

THE STATE OF FRENCH VENTURE-BACKED BOARDS

erevena

Tech start-ups have gone from high growth and record valuations to a global reset in what has been a rollercoaster 12 months. And yet, for the majority of founders, this will be their first experience of navigating such market conditions.

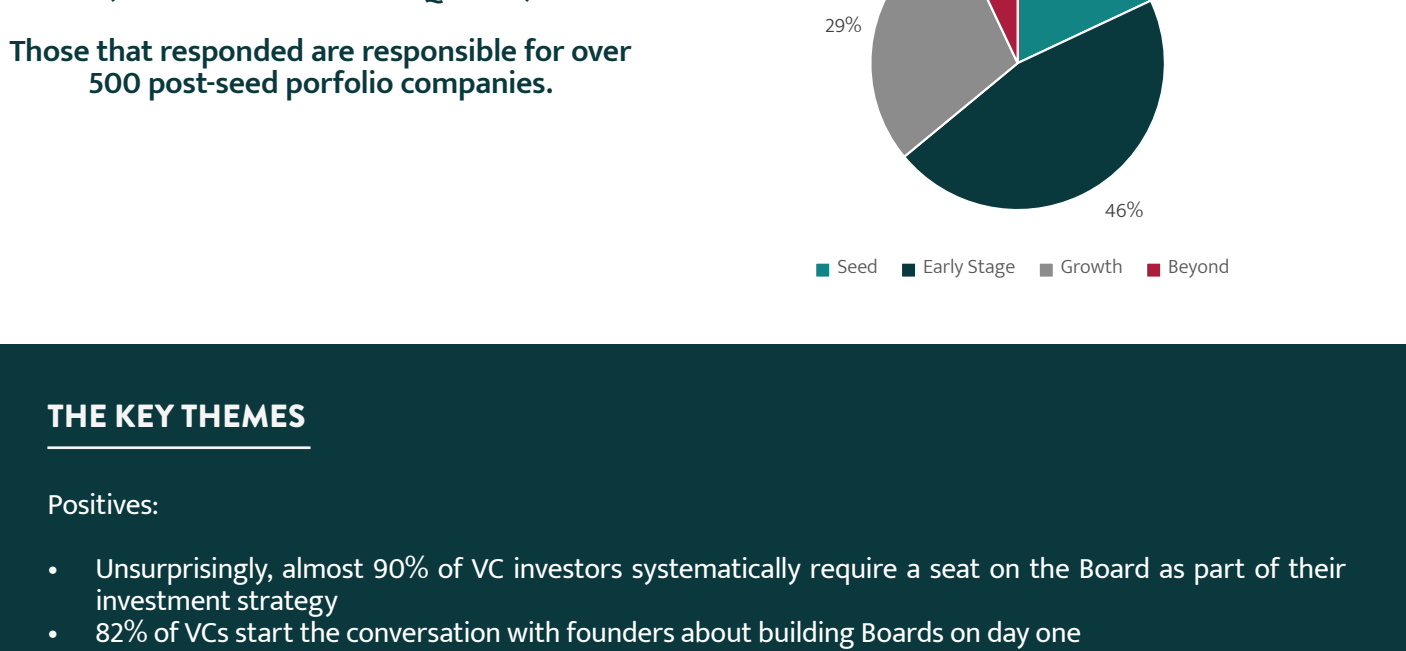
The FTX scandal in 2022 cast a spotlight on governance, and specifically start-up Boards. FTX didn't have a conventional Board, now a red flag, which has led to calls for stricter, more effective corporate governance. The SVB collapse earlier this year makes for more market uncertainty for VC-backed businesses, with questions raised over VCs' influence and highlighting the need for founders to have access to the right advice, at the right time, from independent executives who know from experience how to navigate market adversity.

Against this backdrop, there have been great highlights across the French Tech ecosystem with a total €13.5bn funds raised in 2022 (compared with €11.5bn in 2021) including significant fund raises (>€300m) and new joiners to the list of unicorns. This now places France ahead of Germany (total funds raised in 2022 were €10bn), but still very significantly behind the UK (€27.4bn).

All in all, a bittersweet success given how the Tech market has been evolving since Q3 2022. And what lies ahead? VCs and founders will naturally want to ensure they are best prepared for whatever the market may further have in store for them. Raising funds is and will likely continue to be challenging, with fewer exits possible. Other options may need to be explored putting additional pressure on start-up Boards to be as forward-thinking and as efficient as possible. Founders therefore need to equip their Boards with the best strategic guidance and governance in order to anticipate and capitalise on these market opportunities. Adding Independent Board Members to a Board is a very effective way to address this. Their experience and insight can prove invaluable to enable start-ups to navigate tough markets and reach global ambitions.

