

BOARD BEST PRACTICES

Governance



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How to create and manage a board

Why do you have a board?

The main role of a board is to **help guide the company through major decisions**, such as hiring and firing senior management, approving corporate actions, and offering guidance on strategic decisions that impact the business longer term.

Good corporate governance allows a company's interests to be addressed so that all shareholders, employees, and customers are happy. Having a solid foundation in place early on **allows a startup's management team the time they need to focus on innovation and delivering better products**.

A good board of directors can:

- Improve profitability and double bottom line effectiveness
- Dramatically accelerate your business & manage growth
- Bring vision, expertise and ideas
- Provide connections, build partnerships, attract new talent, and lend credibility to your company

What is the difference between a board and management?

While the board is considered a company's oversight body in a two-tier structure, management is considered responsible for day-to-day operations and profitability of the business.

Generally speaking, there are two types of board members: **executive and independent**.

Executive board members are those which are related to the company and/ or hold management positions. In some instances, such a role may be constituted by the founder - even if they no longer are involved in the daily operations.

On the other hand, **independent board members** are those who do not have any material (e.g. consulting agreements, significant ownership, etc.) ties with a company and are neither part of the management team nor involved in day-to-day operations.

Good corporate governance practice will typically expect a simple majority (e.g. two-thirds) of a board to be considered independent by these standards.

Board composition

How many people should be on the start-up board?

At a minimum, the board should have:

- The CEO
- A chairperson
 - Leader of the board of directors—creates an environment of active participation and smooth operation of the board.
- One independent non-executive director
 - The best independent directors tend to: be CEOs of other companies and/or have extensive entrepreneurial experience; and have in-depth operational, managerial, and domain knowledge.

At a minimum, startups should find at least one or two non-executive directors who have experience with related industries and customers.

Keep the number odd for voting purposes.

The optimal board composition per stage

Stage	Seats	Founders	Investors	External	Why?
Seed	3	2	1	-	After your initial seed round, you'll usually have to allocate a board seat to the firm or person who led that seed round. To ensure that the founding team remains in control of the board, a typical setup at this stage would be to retain two board seats and your new investor to have one seat.
Series A	3 to 5	2	1 to 2	0 to 1	It is common to allocate a new board seat for the lead investor for each new round of investment, and to also designate one seat as an "independent" seat. The independent member potentially serves another important role — tiebreaker.
Series B	5	2	2	1	After Series B, the size of the board should stay at 5 seats, with the composition possibly changing depending on the investor you are bringing in. It is not uncommon to swap board members as bigger investors lead the round.
Series C	5	2	2	1	At some point, if the board is getting too big or if the investment size doesn't merit a board seat, the company might allow investors to act as "observers." That is, they can come and participate in the board meetings, but they do not get a formal vote. Sometimes the later investors become the observers, and sometimes earlier investors will become observers.

You would need to look for the following characteristics:

- **Domain expertise**
Find someone who has done it before, who will help you get off the ground and supply extensive contacts in the market you aim to capture.
- **Sharp and fearless**
An effective board relies on consistent and constructive discussions. A board member who is afraid to speak their mind is no good.
- **Responsive**
Startups move quickly, which is why you need responsive board members who are willing to answer your emails and texts quickly. The best board members help you when something breaks; they figure out what went wrong and help plan your next steps.
- **Adds real value**
An effective board member adds real value to startups through their connections to other entrepreneurs, potential investors and the market.
- **Diversity and inclusion**
A diverse and inclusive board will warrant a balance of perspectives to effectively tackle complex and challenging issues discussed at this level of the company. Moreover, investors are increasingly taking on the role of tackling diversity and inclusion issues in their investments.

[You can check the full list of characteristics and skills to look for in a board here.](#)

Board compensation

- Startups typically compensate with equity, not cash (rarely).
- Reimburse directors for reasonable work expenses—but define “reasonable” ahead of time.

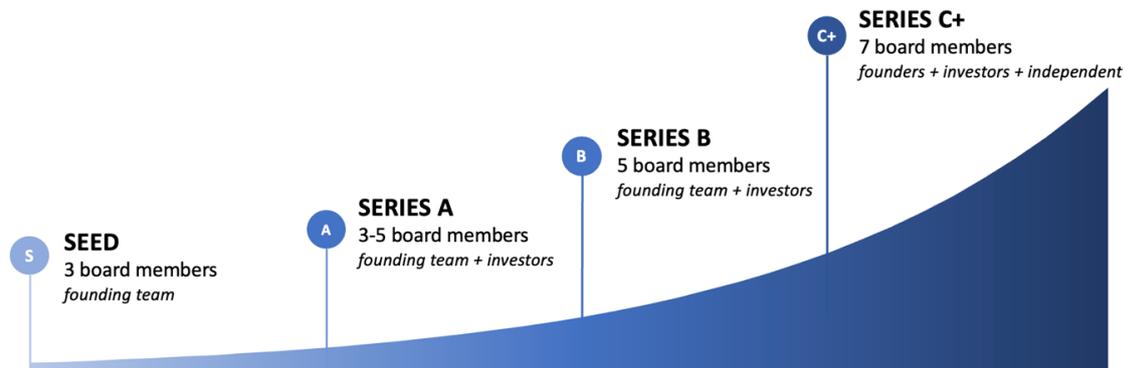
Startup compensation varies based on type of director:

