

Developing an effective board for venture success

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A venture's board of directors plays a significant role in its success. An effective board both contributes substantial value to the venture and directs it wisely to maximize growth and value for its stakeholders. By contrast, an ineffective board can become a major drain on vital senior executive time, and can destroy substantial amounts of stakeholder value. This article introduces a framework for improving board effectiveness to drive venture success.

Many venture boards suffer from one or more problems that lead to sub-optimal results. Boards dominated by one or two personalities do not act with the considered wisdom of all members. Boards made up of unqualified members are unable to act effectively. Board members who act only in the interests of some stakeholders bias the board in ways that may not be in the best interests of the company. Some boards are too involved in day-to-day detail, whereas others are too detached from the business. Many boards lack focus and structure, and are managed too loosely.

In our experience, building an effective venture board requires excellence in three areas:

- **Board design** – defining the right board structure, roles and responsibilities.
- **Board members** – selecting right mix of qualified members, and reviewing fit and performance periodically.
- **Board management** – managing the board with the right blend of formal meetings, informal oversight and information sharing.

Board design

Before inviting candidates to join your board and preparing for your first board meeting, it is important to give careful thought to the structure, roles and responsibilities of your board.

Board structure and roles

The structure of your board will largely be determined by your venture's phase of growth. During the start up phase, the board structure will most likely be small and relatively informal, comprising founders and investors. As your venture grows, non-executive appointments will be made to bolster functional and industry skills and add representatives from new investors. Over subsequent stages, the board structure will be further formalized and aligned with the venture's financial, organizational and ownership structure.

One initial structural decision is the size of the board. As a general guide, a board must be large enough to accommodate the necessary skill sets to fulfill the board's mission, while at the same time small enough to promote cohesion, flexibility, and effective participation. In practice, venture boards are typically three to five members in the early stages, growing to eight to ten members over time.

You will need to determine the core policies governing board members, such as how board members are elected, re-election frequency, term limits (if any), as well as the number of boards a director may sit on simultaneously. These and other policies normally form an important part of your company's governing bylaws.

Another key decision is to define the board's leadership role, the chairman. We believe that the responsibilities of the chairman of the board and the chief executive officer differ significantly, and that ventures are best served by having a non-executive chairman who is not the CEO. Such a structure ensures the chairman can focus on his or her role as leader of the board, eliminates conflicts of interest, ensures the board can fulfill its central role of oversight of management, and provides the CEO with a "thought partner" in running the business.

Some argue that a joint chairman / CEO is more effective at creating a bridge between the board and management and can ensure that both are acting with a common purpose. However in our experience, this structure is normally a result of a powerful founder or leader asserting his or her control, rather than a truly optimal structure for the board. Ventures in this position should at least ensure that a non-executive independent undertakes a senior leader role in working with the chairman / CEO to manage the board.

Regardless of which leadership model is selected, it is imperative to delineate clear roles in order to avoid an undue concentration of power. To achieve impartiality, the board leadership must be independent in thought and action, look to strengthen oversight, and provide checks and balances and improve information flow between the board and management.

The chairman's role is that of board leader and steward of the company. He / she presides at meetings and reviews and manages the composition and performance of the board. Overall, the chairman is responsible for the board's performance much like a CEO is responsible for the management team's performance. In addition, the chairman ensures that the external accountabilities are addressed and often plays the role of external figurehead.

In addition, individual members usually take on specific roles. Public companies normally require directors to participate in specific committees on issues such as auditing, compensation, and nomination / corporate governance. Smaller companies, however, may allocate these roles on an ad-hoc basis depending on director preference and/or availability.

Board responsibilities

Many boards lack clarity as to their responsibilities, and as a result end up either neglecting certain responsibilities or taking on responsibilities that are really the function of management.

The central responsibility of the board is to oversee and direct management in order to secure the best long-term interests of the company and its stakeholders. We believe this translates into the following five specific responsibilities for venture boards:

- Review and approve strategy and plans: the board's first primary responsibility is to approve the venture's strategy and business plan. Management is responsible for developing the company's strategy and business plan; the board's responsibility is to review, provide input, request clarification, and ultimately approve the strategy and business plan.

- Appoint and review the CEO and key executives: the next key responsibility is to appoint the company's CEO, and to approve the CEO's appointment of key executives. This includes setting the CEO's and key executives' compensation plans. The board must periodically evaluate the performance of the CEO and key executives, as a basis for both compensation awards and to approve continuation in those roles. The board must also develop a management succession plan to ensure long-term company leadership.
- Approve major decisions and commitments: the board must review and approve all major decisions and commitments that can materially impact the future of the company. These might include major investments, changes in the venture's fundamental business model, and strategic combinations such as alliances or acquisitions. Once again, it is management's role to develop the recommended action, and the board's to review, question, clarify and ultimately approve.
- Monitor company performance against plan: a fourth key responsibility is for the board to continually track and monitor the company's performance versus its plans. In doing so, the board will need to rely on the information and reports generated by management. As such, boards should ensure that sufficient precautions are taken and processes are in place to ensure that the information it reviews is timely, complete and accurate in all material respects. The board must identify issues that need to be addressed, and move quickly to direct management to take appropriate action to both exploit opportunities and guard against threats. Ultimately, if management cannot or will not address issues according to the board's directives, the board will need to appoint alternative executives to do so.
- Ensure ethical, legal, and regulatory compliance: the board has a significant responsibility regarding ethical, legal, and regulatory issues in order to protect the interests of stakeholders and manage ongoing risk. Company boards must ensure compliance with all applicable legal and regulatory requirements by putting the right processes, checks and balances in place.

