?

Tjan: One of the simplest ways and frameworks I've tried to use in board meetings is to be super-clear about the discussion points that you're seeking to just inform versus ones you're seeking input versus ones that you're seeking approval. Directors can conflate those things and create a dynamic in which they believe they should be approving everything.

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For CEOs, there are seven design points that I've given to them on working with directors. The first one is to really ask yourself if there is common purpose and vision. You want board members who can see and embrace your purpose. The second thing is, can you really articulate the value add of this board member beyond playing a governance role?

A third one that you should ask of any senior candidate or board member is, do they love, use or, at a minimum, deeply appreciate the product you're selling? Having an end-user or customer-centric point of view is critical. Too many board members govern in the abstract of the product. In some businesses, like a B2B software business, you can't fully use the product. But have they looked at the product demo? Have they shown some intellectual curiosity about it?

A fourth one is independence. Are we really clear on any potential conflicts? Have we been transparent? My fifth one is around timeframes for their term. Is it one year, two years, three years, more than five years? The sixth thing is whether they clearly understand the role they're going to play on the board.

The last one goes back to my earlier point. Is this person going to be a constructive advocate

and support the CEO? Do you feel that you have a trusted relationship and that there's mutual support?

Reimer: There was a critical piece in The Wall Street Journal earlier this year about "success theater" at General Electric – things were framed internally and externally to promote the idea that everything's great. That raises questions about the role of the board. What are your thoughts on this phenomenon in general?

Tjan: I would say success theater has been rampant through Silicon Valley ever since I started being involved with it in the mid-'90s. I think PR has taken precedent over P&L. And you're going to have success theater at every company, to varying degrees.

The board's responsibility is to obviously look at the performance and try to understand what have been the the input metrics that drive the output. Whether it's GE or another business, the nuances are very hard to judge from the outside. But it is fair to ask about whether there were certain decisions that the board should have had input and approval on. Were there things that should have been brought up to the board that were purposely held back?

Reimer: Were there ways in which your background – growing up as a child of immigrants in a remote fishing village in Newfoundland -- shaped your willingness to take a long view?

Tjan: We're all by-products of our context and our clan. There are certain character-building experiences that come from growing up and living in an environment that has that Omaha effect, as Buffett likes to say. There's a reason he tries to stay out of environments that are success theaters. There's something about living in Omaha that gives you perspective.

And sometimes when you have less when you're younger, you have an ability to be more appreciative of the people around you. You get that odd twin character trait of a great hunger to succeed and do better and also an appreciation for the depth of culture that you see in people who have been there much, much longer than you.

I'm also trying to learn to be more patient, and it's something I see in my father. He's been the caretaker of an immaculate garden in the harsh climate of Newfoundland. I'm always in admiration of people who can do that.

The memory it also brings back is of me growing up, and watching a dear family friend knit me a fisherman's sweater or a hat for the colder months. You go in each week to visit and have a cup of tea, and you see there are a few more rows that she's knitted. And there's a great satisfaction that comes when it's finally done for you.

Emily Dickinson wrote, “Success is counted sweetest by those who ne'er succeed. To comprehend a nectar requires sorest need.” It's that patience and ability to have failure and speed bumps, but that success and that nectar tastes so sweet when it finally does come.
