



**It's governance, but
not as we know it!**



Debra Hall

Being a director of an early stage, angel- or VC-backed company is different, and in many ways more challenging than established company directorships.

Governance Matters!



Governance vs Advisory Boards

A governance board is different from an advisory board. A company can have one or the other, or even both, depending on its sector, age and stage. The most fundamental difference is this:

Company management reports to the governance board, where as an Advisory board reports to company management (or sometimes, the governance board).

The value of governance

Governance provides a framework of guides and guard rails within which the business grows. The board adds a wide range of perspectives on how to grow a business, and in particular, this business – enabling founders and management to get on with doing it, without the full burden of sole founder responsibility for every decision made.

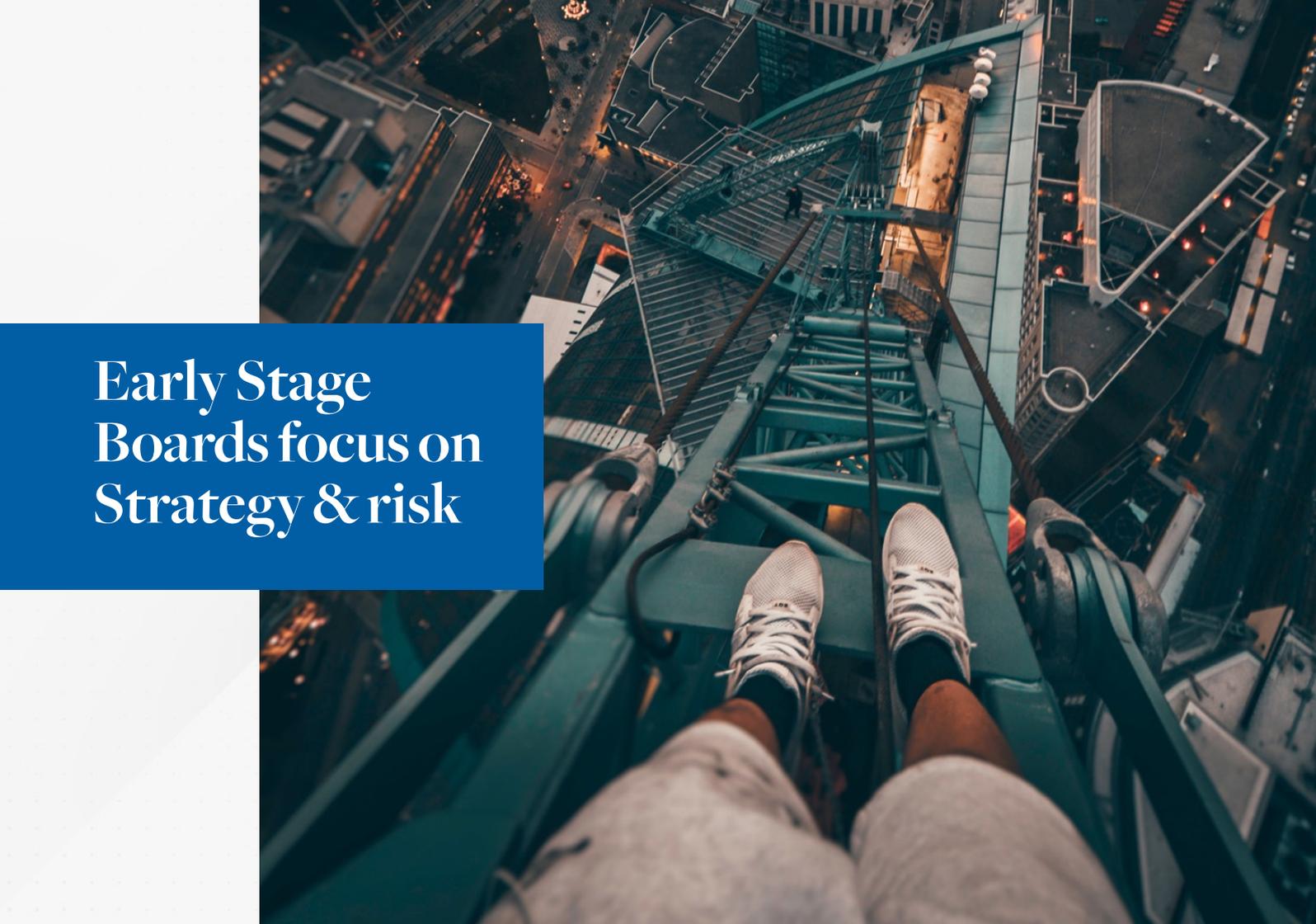
A good board looks to the future, ensuring that the focus remains on the longer term strategy, balancing immediate needs of revenue with longer term needs of building enterprise value.

Separation of governance and management

Governance boards comprise “directors”, who are legally responsible for the ongoing health and compliance of the business. The board delegates the operational functions of the business to management, ideally under a formal ‘delegations policy’, that identifies what decisions rest with management, and what needs board approval.

The roles of management, advisers and directors overlap, and ideally all three groups are aligned to focus on growing the business, and achieving its success.





