BY HAL SHEAR

USING OTHER PEOPLE'S MONEY

6 Rights to developing an effective early-stage board

After the money's in – be it angel, VC or self-funding – and the dust settles, early-stage companies can create a path to success by establishing winning governance practices.

Best practices in corporate governance represent not only those practices that comply with the letter of the law and regulations governing them, but more importantly set the stage for venture success. Key to any board's effectiveness in achieving that end is having 1) the *right people* and 2) the *right culture*, focusing on 3) the *right issues*, utilizing 4) the *right information*, applying 5) the *right process* to evaluate alignment with corporate goals, and then pursuing 6) the *right follow-through* toward becoming a strategic asset to the company.

In boardroom terms, the right people means a complement to the investor-stipulated directors of at least one experienced businessperson who is an objective thinker, with moral courage, good communication skills, and not affiliated in any way with the company or its employees, aside from board membership (i.e., independent). The right culture is one marked by an openness and candor that promotes both rigorous decision-making and constructive interaction among the board, founders and management. What constitutes the right issues will vary by company, industry and economic conditions, but the board's focus should always be on matters that support corporate strategy and long-term value to shareholders. Several criteria determine what the right information is for a board: both the relevance and reasonableness in terms of content and volume, as well as the ease and timeliness of its availability.

It is not uncommon to find boards that embrace the principles of the first four elements of effective corporate governance but not the remaining two, the right process and follow-through, thereby missing out on the collective benefit all six contribute to everyday practices. The right process is one geared to the company's stage of development, strategy, mission, and culture. Developed over time on the basis of clearly defined duties, goals, and objectives, it is an essential evaluation process against which the actions and outcomes of individual directors and the board are appraised. The right follow-through consists of developing, and then tracking, specific action plans to close any gaps between defined expectations and measured performance.

Because most early-stage companies will need to change direction more than once before becoming successful, the process will require modification. As for the people element, founders and early-stage senior managers should be aware of the inevitable role and/or personnel changes that occur as a company moves through subsequent stages of development. Board composition, too, might change. The need for directors who can open sales doors, guide technological development, and raise additional early funding may be replaced by a need for others with expertise in effective recruitment, improving marketplace stature, and attracting later-stage financing. Having an independent director and good governance process in place will facilitate all of these transitions, particularly from a founder/early-stage management perspective.

Early-stage boards can begin to pull together all six "right" elements by taking steps to complete a basic four-item checklist.

Align expectations among board members and between the founders/management team/CEO and the board. One of the key responsibilities of early-stage board

members is to coach the founders/management to success. First, clear and measurable expectations should be established and articulated in writing with respect to the fundraising process, exit plans and timing, investment goals, and the board's oversight role and level of operational involvement. This step provides the basis for how individual board members will contribute and interact – the first phase in developing the desired culture – and sets the stage for identifying issues and instituting information standards.

Promote effective behavior in the boardroom. Another aspect of the right culture, which directly affects process, is the establishment of practices that squelch any tendencies toward boardroom intrigue, political maneuvering, and inefficient operation so that board members can make the most effective use of their time, and management can concentrate on running the company without unnecessary distractions. Board meetings should be restricted to principals only (i.e., venture partners, not their associates); require that all BlackBerry and/or iPad devices be turned off or disallowed altogether; and have agendas that devote the majority of time to discussion, not presentations.

Establish good boardroom process from inception. Much of this process involves board selection, or assembling the right people. This entails deciding at the outset on the size of the board, which should be kept small. Five is a good number: founder/CEO, three investor-designated directors, and the independent director. Attention should be given as well to ensure that investor directors add maximum value – by defining what constitutes value to the company and identifying which venture partner adds what – and that they have sufficient time to devote to board service.

Perform annual board assessments. Initially, these assessments may take the form of oral discussions and later evolve to written questionnaires. The objective should be to strive for administrative simplicity of compilation and reporting that is both easily understood and translatable into action for the right follow-through. For early-stage companies this may best be accomplished by having the most respected member of the board lead the process and deliver the feedback.

The road to success for early-stage companies – from launch to revenue-producing profitability and then to a liquidity event – is one of challenging twists and turns. But following these simple guidelines to develop corporate governance practices paves the way by giving a substantial competitive advantage.

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