A key Founder CEO dilemma – understanding and partnering effectively with your board of directors.

Nightmare board meeting

“Our board meetings are a nightmare. It was so much easier when we could just make a big decision and just go execute it. Instead, we are increasingly being second-guessed by our three investor nominee directors. They are not happy with the quality and openness of reporting we are providing the board; my co-founder and I seriously question the value they add as directors and as a board. Each board meeting is getting increasingly tense and fractious with growing levels of micro-management. You highlighted in your workshop the importance of the CEO/Executive team being brutally honest with the board on “What keeps me awake at night in terms of major challenges for the company” – how could I trust our investment firm nominee directors not to use that against me to either try and replace me as CEO or punish us in terms of valuation in the upcoming funding round?”. This sincere honest feedback to me from a Founder CEO is an incredibly accurate representation of the challenges and dilemma a significant number of Founder CEOs experience in partnering effectively with their board of directors.

Best practice workshops

Over the last 6 months, I have delivered board best practice workshops for early-stage/scale-up companies across Ireland, UK, Europe and Africa. These have been incredibly engaging with Founder CEOs really opening up, sharing their frustrations, concerns and continual soul-searching around how in-effective their board is, the poor levels of value-add and how in many cases it appears to them a necessary evil to accommodate the governance requirements of their investment firms. Many Founder CEOs were also very honest in stating that “It takes two to Tango” and that they had to take their fair share of responsibility for an in-effective board adding zero value. A number of CEOs also highlighted the incredible role and value their boards added.

As a former Founder CEO, current Board Chair of a number of growth companies and through our board practice’s support of investment firms and their portfolio companies across the world, I am privileged to support the boards and CEOs of quite a wide range of early-stage and scale up companies, from early seed Angel/VC rounds to large Series A, B and C stage companies. In my entrepreneurial journey, I was blessed with an exceptional board consisting of investment firm nominee directors, generalist and sector independent non-executive directors (NEDs). While it was a baptism of fire for me as a rookie CEO, with the help of a brilliant Board Chair, I learned how to work effectively with the board, partner with them and enable them to play a fundamentally critical role in helping the company making it through some very difficult years and eventual success.

Leadership guidance

The following workshop slide garnered great attention from the Founder CEOs as a eureka moment for many of them to see "what great looks like in an early-stage/scale-up company board" and the incredible difference a strong board comprised of exceptional NEDs can make in terms of helping a CEO and executive team navigate the ferocious white-water rapids of building and scaling a company.

In this famous scene from Star Wars, Yoda is giving the young Luke Skywalker a serious dose of salts on the leadership and judgement needed for him to grow as a Jedi to face and overcome the challenges of the journey ahead. Luke is incredibly defensive but knows in his heart that he has a lot to learn and grudgingly listens to Yoda's wisdom. I talked the CEO group through my own experience and several companies with incredible growth success where the NEDs and the collective board had a fundamental role in the success of the company partnering brilliantly with the CEO and Executive team.

In this slide, I highlight the pivotal moments where the Founder CEOs have openly admitted that their NEDs and collective board were instrumental in terms of incredible support, encouragement, left-field thinking, objectivity, tough constructive oversight/focus and where needed tough love. In my experience, quite a high percentage of Founder CEOs don't actually understand whatgood looks like in their board, how best to genuinely partner with their board and enable/inspire the NEDs to go the extra mile to add significant value and strengthen the odds considerably for the company's success. The considerations outlined throughout this article not only apply to Founder CEOs but also in most cases, external CEOs who have joined an early-stage/scale up company.

Why getting your board working well is so critical

Particularly in the case of earlier-stage companies gearing up for major funding rounds as well as scale-up companies starting to seriously strengthen their boards, the following are key objectives for your board;

Adding serious executive/board experience of veterans who have;

- Founded/scaled and sold companies, raised funding, led large teams, senior corporate roles
- The scars on the back and knees with decades of experience
- Can help you manage a complex set of external investors and difficult funding rounds

Adding serious product/services experience of veterans who have;

- Built products/services, gone through the lifecycle from concept, trial, commercial sales, international experience, business and sales/ models

Provide discipline, accountability and structure around;

- Performance, Targets – every CEO needs their feet held to the fire on their performance
- Strategy, Building a Team, Prioritisation

Significantly enhance the attractiveness of the company to;

- External Investors (Angel, Venture-Capital, Private Equity, Impact, DFI)
- Banks, other financial support firms and grant agencies

Provide a great sounding board, encouragement and tough love when needed;

- When serious crises occur (financial, product, team, market, sales,......)
- When serious challenges arise with external investors

Where have Founder CEOs struggled without a proper effective board in place?