- **Inside directors:** Not compensated—represent company & have direct role in building it
- **Investors:** Not compensated—an investor’s board seat represents their investment
- **Independent directors:** Stock grants, 0.25 – 2% of equity, vesting over 2-4 years (1 yr cliff)
 - Pre-seed stage companies are usually in the upper range (1-2%) and decline as startup grows.
 - Value of a potential director also influences the actual amount of equity to issue.
 - Startups with comfortable cash flow & profitability might consider mixing in cash.
 - Good to combine fixed pay & variable pay based on target. Corporate average is around \$1000 per meeting for small companies. A VC-backed startup might pay 50-75% of this.
 - If mixing in cash compensation, decrease equity compensation to the lower end of the range.

Summary

- From **Seed to Series B**, a company would typically have **3 to 5 board seats** while **later stage** companies could increase the number of board seats to **7**.
- **Trust** is the most important factor in picking the right board member, especially during the early stages of the company journey. To build trust, you need to **take the time to get to know your partners** and VC firms before fundraising.
- Assessing the **strengths, weaknesses** of a potential board member, and whether you are ready to **partner with them for the next 10 years** is critical.
- You need **someone you really trust**, who is **100% independent**, and can help both you and your team as you **scale the company**.
- Beyond evaluating the CEO and management team’s performance, **the best boards also serve as coaches** and **stabilizing factors during periods of tumult**.

Evolution of board composition at every stage



Managing the board

A good board meeting requires the CEO to bring out the critical issues, stimulate a productive discussion in a non-threatening fashion, and get consensus in a timely manner.

Great board meetings are structured in such a way that **most of the reporting and corresponding feedback is completed outside the meetings**. In fact, startup board meetings are far more productive when the focus is not centered around scrutinizing the company's past, but around **charting its future**. When organized in such a way, such meetings can be an invaluable mechanism for making well-grounded decisions for the company's growth.

In order to keep track of the discussions in previous meetings, it is important that proper meeting minutes are drafted for each session to refer back to and approve in the meetings after as well.

Meeting schedule

- **Once every quarter.**
- All meetings should be **scheduled one year in advance** to ensure availability of all board members.
- You should aim at running the board meeting **in person**.

Agenda and length

- The **CEO** needs to **set and own the agenda** of the board meeting.
- Typical board meetings **last 3 hours**.
- This is not just a status update meeting, but an **open strategic meeting**.
- You should only spend a maximum of **1 hour sharing highlights, KPIs, and company updates**.
- The rest of the meeting should be focused on **deep diving on 1 to 2 strategic topics**.

Example of a board meeting schedule



Preparing for the board meeting

1. **Prep work** on the areas where you are seeking input. Discuss with your executive team so the materials can be leveraged for multiple discussions.
2. **Send a pre-read version** of the board deck - which should aim to answer all main pertinent questions in narrative form - at least **one week in advance, collecting questions** from each board member in a Google Doc **three days before the meeting**. You then answer all those questions in the Google Doc by the morning of the board meeting, so the discussion inside the board meeting can focus on the two most strategic topics.
3. Make sure you have a **strict time management process** in place. Consider **assigning formal time-keeping responsibilities** to a rotating member in the room.

Board meeting preparation schedule

- Companies usually **start planning a month in advance** for the board meeting.
- You need to **give yourself the time to prepare** all the required info and documents.

Schedule example:

Board Meeting Preparation Schedule

- **D-28 days:**
 - CEO: Identify the two strategic topics for discussion with the board
 - Share with executive team to align on topics for discussion
- **D-18 days**
 - Founders/Finance team: Outline topics and write/collect content to be covered
 - Share draft deck with end of month close data with executive team
- **D-11 days**
 - Execs comment/edit and provide feedback to Finance Team
 - Finance Team finalizes the deck including formatting
 - Final review if deck and backup data sent to founders and CFO
- **D-7 days**
 - Review and final run of edits
 - Distribute deck to Board of Directors (BoD)
- **D-4 days**
 - BoD submits questions (particularly on KPIs)
- **D-2 days**
 - CEO consolidates and answers all questions from BoD
- **D-0**
 - Set expectations upfront (which sections you want to spend the most time and where do you need more feedback)

Involving the executive team in board meetings

- It is important for execs to get to know the board (and vice versa).
- **Ask only the executives who have a section to present** to the board join the meeting for a particular agenda item, for about 45 minutes.
- This achieves three things:
 - A meatier discussion on the strategic issue at hand;
 - The executives hear the board's feedback directly;
 - More time at the end of the meeting for the CEO and the board to discuss other sensitive matters on their own.

