

Stifling debate at board meetings can destroy value at your portfolio company

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In order to achieve high-performing results, portfolio companies of venture capital and private equity firms need well-functioning boards that afford room for individuality, debate and discussion. Theranos, the now largely discredited Silicon Valley startup that initially gained a lot of buzz for its revolutionary blood-testing technology, serves as a cautionary tale about how a dysfunctional board destroys value. The company recently announced that it is closing its doors, and investors have lost significant capital.

According to the account in “Bad Blood: Secrets and Lies in a Silicon Valley Startup” by John Carreyrou, not long after Avie Tevanian, an executive who previously worked closely with Steve Jobs at NEXT and Apple, joined the board of Theranos, he started to have concerns about the company. Founder Elizabeth Holmes allegedly would present optimistic revenue projections based upon deals with pharmaceutical companies in the pipeline, but the revenue would never materialize. Tevanian asked questions about the deals and requested copies of contracts, but Holmes dodged and



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weaved. He also asked about repeated delays in the rollout of the company’s products, which were being touted as ready for commercialization, but never received any answers. Tevanian then objected to a corporate governance move that would increase Holmes’s voting stake in the company because he didn’t believe it was in line with corporate governance best practices.

Carreyrou reports that another Theranos board member expressed Holmes’s dissatisfaction with Tevanian’s questioning and asked him if he wanted to resign. After additional confrontations, Tevanian decided to step down, in part because the documents provided by the company had “irreconcilable discrepancies.” He believed the issues could be fixed, but action needed to be taken.

About a decade later, the events at Theranos have vindicated Tevanian’s concerns. In part because of

Carreyrou’s investigative reporting, Theranos, once a darling of Silicon Valley, has come under enormous criticism that its proprietary technology did not work as claimed. Recently, Holmes and former president and chief operating officer Sunny Balwani have been charged with fraud, though both vehemently deny the allegations against them.

It is possible that the Theranos story would have had a much happier ending had Tevanian’s questions been taken seriously. Presumably, Tevanian raised these issues before Theranos began rolling out its technology nationwide. If Holmes and the board had engaged with Tevanian and addressed his concerns, perhaps they could have put a more reasonable timetable in place to perfect the technology before actually deploying it for patient use.

The following are a few lessons from the Theranos situation for boards of venture capital or private equity-backed companies:

THE IMPORTANCE OF HAVING A WELL-FUNCTIONING BOARD CANNOT BE OVERSTATED.

Most corporate laws require the business and affairs of a corporation to be managed by or under the

direction of a corporation’s board of directors. The board is responsible for overseeing the corporation’s strategy and ensuring compliance with an array of often overwhelming laws and regulations. Given that boards have enormous responsibilities, they should develop strong processes in an effort to ensure they are well-functioning and behave in a manner that enhances the value of the enterprise.

BOARD COMPOSITION SHOULD ENSURE DIVERSITY OF THOUGHT.

Many boards are appropriately characterized as “clubby.” When recruiting board members, it is easy to gravitate toward individuals who are friendly, who will go with the flow and who will take the path of least resistance. Opening up a closed club and recruiting accomplished individuals who do not have deep-seated relationships with others will help to avoid a culture of groupthink.

INDIVIDUAL DIRECTORS SHOULD HAVE THE ABILITY TO EXPRESS CONTRARY VIEWPOINTS WITHOUT FEAR OF RETALIATION.

The board should adopt a shared

philosophy that affords individual directors the ability to express honest viewpoints and debate matters. Other board members and shareholders should not pressure directors to refrain from asking questions or challenging decisions. Diversity of thought can help to minimize the number of blind spots the board has and may lead to better decisions that help to bring about more favorable outcomes. Boards should take care to ensure that politicking does not occur behind the scenes and that the real work of the board occurs in actual board meetings, not in “meetings outside of meetings.” Corporations are stronger when directors are empowered to debate issues, and directors should be able to perform their duties without fear of retaliation.

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