University of Zurich[UZH] THERAPY DEVELOPMENT ACCELERATOR

Board of directors: whom should I bring on board?

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

For start-up founders, the main challenge is to assemble the right board at the right time. The destructive potential of a malfunctioning board is common knowledge. A well-functioning and robust board, however, can attract investors, add financial and strategic value, save time and money, facilitate decision processes, help avoid common pitfalls and identify risks early on, and bring a new or holistic view to the company.

1. Select a board adapted to the goals of your start-up

You hire a board to steer your company in the right direction. But which direction? This has to be clearly defined by the shareholders of the company - usually you, the founders - from the very beginning. Everyone needs to be aligned with the purpose of the company. Initial shareholders should clarify their "why," their reason for the start-up. What is their personal motivation? Is it money, fame, freedom, changing or saving the world, gathering new experience, love for the technology, securing a job? What should the future look like: an exit, trade sales, a sustainable friends and family business, a non-profit venture? Alignment among founders needs to be particularly strong because investors for whom the money comes first will soon challenge it. Founders can formally document goals and objectives in an owner strategy document, which may be useful particularly once external shareholders join. If not documented formally (which is often the case), founders should at least discuss these issues. Board members need to be aware of the owner's strategy in order to best fulfil their mandates. Indeed, it will drive the choice of board members: you will not recruit the same people if you are looking for a rapid exit or if you want to save the world.

2. Select a board adapted to the phase of development of your start-up

As the management team will evolve with time, the board should be adapted to the phase of development you are going through. Ask yourself whether the same board can help with the early set up of the company and first funding rounds and drive the company through an IPO process. Therefore, it is very important that boards review the composition, skills, and expertise of all governing bodies (board, management, advisory boards, etc.) to ensure that they are appropriate for the stage of development. It does not mean that the entire board has to be changed at each phase (some members might stay in the board for the whole lifetime of the company, and that may indeed be beneficial), but adaptations in the composition and dynamic will be necessary. It is therefore key that members are ready to step down when no longer adding significant value. This requires self-awareness and humility. Their appointment should be finite in duration with processes for review, re-appointment, and recruitment well defined. Remember that once someone is on the board, it may be delicate to have them leave. For board members that you do not get to select yourself (e.g. investor representatives), and who cannot be disembarked, you may attempt to educate them (see point 5).

3. Recruit like you would for any other job and pick the right individuals

There is, of course, no straightforward definition of what constitutes a "good" (often described as "experienced") board member. We favor the following: the right person at the right moment. Hiring a board member should be a structured process, just like any job recruitment, and there are prerequisites for the job (see Box 1). Think twice before offering a board seat to someone in your immediate network without careful consideration.

Box 1: What you should expect from a future board member

- An appropriate level of **engagement**: neither too hands-off nor wanting to be too deeply involved in the day-to-day business. The board member should take the mandate seriously without being domineering.
- **Sufficient time** available: while what is sufficient greatly varies depending on the start-up, the circumstances (crisis versus good weather), and the qualifications of the board members, availability of approximately 20% of the time per board mandate would be reasonable.
- **Social skills**: the board member should be able to work well with others and have their ego in check.
- **Professionalism** associated with **pragmatism**: the board is a serious and complex mandate that requires a high level of formality, which should, however, not become an end in itself. A healthy dose of pragmatism is key.
- **Experience in boards of directors** with a successful track record, in particular regarding start-up boards: note that having been on 20 boards may provide experience but not necessarily expertise (a mandate itself says nothing about performance).
- Avoid board members with mandates in **too many boards** at the same time. This can prove to be a significant challenge, in particular in times of crisis like the recent coronavirus crisis.
- Good knowledge of the **local rules**: while general principles are usually the same, some important governance rules are country-specific and cannot merely be copy-pasted from other countries.

- As **independent** as possible with limited (or manageable) conflicts of interest: the more independent a board member (even if not formally "independent" as defined below), the easier it will be for them to make the best decisions for the company.
- Relevant **network**: note that while a board member can and should open doors, this is a nice-to-have rather than their primary role, which is to direct and control the company. There are other ways to have people open doors, e.g. by contracting well-connected individuals as business development consultants.
- Good **personal match**: founders and potential board members should have coffee together, more than once. And the founders should ask themselves: are we willing to take their advice? And do not forget: as a CEO, you will report to the board you recruit!

4. Pick the right mix of individuals

As it is the case for any team, a well-performing board is the result of both individual and team performance, which depends on the right mix and collaboration. The right mix is a good balance of expertise, experience, interests, level of seniority, diversity, and independence. Drafting a matrix (see Table 1) will give you an overview and help you identify the gaps to recruit accordingly.

The ideal number of board members is not cast in stone. You do not want so many that someone can shirk their duty, but enough to have all the necessary expertise available. Usually, this means three people before the first round(s) of financing, then around five. Whereas decisions are usually taken unanimously without a formal vote in a well-functioning board, an uneven number may help avoid any blockage in a sticky situation. In case of an even number, the chairperson could be given a casting vote, but it is usually not ideal to have different voting rights because of the dynamic it can cause. Note that if you have to count votes in a board regularly, it may be a sign of dysfunction, and you may consider making some changes.

The minimal expertise to be represented includes technological knowledge (often by the founders), sector knowledge, sales and marketing, finance (There is no need for a CFO in the early phase, but you need someone with solid knowledge. All board members need to have fundamental financial knowledge, however.), and governance expertise (in particular regarding start-ups). Other areas of expertise that will be needed in the long run would also be helpful, providing an early sensitivity for topics such as communication, legal, human resources, compliance, audit and control, M&A, or exit strategies. Obviously, not all competencies can or must be represented in the board at all times, and timing is the determining factor. Missing expertise can be found elsewhere, in the advisory board, management, through an advisor to the board, or through contracted third parties, etc. Often this is the preferred path. In summary, you do not have to onboard a new member every time you need new expertise (e.g. regulatory, legal), but you may need to for critical steps for the company (e.g. preparing the exit).

Table 1: Competence and diversity matrix

This is an oversimplified example: categories should be adapted to the start-up and the field of activity.

	Key expertise				Governance		Diversity	
	Technical	Sectorial	Financial	Leadership	Experience as a board member	Training in governance	Man/Woman	Age
Board member 1	X						W	45
Board member 2	X		X				M	52
Board member 3		X			X		W	35
Board member n			X	X	X	X	M	62

5. Educate even "experienced" board members in start-up governance

Serving in a start-up board is a specific task that is positively influenced by expertise and experience. Like any other specific role, it has to be learned. While previous roles in larger companies can bring a lot of similar and transferable knowledge, most board members will benefit from some formal training. Awareness of "blind spots" and the humility to address them is a key asset in future board members. In training focused on start-up governance, "experienced" board members are educated on the (local) specificities of start-up governance (including legal duties) while founders are trained on governance fundamentals.

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