Over the years, I have seen so many promising companies that failed to put in place a proper board or left in place an in-effective board that while external investor nominee directors were added, the board was simply not set-up and enabled to excel in terms of adding major value to the company. The following represents some of the consequences of this;

- Muddling strategy and continually in "Hope is a strategy" mode, down rabbit holes and lurching from one pivot to the next
- Poor accountability on performance and achieving targets - serious drift
- Poor prioritisation on the critical "move-the-needle areas"
- Tension, conflicts and in-fighting between the founders/executive team and no experienced independent party to mediate and resolve these sensibly
- Poor handling of funding processes – poor funding strategy, getting the wrong investors in, giving away too much equity/control
- In-ability to pick themselves up properly after serious setbacks

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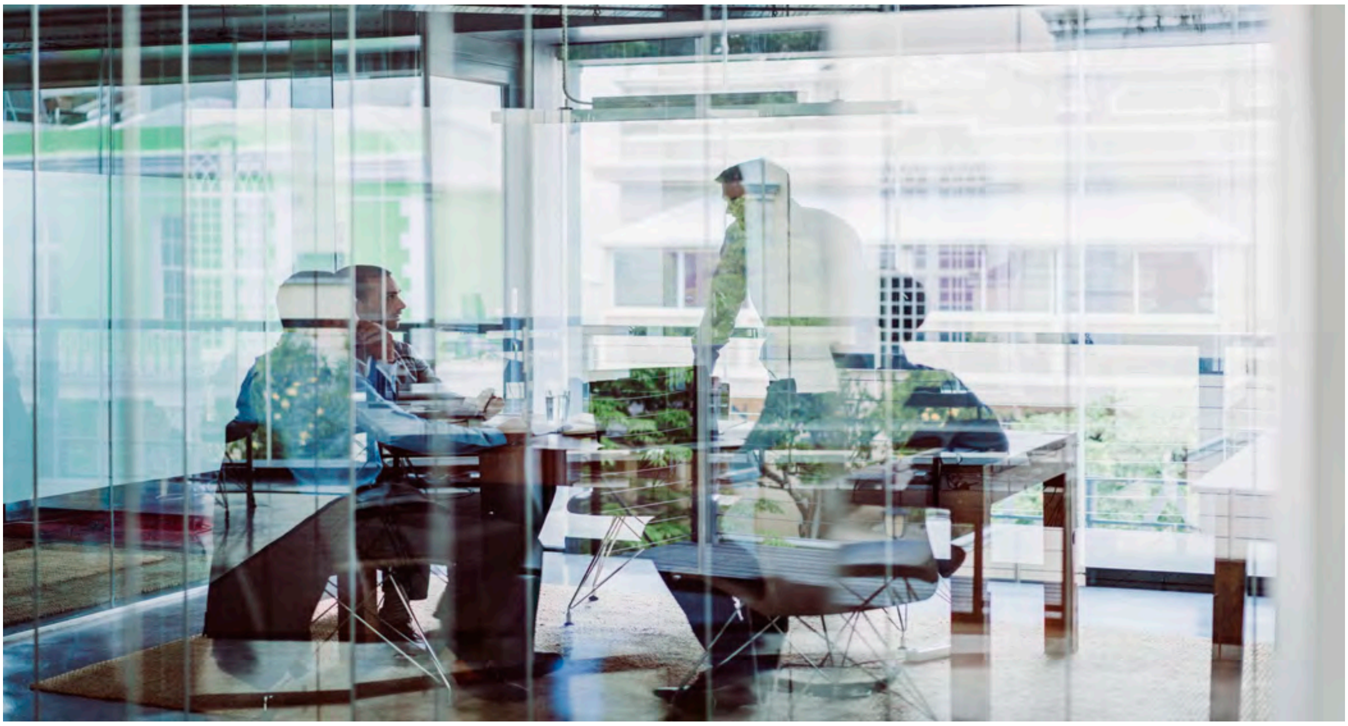
Understanding why Founders and CEOs find their boards so challenging!