In addition to these five major responsibilities, individual boards may take on other responsibilities. A common example with venture boards is for board members to provide help to the venture by introducing management to their personal networks. Such responsibilities must be secondary, however. Many boards suffer from the problems described at the beginning of this article precisely because they have appointed board members for their connections rather than their abilities as directors! Boards should take particular care not to expand their responsibilities to encroach on management. We believe that for most ventures, the above five responsibilities should define the role of the board.

Board members

Selecting members

With the right board design in place, you can now turn your attention to recruiting and selecting the right members to your board. It is important to take into account both the individual qualifications and the collective skills and team dynamics of your board.

You should seek individual team members who offer the right personal skills and experience for your board. Typically, these might include:

- Broad business experience of ventures at your stage of evolution
- A specific area of skill or knowledge that will be of value to the board
- A deep understanding of the role of a board and individual board members

- The ability to work and collaborate in a team, yet independent minded and able to think and reach conclusions without being unduly influenced by others
- Strong ethical standards and an understanding of legal and regulatory requirements
- A good listener, able to ask questions, alert and inquisitive with sound problem-solving skills and judgment
- An effective meeting participant with strong communication skills.

In addition, you should try to achieve a balance of skills, experience and personalities on your board. Ideally, your board will consist of the right mix of people to provide the full set of skills, knowledge and perspectives your venture needs to realize maximum value and results.

Reviewing board member and team performance

Just as your management team should be reviewed periodically individually and collectively, so too should your board. In our experience, this is rare for venture boards, but it is a powerful process that generates significant benefits.

From time to time the board should take time to review and critique its own performance. Led by the chairman, the board should evaluate its results against goals, and also evaluate its working practices against best practices. Such an exercise can generate rich lessons for your board.

In addition, the board should define processes for performance review of individual members. Typically these reviews are conducted by the chairman or by an independent board observer or advisor. The reviews should be based on the board member's performance against responsibilities, and should include assessing the extent to which the board member is:

- Devoting adequate time and attention to board matters
- Developing an appropriate level of company-specific knowledge
- Doing an appropriate level of preparation for board meetings
- Participating effectively in board meetings
- Maintaining independence and avoiding potential conflicts of interest.

Such reviews serve to improve the individual performance and contribution of board members. Unlike with management, board member reviews do not carry the potential sanction of dismissal. Board members can typically only be removed in accordance with the organization's board policies and bylaws.

Board management

With the right board design in place and the right members making up the board, you can focus on the third area of excellence – board management. Typically it is the chairman's key function to manage the board and make sure it performs effectively. The chairman should lead the board in setting its purpose and direction, and in balancing discussion and consensus building with championing progress of key issues. In doing so, he or she will secure support and advice from the CEO and other board members. Well-managed boards typically have three characteristics:

- **A balanced schedule of formal meetings.** Most ventures hold formal board meetings regularly, monthly or bimonthly. Each meeting should comprise a regular review of performance to date, a focus on a specific topic, and time for ad hoc discussion. The specific topics should be carefully considered and scheduled. These can include a strategy review, approval of the annual business plan and budget, review of management performance and approval of bonuses, review of market / competitive conditions, review of innovation and research and development activities, and many other topics.

- Continuing informal oversight. In addition to the formal meetings, well-managed boards have effective processes for ongoing informal oversight. Primarily based on continuing chairman – CEO dialogue, this can be supplemented by assigning individual board members to specific areas of ongoing oversight based on their particular skills and experience.
- Continual timely information sharing. Board members should have continuing access to timely, accurate and relevant information. Good CEOs ensure their boards are always kept apprised of all key developments, and make sure there are no surprises at board meetings. With the wide range of online collaboration tools now available, boards today are able to keep informed, discuss issues and reach decisions between formal meetings.

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This article has presented a framework for board effectiveness for innovation-based ventures. By following these key principles, boards can ensure they become a major strategic asset for their companies, and playing a pivotal role in driving venture success and value.

Additional reading and resources

Brancato, Carolyn Kay and Christian A. Plath. [“Corporate Governance Best Practices: A Blueprint for the Post-Enron Era”](#)

An informative publication from The Conference Board that outlines corporate governance best practices. Although focused on public companies in the wake of corporate scandals, the key insights presented can be applied to early stage ventures.

Coulson-Thomas, Colin. [Creating Excellence in the Boardroom: A Guide to Shaping Directorial Competence and Board Effectiveness](#)

A complete review of board creation and operation processes. This book offers valuable advice with respect to structuring the board, selecting directors, defining chairman responsibilities, and improving board relationships with management. Furthermore, the strategies outlined provide a framework for evaluating board performance.

Nadler, David A. [“Building Better Boards”](#) **Harvard Business Review, May 2004** (subscription required)

This article focuses on board building by executing a detailed blueprint and assembling a high performance team. Through a process created and endorsed by directors and management, a good board can turn into a seat of challenge and inquiry that adds value without meddling and makes CEOs more effective, but not all-powerful. Nadler presents advice on agreeing on the best board model, objectives, mind-set, roles, people, agenda, information, and culture, which complement the information presented in this article.

Sonnenfeld, Jeffrey A. [“What Makes Great Boards Great”](#) **Harvard Business, reprinted in Businessweek.com, October 2007**

A short article by a well-known Yale management professor distills the core attributes of board effectiveness. To become great, boards and CEOs must create a climate of trust and candor, foster the willingness to openly question assumptions, ensure individual accountability by giving directors specific tasks that create a connection with the company, and incorporate performance feedback at the board and individual level.

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