Spade Work: How Early Stage Board Directors Add Value

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Note: This article is part of an ongoing series on Board Directors. To learn more about their roles and responsibilities, download this free eBook today [Director's Guidebook: How to be an Effective Board Director in Early Stage Companies] or [purchase our books at Amazon.com].

Image by Scott Barron

Over the past few years, there has been much talk about the importance of investing both financial and human capital into the rapidly expanding entrepreneurial ecosystem. From our perspective, human capital is as important as financial capital in driving the long term success of startup companies. So how do we go about the job of applying human capital to foster this success?

We outline a set of behaviors which have been tried and tested, and which may allow angel investors to be more effective if they choose to take on the responsibility of becoming a startup company board member. We gather in one place some great advice from both our personal experience of sitting on company boards and from some very successful VCs, angel investors, and advisors, including: Jean Hammond, David Hornik, Ed Sim, Mark Suster, Will Herman, Brad Feld, James Geshwiler, Peter Rosenblum, Dave Berkus, Dennis Krause and many of our Launchpad colleagues.

Angel investors are most active with early stage companies, but early stage companies can range anywhere from two people with an idea to a revenue generating business that is growing rapidly. The director's role needs to evolve as a company goes through this evolution.

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Attributes of Great Board Members:

- Temperament — calm and experienced, good perspective
- Independent thinker — question and pushback
- Proactive — involved by initiating regular interaction with CEO
- Committed — willing to put in the time - set out expectations up-front
- Networked — offers help and support by leveraging your personal network
- Strategic — focuses on strategy, not tactics
- Thoughtful & Observant — first to spot issues or notice what is missing
- Informed — Insists on good practices and knows the rules of the road
- Supportive — provides mentorship, skill development and the opportunity to lead

Attributes of Poor Board Members

- Not committed or overly scheduled — Don't put in the time between meetings — prep or help
- Poor listener — Talk too much at meetings
- Lack of attention to what matters — Allow the CEO to run the bank account dry
- Temperament — Get confrontational and destructive with CEO & management team

- Unaware of or ignores best practices — Talk out of school (breach of duty of confidentiality)

There are a number of areas where directors can help their portfolio companies be successful. Legally, directors are required to provide governance and oversight, however the directors of an early-stage company may choose to be more proactive by adding a great deal of business value and advice. No director is able to provide value in all areas, but great directors often help where they can and make introductions to the right resources when they can't.

Recruiting — This is one of the most important ways in which directors can help. Companies are only as good as the collection of entrepreneurs that populate them. So it really matters who you're able to recruit. In an industry where nothing matters more than the people, helping bring in the very best people should be a top priority for all directors.

Fund Raising — Making sure that a company doesn't run out of funds is a key part of the early stage director's job. Fund raising can occupy a CEO full time, and is to the detriment of spending time growing the business. Working with the CEO to hone the investment pitch and introducing potential investors are very important director assignments.

Strategic Advice — Active seed investors have access to a wide range of experiences both from the standpoint of being former/current entrepreneurs and being investors. We are deeply involved in the start-up ecosystem and don't spend our days focused on only one company. Many CEOs get lost in the weeds of their company's day-to-day operations. They need someone with a broader world view who can provide both a sounding board and strategic direction. However, a good director does not micro-manage the business. Remember, it's the CEO's job to run the company.

Making Connections & Getting Initial Customers — One advantage to being a member of a large angel group is the strength of your network. For example, Launchpad members have access to literally thousands of potential partners, investors, analysts, customers, service providers, and employees through our network. Making connections through networks like these will prove invaluable to a portfolio company.

Save Time — Directors can help companies avoid spinning their wheels. Startups all have to find an office, setup payroll, manage their finances, etc. As angel investors, we have connections to the service providers that handle these mundane tasks.

Risk Management — It is the director's responsibility to ensure that controls are in place which are appropriate for each stage of development. Investor Directors should have regular communication with financial/accounting advisors, should have confidence in those advisors, and should review and discuss stage-appropriate controls on a regular basis.

Evaluating the CEO — Directors have a responsibility to ensure that the CEO is up to the task. Where there are concerns, the involved board tries to help develop the CEO – studies show that founder CEOs generally out-perform external candidates. But when it becomes clear that the current CEO objectively cannot do the job, the directors must initiate the process of replacing him/her. Objectivity is important – a CEO should be judged on whether they are effective, not whether their style is the same as the directors evaluating. When replacing a CEO, key traps to avoid: failing to determine what kind of CEO is needed, rushing the process, mistaking charisma for skill, under-estimating the experience value of past failure, and failure to do deep, blind and thorough reference and background checking.

Ensuring a Successful Exit — Directors have a fiduciary responsibility to maximize value for shareholders. Investors invest in startup companies with the promise of eventual liquidity for their otherwise illiquid stock, and the expectation of many shareholders is that the company will achieve an exit by sale of the company in a reasonable time frame. Directors need to make sure that the management team understands the path to an exit that provides maximum returns to all shareholders. Directors should regularly focus on this issue, making sure the process is understood, the level of preparedness is adequate, and the requisite experience is represented at the board or company level.

Practical Tips

- Make sure you know the company's cash position and timeframe for when cash will run out. This information should be communicated to all investors in a timely fashion.

- Encourage your CEO to keep an updated list of connections that the company needs, and review this list on a regular basis.

- Business as usual is not good enough – companies grow and change quickly — the directors' job is to step back and always consider the bigger picture.

Want to learn more about the roles and responsibilities of Directors? Download this free eBook today Director's Guidebook: How to be an Effective Board Director in Early Stage Companies or purchase our books at Amazon.com.