Many CEOs have shared with me over the years their honest reasons why they have struggled with moving to a "serious board" and I have summarised these as follows.

- In the earlier days with either no board in place or a "light friendly board", the CEO/ Founders had total control, made decisions quickly and everything was far simpler
- It is now a tough transition to realise that irrespective of what the exact share cap table says, the CEO/Founders no longer "are in total control", now have to be accountable for their decisions, performance and need to get the board to support major decisions
- Many CEOs/Founders are very bright with strong egos ... and it can be a chastening moment to realise there are a lot of sharp NEDs around the table who are just as bright, if not brighter!, who have a lot of experience and value to add in key areas like strategy etc. and are highly capable of identifying serious under-performance, poor decision-making and execution
- As the stakes get higher, more funding comes in, the spotlight on the CEO performance intensifies and reality dawns on some CEOs/ Founders that they may not have what it takes to lead the company to the next level



Poor practices for Founders and CEOs to avoid on early and scale-up boards

In supporting a wide range of investment firms across the world (Venture Capital, Private Equity, Impact, Development Finance Institutions(DFI)) and their portfolio companies, my team and I regularly see several poor practices that not only drive their boards crazy but ultimately undermine the ability of the board to add value and often lay the seeds for serious downstream board conflict, removal of CEOs, future funding round difficulties and in some extreme cases, pull-out of existing exasperated investors and collapse of companies. In the vast majority of cases, the root cause of these practices are the fact that so many Founders and CEOs are genuinely in-experienced in terms of executive leadership, don't understand the role of the board and how to partner effectively with the board. These poor practices are summarised as follows;

(1) Frustrating and dis-respecting the board directors with;

- Poor quality executive reporting and board packs
- Board packs sent out literally the night before or the morning of the board meeting (with always great excuses justifying this)

This makes it incredibly difficult for the board directors and collective board to function properly and add value – Over time, this inevitably corrodes trust and good-will.

(2) Over-focusing on the good news, holding back critical bad news from the board and/or surprising the board with a sudden announcement of material bad news

(3) Getting into "hyper-defensive mode", struggling to enable high-quality challenge/debate and not actually listening to the NED's and board's genuine concerns or different ideas/perspectives

(4) Failure to build trusting relationships with the NEDs, genuinely partnering with them on strategy and major decisions, enabling the NEDs, individually and collectively to add serious value and enable the CEO/Executives to fully leverage their experience, judgement, objectivity and wisdom

(5) Neglecting the company's governance and regulatory responsibilities – putting board directors in a difficult position in terms of discharging their legal fiduciary responsibilities.

At a time when the legal, fiduciary and regulatory responsibilities of a non-executive company director have never been more onerous, particularly for early-stage and scale-up companies where cash-flow, liquidity and solvency are often so challenging, it is extremely damaging for a Founder CEO to unnecessarily place their NEDs and themselves in a precarious position that could expose the individual directors to external sanction such as reckless trading, governance breaches etc. It's important to also say that I have seen situations where the CEO/Executives are genuinely engaging but the NEDs themselves are not playing ball and not adding serious value.

Characteristics of the best Early-Stage and Scale-Up Company Boards

Where a Founder/CEO does get the right board in place, with a great mix of investor nominee directors/ observers and independent NEDs (with both sector and general expertise), it is truly a sight to behold! with a genuine partnership model in place that balances strong but constructive challenge, debate and oversight of the CEO and Executive team with the NEDs adding incredible value, support and guidance. Every time I see these exceptional boards, they have the following characteristics;

