Interacting with my board of directors: pain or gain?

By Roch Ogier (adapted from "Start-up Governance in Switzerland" by R. Ogier, M. Hilb and V. Verdon)

The right board engaged wisely can increase your start-up's chance of success and minimize its risk of failure. It can help you make the best strategic decisions, avoid common pitfalls, identify risks early, attract investors, facilitate decision processes, or bring in a different or holistic view. To ensure you make the most of your board, we suggest the following principles:

1. Make sure you understand the respective roles of the board of directors and of the management

The main task of the board is nothing less than the overall direction and control of the company (see Table 1). It is thus nothing like the old-fashioned image of a group of elderly corporate executives having the red carpet rolled out for them, with the board seat as an honorific title. The board should focus, in theory, on providing the strategic direction while the management team is responsible for the business strategy and all operational aspects. In real life, the difference between strategic and operational matters is not always clear in a start-up, and the board often has to adopt a hands-on attitude. It is not so much what is or what is not a board matter; it is about the impact that a given topic has on the survival and the direction of the company. To give an exaggerated example, the Christmas party is typically not a board matter at all. But what if the management team were to organize a Christmas party for 50 K while the cash in the bank is 100K?

As a CEO or member of the management team, you will take part in the board activities, either as a regular guest or as a full member of the board. You need to understand the roles and functions of board members (see Box 1). A keen awareness of the individual background, motivation, and skills of the member of your board allows you to harness the potential of each member, individually and as part of the group.

2. Use this untapped opportunity wisely

Being a start-up CEO can be a lonely job, and you may be tempted to get "operational back-up" from the board, raising issues that a board is not required to decide upon, causing meaningless debates. You also want to avoid that the board micro-manages you. You should therefore find the right balance between relying too heavily on the board for decisions and not tapping into this precious resource as often as possible.

3. Prepare for the board meetings

For this, you should be aligned with the chairperson who will send an agenda and pre-reads at least a week before the meeting. The pre-reads should provide what is needed in order to discuss and decide on the topics on the agenda, i.e. detailed enough but not overwhelming (think short decks and crisply presented financials). Have board members take the time to read (and not just browse through) the pre-reads and process the materials. This will prevent questions and discussions during board meetings, which could have been solved by a more thorough preparation. In the pre-reads, you may also include specific questions or challenges to the board that you would like to see discussed. More time for your board to prepare and think may result in more detailed and useful answers.

The frequency of meetings will depend on the company's pace and challenges to be solved (e.g. in a crisis). A start-up board will often meet once every one to two months, but you have to be prepared to take action based on the received minutes before the next board needs to be set up.

Fig.1: **Roles and interactions of start-up stakeholders**

The shareholders

- Set the company purpose
- Elect and remove directors and auditors
- Decide about increases in capital and (usually) the entry of new investors
- Approve fundamental structural or financial changes to the company such as a merger or liquidation

Elect the board members ⇩⇧ Reports to the shareholders

The board of directors

- Provides the strategic direction
- Controls the company
- Ensures that financials are in line with the strategy
- Protects the company's interests

Hires and fires the CEO
Delegates management ⇩⇧ Reports to the board

The top management team

- Develops the business strategy in line with the strategic directions provided by the board
- Executes the company's strategy
- Pro-actively informs the board of any critical risk and opportunity
- Hires the staff

4. Focus on the agenda

The board only has to discuss what is on the agenda. If other topics come up, the chairperson may decide to discuss them, but has the right to ask to discuss them in another session. If you present at the meeting, if possible, start with what matters (important decision) rather than starting with “update slides” that will always take more time than planned. And only show what you were asked to present or what you want to discuss. Better to take one well-considered critical decision than to rush through the agenda. Note that many company topics could be discussed, but not everything is the best use of the board of directors’ time. If a member seems to want to discuss a topic at length (because they are passionate about it or want to show off the extent of their knowledge), one can politely propose to deepen the discussion of this topic in a one-to-one meeting after the meeting and to go back to the agenda.

5. Make use of the power of off-line interactions

Board meetings are not (only) updates on what the company has done since the last board meeting. They are strategic meetings. To avoid spending too much time “updating” the members during the board meeting, you or the chairperson can organize general update calls between formal board meetings (i.e. not a formal board meeting) or more specific updates (technology, legal, etc.) with specific members attending, who will then shortly report to the board. In this way, updates will be shared in a condensed way and formalized in the minutes without taking too much time. If a decision is needed based on the discussions in these informal calls, it can be reached by circular or can be taken at the next formal board meeting. Informal meetings can also take place between individual board members and management to discuss general or specific topics. Note, however, that a meeting with a board member is not a board meeting! These are discussions, not formal meetings with binding decisions.

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Box 1: the different roles in the board

The chairperson

They are usually elected by the board, from among the board members. Should be the “boss of the board,” by no means just an honorific position. Key interface between the board, the management, and the shareholders. Key role in managing conflicts of interest. Responsible for preparing and leading the board meetings and general meetings. Ideally, both experienced and independent.

The independent

A board member is considered independent when they do not have a management position in the company (nor had one in the past) and have no (or only minor) business relations with the company. Should be the chairperson. Number of independents and their qualifications should evolve with the stage of the company. Should have great negotiation and diplomatic skills, and be calm and rational.

The founder

Usually member(s) of the executive team (see below). No passive founders (i.e. founders not part of the management team), passive founders can be given seats in the advisory board.

The executive team

Usually, the CEO, in particular, if the CEO is one of the founders. However, the CEO does not have to be a member of the board; they can be a regular guest. In general, avoid having more than one member of the management team in the board unless this is of critical importance (e.g. two “equal” founders need to be part of the board).

The investor representative

Part of the negotiation and reflected in the shareholder agreement. Should be able to put the company’s interest before the investor’s interests. Beware of them pushing for nonessential reporting for internal purposes in the investor firm.

The secretary

Supports the chairperson in the organization of the meetings and writes the minutes. Very important because minutes become a legal document. Writing board minutes requires expertise and experience; board meetings are unlike other meetings. Should not be someone outside the board (maybe an external lawyer at a later stage), and not the administrative assistant of the chairperson. Avoid rotating this function.

The observer

May attend the board meetings, but does not participate in the discussions and has no voting rights. Usually “imposed” by investors. While not ideal to have (too many) observers as they enlarge the group without being fully part of it, it can be a way to “avoid” having an additional board member when negotiating with investors who want representation in the board.