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Why startup boards matter

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In the world of startups, it is fairly uncommon to hear in-depth discussions about building a strong board of directors. Yet effective, well-managed boards undoubtedly have a tremendous influence on the success of a venture, enabling it to achieve exceptional performance and a multiplied value for investors.

What does a typical startup board look like and how does it work?

Usually startups form their first board following a round of Venture Capital (VC) investment. This is simply because forming a board and having a board seat is an industry-standard condition of investment from a VC firm. Consequently, the overwhelming majority of early boards consists of just VC partners and founders. The board, generally between 3 and 5 people, meets monthly or relatively regularly to see how business is developing, assess the progress against targets, discuss strategies for growth and look over finances and operations – the usual board business.

My first startup board took place about 6 years ago and it was with the founders of one of a number of potentially high growth high tech startups funded by a VC firm I worked for at the time. We gathered around a table and for a minute there was an awkward silence. The young founders had no experience in running a board and they looked at me to formally start the meeting. Whereas I had an expectation of the CEO stepping up and leading the board meeting, engaging the team in to a discussion about commercialising their technology and ways of getting it to market faster, a conversation we used to have before the investment took place. Instead, on that day we went through two hours' worth of sales and business development update, operational update, presentation of management accounts, discussion of their trading position and technology development roadmap. As the VC firm I worked for made more and more investments, my portfolio expanded and over the years I observed about 300 board meetings and to my frustration most of them run in a very similar way.

Certainly with time, many early boards develop and change. Young founders themselves mature, acquire board experience and necessary skills. For one, they become better at handling board paperwork. They also come to recognise a need to appoint an independent non-executive director (NED). Additionally, a very experienced Chair can be brought in. In many cases, the Chair, independent NEDs and the VCs make invaluable contributions and open many doors through introductions. As growing startups typically require more funding every 12–18 months, a new investor might join a board, but board dynamics and what happens on boards, once the pattern is set, does not seem to change much, in my experience. For the majority, the board meeting is just an update on progress against signed off targets.

What do better early boards look like and what do they do differently?

Better boards that I was lucky enough to observe are built strategically from the start. They bring in necessary experts when needed rather than relying on investors. It is not unusual for better boards to have new talent every one or two years replacing the ones whose expertise is no longer relevant, and they are not shy to ask VCs to give up their board seat. They also recognise startups exist in an extremely fast moving environment and so there is no point having an update on last month's

performance that is already out of date by the time you get it to the board meeting. Better boards actively engage in strategy formation during the meeting, they do it every board meeting rather than ad-hoc or on an away day once a year.

There are a few things that better boards do differently and more effectively that makes them stand out:

1. Get board pack right.

The board pack is the one thing that I have consistently seen the majority of founders get wrong. There are usually two extremes – not providing enough relevant detail or overloading with unnecessary information. Better board packs contain well-focused material that prepares directors for the meeting and its key discussions. The pack arrives reasonably in advance in a single document and not as a collection of reports and spreadsheets.

2. Flip the board meeting.

Better boards ask questions and clarify points with the CEO on items such as management accounts, monthly run rate and operations, before the meeting. The meeting itself then becomes a working session where genuine dialogue takes place on forward-looking strategic issues as opposed to past performance. The agenda is reversed allowing significant time for discussion on, for example, shifting a business model, accessing new markets, hiring, firing or new funding, where as actions on formal items, such as voting, are done very quickly. The founder-CEO, often with guidance from the Chair, experiments with the board agenda to create a meeting structure that gets the most out of the board's collective knowledge and expertise.

3. Invest in board team building.

During the early stages when a startup does not have many employees apart from founders, a better board seeks to become a natural extension of the entrepreneurial team. To strengthen the foundation for growth, they invest time and effort in getting to know each other and becoming a better team. So when inevitably the board gets to deal with disagreements on strategy and even conflicts, it can do so in an open and constructive manner. Better boards also maintain focus on self-improvement as a decision-making and value-adding body and even engage in formal assessment, such as 360 degree feedback.

4. Skill up.

Better boards are learning organisations, continuously transforming themselves and their actions as a result of shared learning from market feedback on their strategic decisions.

Most importantly, better boards mentor, support and develop their founder-CEOs, encouraging them to skill up as startups mature into professionally run business operations.

Startup boards matter not just because they can bring expertise and make connections, but also because the board is the main decision-making body when it comes to making difficult choices, whether it is selling to provide an exit for investors or indeed shutting a company down if things did not workout. It is absolutely critical for startup founders to invest time and effort in understanding how they can structure and run their board so that the board works for them and looks after the interests of the company and all its shareholders.