- A strong Board Chair who partners with the CEO effectively, leads the board and enables the board members, individually & collectively to add serious value
- Founders/CEO and an Executive Team who understand and respect the board, see the critical value the NEDs bring to help them grow, excel and significantly increase the odds of strong company growth and success (while recognising that from time to time, the NEDs drive them crazy and frustrate them as well!)
- NEDs who "roll up the sleeves" and "are all in" helping the CEO/Executives with their expertise (general (financial, sales, operations, fundraising, strategy, business model ...) and sector-specific), experience and judgement
- A genuine "board team" that is pragmatic, sensibly supporting the CEO/Executive team and enabling them "to drive the bus"
- Strategic with a key focus on "the vital few" based on "efficient oversight" and an open honest board culture that enables trust be built and "any elephants in the room" to be faced up to in an honest constructive manner
- Honest executive reporting using executive summaries with clear guidance to help the NEDs understand the company's performance, key issues and "what keep's the CEO/Executives awake at night in terms of worrying about the company"
- Sensible approach to governance to align with the scale of company but ensuring that the "corporate governance core" is working properly in terms of Internal Controls, Governance and Regulatory Compliance
- Healthy Board diversity (gender, age, sector & professional background, ethnic/geographic background) also helps early-stage and scale-up company boards enabling a range of thinking styles and avoiding group-think problems
- Key focus on developing the CEO and Executive team, supporting, encouraging but able to do "tough love" when needed!
- Ability to handle setbacks, a strong "gut feeling & intuition" and "ability to see around dark corners" if serious financial, product, sales traction problems emerge etc.

Founder/CEO Engagement Model with Investment Firm Nominee Directors

Month in, month out, I see Nominee Directors from investment firms in action (Venture Capital, Private Equity, Impact, Development Finance Institution and Angel/Seed Funds). These are a mix of partners and employees of the investment firms as well as external NEDs appointed by the investment firm. I have seen the best in action who have this incredible ability to not only add major value but genuinely prioritise what's best for the company, would go to hell and back to help the CEO/Executives while still being respectful of their own investment firm's interests. I have also seen the worst in action who would in a heartbeat, shaft the CEO/Founders and other shareholders/investors, have total disregard for their fiduciary director duties and "what's in the best interests of the company" and are very comfortable to plot and scheme in the shadows of the boardroom to accomplish their selfish objectives.

(1) In taking the investment firm's capital, there is a quid pro in you having to take the governance responsibilities/structures that come with that which are essential for the investment firm to discharge their own responsibilities to their shareholders/investors as well as ensure the governance core of the company is built properly to support scaling of the company

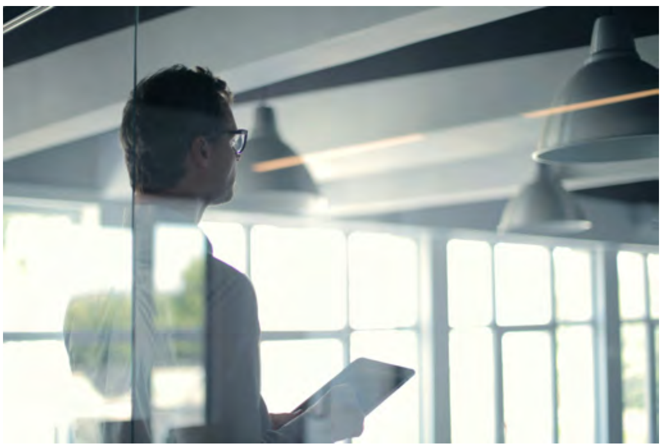
(2) Every investment firm and nominee director genuinely start out (with some rare exceptions) with the best of intentions to support the company not just with capital but with their expertise, experience and judgement – you as CEO supported by your Board Chair have that initial window of opportunity to build a progressive relationship that enables the nominee director to play a vital role as part of a highly-effective board team

(3) Each nominee director, particularly those who are partners and senior leaders in an investment firm have their own accountability back to their investment firm (and ultimately back to the providers of capital to the investment firm) and on a regular basis have to stand up and be accountable for the performance of the portfolio company and by extension the value they are adding to the portfolio board. This creates its own pressures and when there are difficulties at a portfolio company or there is poor quality reporting to the portfolio board (which may get shared with the broader investment firm), it can put the nominee director in a difficult position.

(4) The quality of the CEO/Executing reporting to the board is important for every NED but particularly investor nominee directors. This is perhaps the single most common cause of mis-trust and poor board effectiveness at early-stage and scale-up company boards.