Early Stage Boards focus on Strategy & risk

Governance boards have four roles, often referred to as the “Four Pillars” of governance (**ref. NZ Institute of Directors**). In early stage companies, boards remain responsible for these four functions, even though there are significant operational differences from established business governance.

The four functions of the board are:

1. **Strategy & Risk:**

(why are we here, where are we going, how are we going to get there, how much risk will we take?)

2. **Culture:**

how do we do things around here (especially when things go wrong!)?

3. **Accountability:**

do we hold people to account to do what they say they will do

4. **Compliance:**

are we monitoring liquidity, and staying ‘legal’ in every way

Strategy is the most important function of an early stage board, focused on setting the direction of the company, and staying on course. In particular, having a capital strategy, that delivers discipline in managing capital, and ensuring the company NEVER runs out of cash, is vital to the survival of the business. In addition to a capital strategy, early stage boards need (at least) a people strategy (how to attract and retain the right talent), a go to market strategy, and an exit strategy (to provide liquidity for early investors).

Risk assessment is a core element of strategy, as every choice of direction brings its own risk. Risk management is a particular challenge for early stage company directors, where the role of the board could be described as enabling the business to take as much risk as possible (in order to achieve growth), while ensuring it looks after its people and its solvency!

Key differences for early stage boards

- ✓ **The extent of involvement** of directors in the day to day business is significantly greater in early stage companies, in some cases extending into an executive director role. It's a balancing act – the key is knowing when you're acting as a director, and when you're straying into management / operational roles.
- ✓ **Process vs speed:** the early stage company needs its board to be decisive even in the face of scant or imperfect information. Delayed decisions hold the business back, and may even lead to its demise. Frequent critical decisions are the norm.
- ✓ **Access to professional advice** is extremely limited for early stage directors, and involves tapping into informal relationships. Accounts are generally unaudited in the early days, and legal support is only used for business critical issues. Boards need to be alert for situations where professional (paid) legal advice is required, and ensure that they are using advisers who are experienced in dealing with early stage company issues.
- ✓ **Capital strategy / solvency:** early stage boards are always focused on managing the company's cash runway. A capital strategy is critical to ensuring that the business has the resources to achieve its growth potential. Fund raising experience and capability is a must-have on early stage boards.
- ✓ **Exit strategy** – at some stage, the company's early investors will want liquidity. It is the Board's role to have an eye on the longer term horizon to achieve this.



Establish a ‘fit for purpose’ Board & review regularly

The Board composition is set out in the constitution or shareholders’ agreement. This specifies how many directors form the Board, how they are selected or appointed (and by whom), how the Chair is appointed, which if any directors have veto rights on specified decisions, whether the Chair has a casting vote.

In early stage companies in New Zealand, the first board may have as few as just 3 directors, though 4 – 5 is also common.

It is not unusual for early stage investors to require their appointed ‘investor director’ to have the power of veto over a wide range of decisions, including changes to the business plan, significant hires, further fundraising or other funding arrangements and so on.

Key point:

Irrespective of how a director is appointed, or who s/he “represents” on the board, all directors (including founder directors) are required to act in the best interests of the company in board deliberations and decisions, even if this conflicts with the interests of the shareholder group whom they represent.

A “good” board comprises directors who have a diverse mix of skills and experiences that are relevant to that specific company. Director skills and attributes can be divided into two sets (and should be adjusted depending on the company’s needs).

Every director needs...	At least one / some directors need specific experience / skills in...
<ul style="list-style-type: none"> • Cultural fit with the company’s values • Integrity and courage • Reliability • Good judgement • Open mind • Great communications • Time to contribute 	<ul style="list-style-type: none"> • Market expertise • Financial expertise • CEO advisor/mentor skills • Technical expertise • Networks • Capital strategy & execution • Exit experience

In forming the board (and subsequently in reviewing the board composition), it is useful to set up a matrix of skills and attributes, and score each of the directors, including the CEO, and any potential candidates on the specific skills/experience that this company requires from its board of directors. Consider using observers to fill in the gaps where the right director cannot be found.

Changing the Board

In early stage, high growth businesses, regular board changes are expected, and highly desirable. It is imperative to refresh the board to meet the company’s changing needs, particularly as the company heads toward a liquidity event. Early stage directors need to be willing to step down to make space for those more capable of taking the company to the next stage of its growth.



About Debra Hall

Debra Hall is an engineer, a marketing professional, and a mentor, director and adviser to early stage companies. A passionate supporter of NZ Inc, she spends her time working to make a better place for the next generations, who deserve the opportunity to work in exciting, world class businesses, while raising their children in beautiful Aotearoa.

About BoardPro

We exist to increase boardroom productivity and create better functioning boards. We don't believe good governance processes should be left to the domain of larger companies. We know that all parties in a board/management relationship want to use their time and resources most efficiently and productively. We found that a product that helped with the processes, workflows and guidance to work on the right things was missing from the market. So we developed BoardPro in partnership with some of the best independent directors and most progressive CEOs.



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