Where are we on start-up governance and specifically how is governance set up in French Tech today?

There is nebulous data available on the topic, so Erevena carried out some research to help get the conversation started.



THE KEY THEMES

Positives:

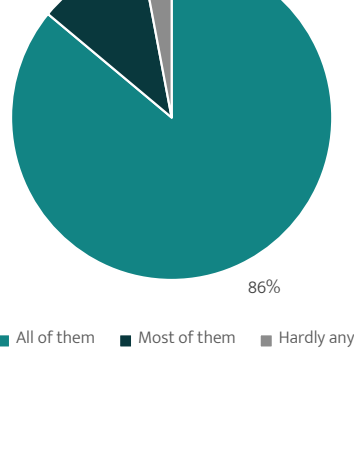
- Unsurprisingly, almost 90% of VC investors systematically require a seat on the Board as part of their investment strategy
- 82% of VCs start the conversation with founders about building Boards on day one
- 86% of VC-backed portfolio companies have a Board set up, consisting of founders and investors
- 60% meet once a quarter and 40% meet more than once a quarter
- Board Members have both regular and ad hoc contact: Board Members are quite solicited outside of Board meetings with 28% reporting many touch points outside of meetings, and 71% reporting some additional touch points to tackle specific topics such as M&A, strategy and hiring.

Room for improvement:

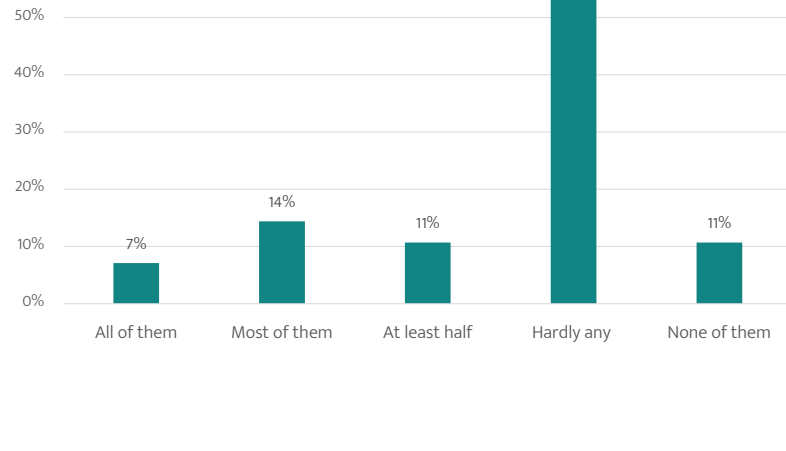
- A staggering 68% told us that none or hardly any of these Boards have an independent Chairperson leading the Board
- Only 7% told us that all their portfolio company Boards have Independent Board Members. 25% said hardly any had any Independent Board Members
- Although there is a strong desire to make these appointments within the first year, 25% said hardly any were actually appointed within this time frame

ESTABLISHMENT OF BOARDS

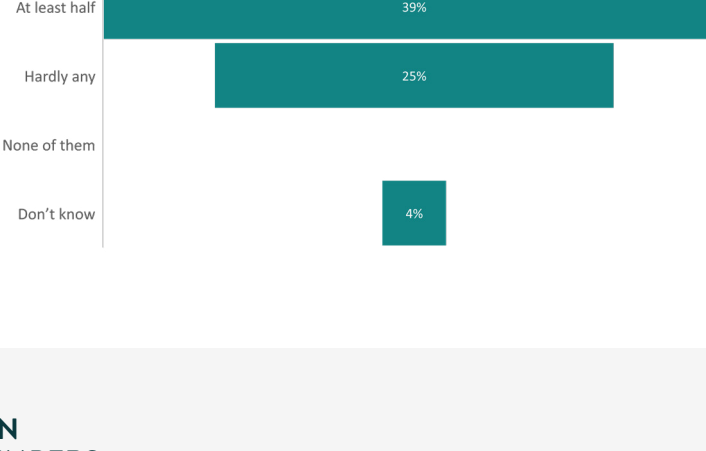
What proportion of your portfolio companies have a Board set up?



Do they have an independent Chair Person leading that Board?



What proportion of your portfolio companies have Independent Board Members (Chairs or Non-Executive Directors)?