(5) Every nominee director wears two hats of responsibilities - their primary fiduciary responsibility is to the best interests of the company and all shareholders as a whole and their secondary responsibility is to the best interests of the investment firm they represent.

"With the best will in the world, there can often emerge a "complex grey-zone" in between these two sometimes conflicting responsibilities. This is where a wise experienced Board Chair can play an invaluable role in helping navigate challenging scenarios such as serious liquidity/ solvency pressures, a potential down-round, draconian investment terms of a new round, in-appropriate collusion between a set of the company shareholders/investors etc."



Guidance on Composition of Early-stage and Scale-up Company Boards

These boards are no different to every other board in that the Board Chair has the single greatest impact on the board's effectiveness, performance and value-add. ***I can't stress enough the importance of the Board-Chair relationship in early-stage and scale-up companies. In an ideal scenario, you have a strong highly-experienced independent Board Chair who is very comfortable in the roller-coaster growth company environment, builds a great balanced partnership with the CEO, leads the board effectively, is well able to manage the challenges of having multiple investment firms represented around the table and is able to knit all directors, executive, investor nominee and independent NEDs into a cohesive functioning board team that truly excels for all shareholders and stakeholders.*** The following are also key factors in building and evolving the board.

A vibrant mix of generalist and sector-specialist NEDs

Many Founders and CEOs can be very complacent in leaving the board to be effectively just investor nominee directors/observers only or have legacy friendly independent NEDs who do not have the calibre/experience to add serious value for the next phase of the company's journey. One blind spot many Founder CEOs have in particular is a severe reluctance to add a heavyweight sector-specialist NED for fear that he/she may challenge them too much, spot serious issues early etc. I have however seen cases where progressive CEOs add one to two truly independent NEDs who are either generalists or sector-heavyweight NEDs which can not only add great value as a high-calibre NED but also bring a level of objectivity and "independence of mind" that is very healthy and which in certain situations can sensibly balance investor nominee directors.

Founders/CEOs taking the lead on board composition – not letting investors overly shape this

Many Founders and CEOs, primarily because of their in-experience, have been overly complacent in allowing investors to shape the composition of the board. Many investor firms are quite happy if asked, to "parachute in" Board Chairs and NEDs who they have worked with successfully in the past. The reality is that while quite a number of these Chairs and NEDs are highly experienced, I have seen some cases unfortunately whereby when push comes to shove at critical junctions downstream that these NEDs which should be strictly independent, can all too easily align with the investment firm who recommended them. Ideally, you should have an independent process where you have a mix of candidates you have sourced yourself (or a Search firm supporting you) as well as candidates that the investment firms have recommended for Board Chair and independent NED positions.

Summary – the vital difference a highly effective board can make to early-stage and scale-up companies

In the difficult world we live in today, building and scaling a business has never been more challenging with highly disruptive geo-political and macro-economic trends, sector volatility and business model transformation.

A highly-effective board adds significant value to any company irrespective of its scale and maturity. In the case of early-stage and scale-up companies, where a Founder/CEO purposefully builds and enables a great board to flourish, the board will play a major role in the growth and success of the company and in my experience can significantly increase the odds of sustainable growth and a successful exit.

Founder CEOs understandably find boards and governance a challenging area – they are trying to move so quickly that the formalities of boards and governance, building board packs for meetings, being accountable and at the receiving end of tough challenge, debate and oversight seems a great burden.

The best Chairs and NEDs for early-stage and scale-up boards understand this, are very happy to see the Founders, CEO and executive team "drive the bus" and take all the well-deserved kudos when the company experiences great growth and success.

They have seen the movie many times, understand just how brutally difficult it is to build a company from scratch and scale it – this is what inspires them to bring their A-game, provide highly-intelligent challenge and debate, hold the CEO/Executives to account on their performance and commitments but balance this with incredible support, encouragement "through the darkest of winters" and very much like Yoda, provide the critical wisdom, judgement and tough love at the game-changing moments where big decisions need to be made that can ultimately alter the trajectory of the company!

Kieran Moynihan is the managing partner of **Board Excellence** (**www.board-excellence.com**) – supporting boards & directors in Ireland, the UK and internationally excel in effectiveness, performance and corporate governance.

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