Monthly updates

- It's a good practice to **send a 2-page monthly update** email at the **beginning of every month**.
- The email usually includes a summary of last month's performance; a hiring update; a section outlining burning issues; and a section with specific requests for help.
- Getting into a good rhythm of sending monthly updates accomplishes three things:
 1. Board members will go above and beyond to help you with your specific asks;
 2. The board is better prepared for the in-person board meetings; and
 3. It is a great way for you as the CEO to take a step back and reflect on the most important elements of your business and objectively measure how well you are doing as a company.

Mistakes to avoid with your board of directors

- **Having too many or too few board members.** Too many members are difficult to schedule and manage, and cost too much. Less than three is not a board.
- **Avoiding outside independent directors.** Outside directors bring new input to the table that offers invaluable context to your hyper-focused inside officers. The objective is a balance of skills and interests to optimize the growth and success of the business.
- **Expecting the board to always support management.**
- **Having the wrong management representation.** In startups, where the CEO is usually the founder and major shareholder, it is normal for the CEO to chair the board. At most, one other senior insider would be appropriate.
- **Maintaining too little diversity.** Pick your outside directors, not only on ownership or relationship, but also on experience in the world you know least.
- **Failing to establish adequate structure.** Every board needs a playbook to bring clarity to the roles and responsibilities of the board itself. Board rules and governance policies should be articulated in writing and voted upon. The board should meet at a minimum of four times a year with a quorum present, or more often for critical issues.
- **Lacking commitment and trust in board recommendations.** A culture of mutual trust, respect, and commitment must be set from the beginning and from the top.

Board Member Character and Skills Matrix

Character Attribute Matrix for Potential Board Members

Characteristics	What You Want	What You Should Avoid
Integrity	Honest, transparent, loyal, and steadfast. Takes responsibility for actions, Known for fairness.	Shifty, unpredictable, and unclear who he is really working for. Can turn against you at any time.
Intellectual Acuity	Bold yet measured. Calls out your flawed thinking. Challenges you appropriately. Knows market challenges and opportunities, learns by doing, gathers inputs from various sources, and drawn meaningful conclusions.	Bravado exceeds intellectual abilities. Offers clichés and quick fixes. Shoots from the hip and disregards the consequences of his actions. Agrees to everything you say.
Emotional Quotient	Nurturing, mellow, yet does not compromise on discipline. A guide, a mensch, and a mentor. Does not play the game but acts as a coach. Respects people. Engaged for the long haul.	Sucks up your energy. Creates artificial emergencies. Finds out your flaws when you are most vulnerable and hurts you when you least expect. Screamer. High maintenance.

Sample Skill Attribute Matrix For Potential Early-Stage Boards

Skills	Great	Fair	Terrible
Entrepreneurial	Has started several companies and hired A players. Knows all about customer discovery and validation. Can surround herself with giants.	Worked with larger companies. Has a consulting or other background that is not an obvious fit.	Has fantasized about startups but has never been remotely involved with one. Unable to prioritize or deal with ambiguity.
Domain Expertise	Has hands-on experience in building products in similar markets.	Market awareness via secondary sources. Lacks depth, but may have potential.	Knows the obvious. Asks random and annoying questions like "What's your mobile strategy?"
Business Development	Has developed a value proposition, a sales pitch for a new product in an emerging market, identified early adopters, closed orders, and generated revenue.	Has sold products in established and mature markets. Met quotas. Does not necessarily have the creativity or persistence to sell new products.	Looks forward to having coffee, accumulating frequent flyer miles, and having fancy lunches.
Financial	Has raised multiple rounds of capital leading to a successful exit. Generated returns for all stakeholders.	Understands financials but has not raised capital, dealt with venture capitalists (VCs), sold a company, or taken one public.	Thinks a balance sheet is used while doing the downward-facing dog yoga pose.
Legal	Understands contracts and legal and regulatory guidelines around finance, taxation, and employment.	Demonstrates baseline business judgement acumen. Has never been sued.	Does not realize what can land you in jail. Naive.

Board Meeting Checklist

- Choose the size of your board** based on your stage what you are looking to achieve
- Decide who you want to bring to your board** (founder, investor, independent, advisor)
- Schedule the quarterly calls 1 year in advance**
- 28 days before – **Identify 2 strategic topics**
- Prepare a set of KPIs to present during the board meeting**
- 18 days before – **Outline topics and collect content to be covered** during the meeting
- 18 days before – **Share Draft Deck with executive team**
- 11 days before – **Finalize deck including formatting and final review**
- 7 days before – **Distribute the deck to the Board of Directors**
- Gather lists of questions from the Board of Directors**
- Assign formal time-keeping responsibilities**
- Assign for formal meeting minute taking**
- Board Meeting**
- Review of the Board Meeting decisions with executive team for next steps**