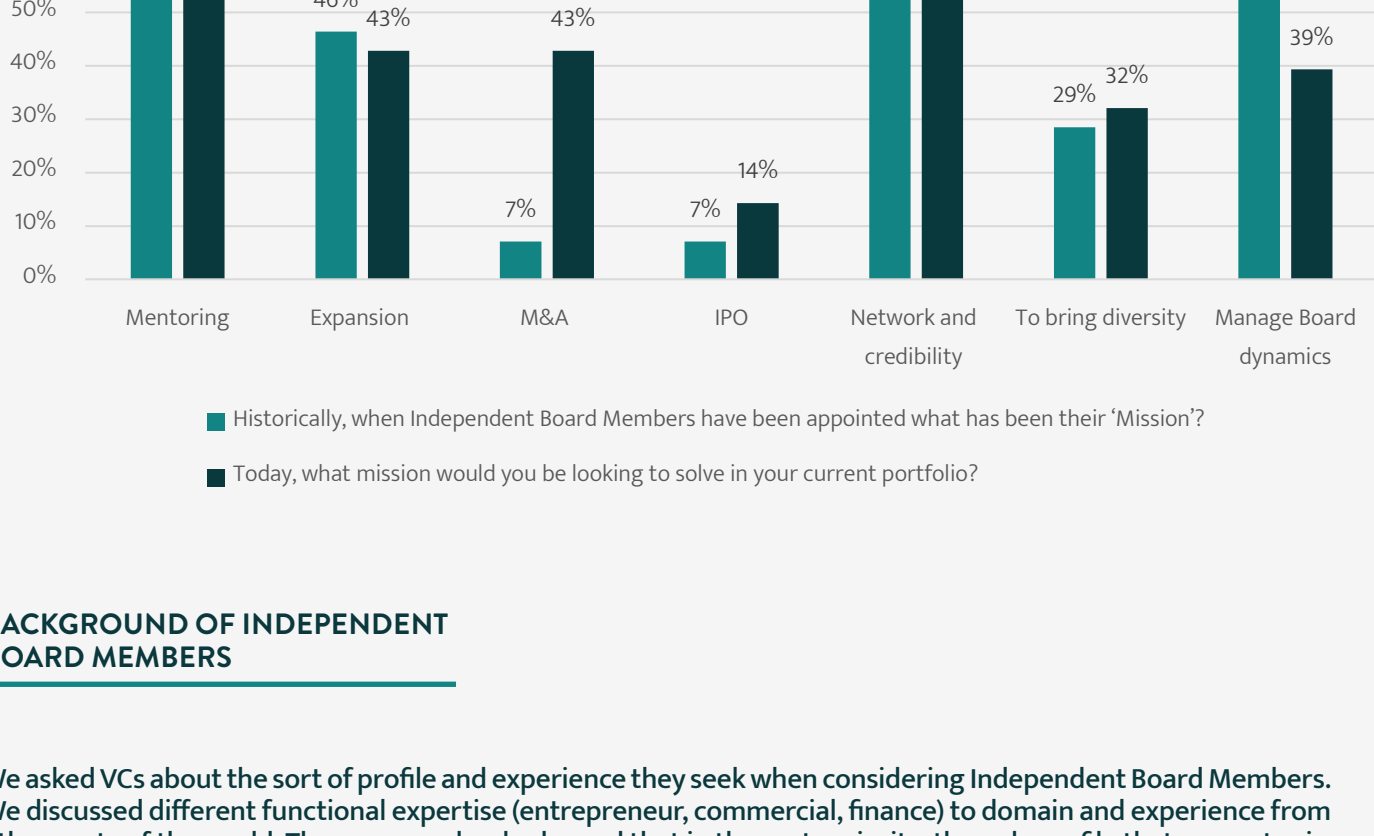
MOTIVATION TO BRING ON INDEPENDENT BOARD MEMBERS

When asked about the mission Independent Board Directors are typically hired for, VCs highlighted:



THE ROLE OF INDEPENDENT BOARD DIRECTORS

Independent Board Members and their Mission



BACKGROUND OF INDEPENDENT BOARD MEMBERS

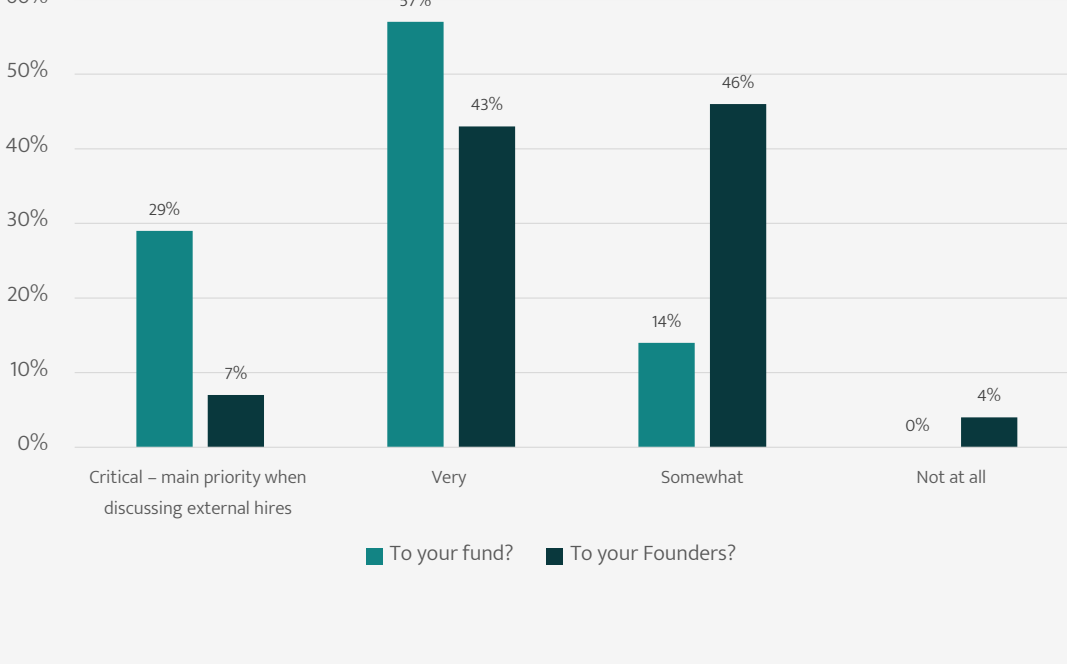
We asked VCs about the sort of profile and experience they seek when considering Independent Board Members. We discussed different functional expertise (entrepreneur, commercial, finance) to domain and experience from other parts of the world. The answers clearly showed that in the vast majority, the only profile that resonates is:

- An entrepreneur
- who has successfully scaled (and ideally successfully exited) a business
- There is some (but very little) interest in bringing experience from other regions such as the US, and hardly any interest in bringing experience from other sectors or from other functional backgrounds.

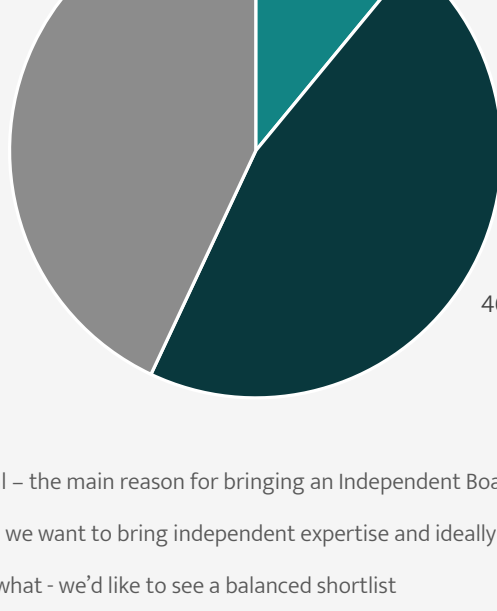
DIVERSITY

- 57% of VCs stated that diversity is very important with 29% saying it is critical
- However, investors feel diversity is perhaps not as critical a priority to their portfolio companies (43% feel founders think it is very important with only 7% saying it's critical)

How important is Diversity today?



- 11% of VCs state diversity is a 'must have' criteria for selection in their consideration for Independent Board Members, whilst 46% say it would be 'ideal' and 43% aim to achieve a more balanced shortlist.



"Start-ups in general, including French ones, can benefit from bringing broader diversity of thought and backgrounds onto their Boards, to help them push global ambitions, beyond the local or even European market."

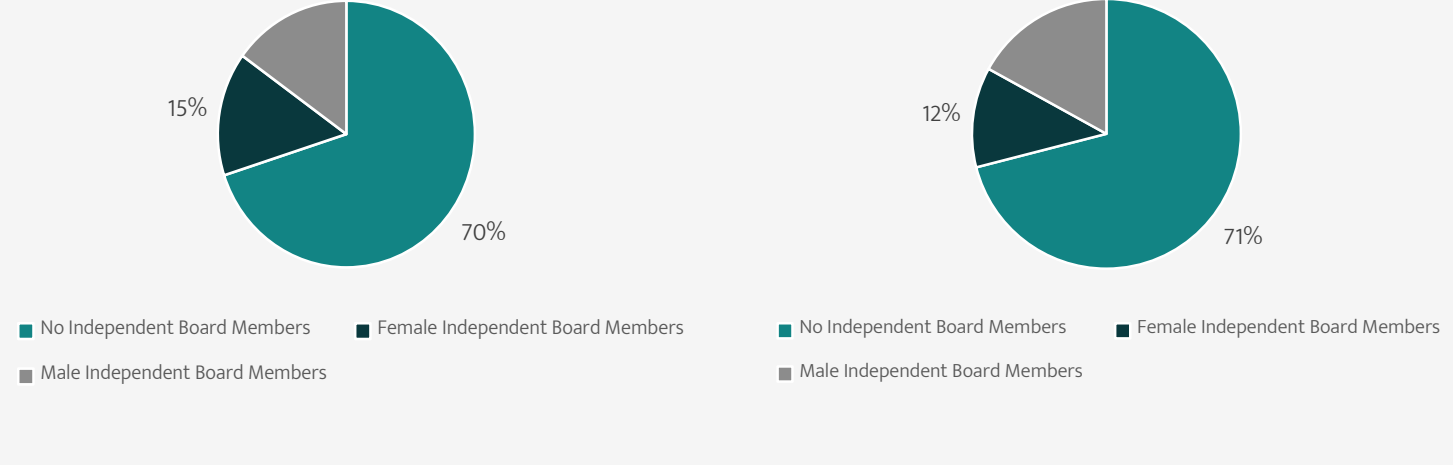
Dan Teodosiu, Executive in Residence (Balderton Capital), Board Executive (Revolut, QIMA), former CTO Criteo (2013-2019)

FRENCHTECH NEXT40 AND FT120

How consistent are our findings across the French Tech?

To address this, we also conducted an analysis of French Tech Next40 constituents announced in February. The data (from publicly available sources of information) reveals that of the 40, only 12 have Independent Board Members and of those, only 6 have women on their Board. An issue which the French Tech's Pacte Parité initiative is aiming to solve.

We extended this research to the rest of the French Tech 120 (2023) to find similar results. Overall, across the entire French Tech 120, 29% of start-ups have Independent Board Members and only 12% have female Independent Board Members.



CONCLUSION

- Some of the right mechanisms are in place, in particular conversations between VCs and founders to build the Board from day one, with Boards set up by the majority of portfolio companies and many touchpoints at Board level. However, start-up Boards tend to consist of founders and investors and no independent members.
- Newcomers in the French Tech 120, such as Deepki who recently appointed a Chairwoman to lead its Board, are encouraging signs for la French Tech.

However, there are significant gaps yet to be bridged:

- Very few start-ups truly have a formal Board set up with Independent Board members.
- The lack of formally-appointed Chairs of start-up Boards raises questions around Board efficiency, Board dynamics and, by extension, the ability for Boards to welcome diversity (in its broadest sense) inclusively.
- Paradoxically, diversity is clearly high on the agenda. If we look at gender diversity specifically, a recent article published in Les Echos and a BCG x Sista report in Q4 2022 highlight the lack of diversity at C suite within the French Tech ecosystem with women representing only 22% ExCo level of the #FR120 and 23% of startups still have no women at C level (against 12% in the CAC 40). VCs can't always influence C level hires, but based on our findings alone, diversity is an issue VCs want to solve on the Boards of their Portfolio companies.
- Independent Board members are, in the most, introduced and hired via VCs' networks. On the one hand, it suggests a likely strong fit with the Board through this connectivity - hiring a known entity, a 'quick win' and a 'no brainer'. And why not? However, it de facto implies a lack of diversity of hiring into broader pools of talent (e.g. domain, international) that would bring diversity of thought, and therefore challenge a Board for the better. Particularly if start-ups have ambitious expansion plans.

Overall it is fair to say that French start-up Boards are behind their UK and US counterparts who adopt the Chair and Independent Board model earlier in their growth journey. Anecdotally, it is noteworthy that Independent Board Members compensation is also more structured in the UK and the US.

Admittedly, there might be regional administrative and cultural differences, but if we learn anything from the last 15 years, or even the last 12 months, it has to be that stronger governance is essential.

SOURCES

- Baromètre EY du capital-risque 2022 by Franck Sebag
- BCG x Sista report
- French Tech Next40 and 120 ranking in Feb 2023

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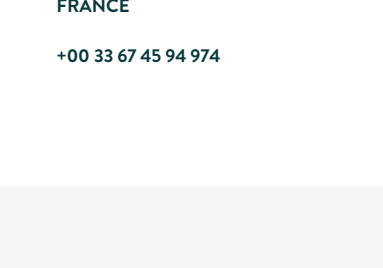
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