AGILE STARTUP BOARDS

WHYS AND WHATS OF BOARD PRACTICES FOR STARTUPS AND GROWTH COMPANIES

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ISBN 978-952-68511-2-9
ISBN 978-952-68511-3-6 (PDF)

Foreword

Startup boards are active and ever evolving. They are quick paced and often hard pressed in their roller-coaster journey to make it big. I'm glad to see Agile startup boards contribute to the topic.

There's a clear reason **why** we need good startup boards; they help the company succeed and to avoid trouble. Often startup valuations are higher and deals are easier to make with good governance and super-networked board members. A great board can help the startup avoid disasters and navigate the hardships of growth.

As a board member & chairman I have helped save more than one startup over the years. It's not about meetings or bureaucracy. It's about what happens in the daily steam kettle on the way to world domination.

Taneli Tikka, startup entrepreneur & award-winning seasoned board professional

Background

Board work is a misunderstood element in entrepreneurship. It is a great asset, but often seen as an unnecessary burden. That misconception became the starting point of this booklet.

Certainly entrepreneurship and being a CEO is much more than just board work. Founder-CEOs should be leading the venture and inspiring people around them to make the impossible possible.

However, we feel that the founding team and the CEO in particular would benefit greatly from the sort of unbiased coaching the board and its chairman can offer -- even early on.

We believe in the positive effect of startups and want to contribute to their success. We also believe that most startups could grow faster and be more successful, if they had a board of directors.

About this Booklet

This booklet is written in order to create awareness around board work and board practices. It answers the questions **why** (why the board is needed?) and **what** (what the board should do), but **not how** (how the board should work).

We'd like to thank all people who helped in the process and commented on the draft version. Special thanks to Taneli Tikka, Tommi Rasila, Pontus Stråhlman, Taru Lindeman, Veera Uusoksa and Timo Lappi.

p.s. This booklet does not constitute legal advice.

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WHY A BOARD?

HEY, WHY NOT?

“My accountant does the paperwork for me.”
-- Oh no! We all have blind spots, but getting the paperwork done does not protect you from the legal requirements, nor provide you the benefits of a proper board. A good board can:

Help you grow. Good board members have vast experience and can help you to avoid pitfalls and utilize opportunities that you don’t yet see.

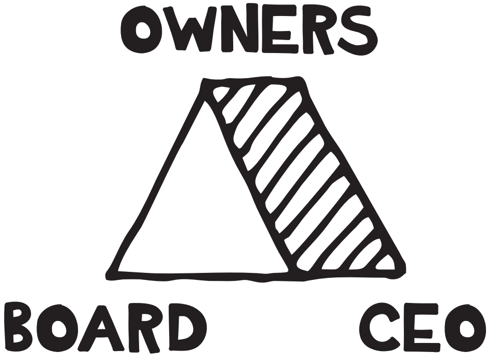
Earn you a **“Get out of jail for free”-card**. Get the necessary bureaucracy right. It can save you from major liabilities.

Give you an outside view. In startups it's difficult to set priorities. The board provides a forum to regularly review your choices and get your priorities straight. That leaves you free to focus on operational topics and execution. Good board members are independent and give solid advice.

Help you stay on track. Even if the founding team still owns 100% of the company, the board can help in setting deadlines and give structure to your efforts. The board follows up on strategic targets, and sets main KPIs together with you.

Gain access to investors and other resources. By choosing great people for your board you gain access to their networks. They know your business and company intimately, and their opinion counts.

Help you form a strategy. The board helps you define a strategy, gives it structure and forces you to explain it. What implicit assumptions have you made? Why?



The foundation of corporate governance is the division of work between the **owners**, the **board** of directors and the **CEO**, as well as the employees assisting the CEO. Company staff uses the authority that the CEO delegates to them.

Owners invest capital into a venture in the hope of earning and interest on their investment. They have the right to look after their interests and so they appoint the board to represent the owners.

Owners use their shareholders' privileges at the ***Extraordinary or Annual General Meeting (AGM)*** which is the highest decision making body in a limited liability company. The most important decision at the the AGM is the selecting the members of the board of directors.

Outside the AGM, the shareholders have quite limited rights and limited access to information about the company. Investors typically require an information flow from the company to the investor that is more regular and more direct than normal owners get.

The board of directors use the authority and trust of the owners to ensure that the will and intent of the owners are taken into account. They have the duty to supervise the operational level, to appoint (and fire) the CEO and to approve the strategy. *The board has the mandate to act on behalf of the company. The members of the board shall only act and work for the company's benefit and they shall not represent any individual shareholder's interest on the company.*

The Chairman of the Board (CoB) leads the board, and acts as a coach for the CEO. The Chairman is key - he runs the board, and has special responsibilities related to the task.

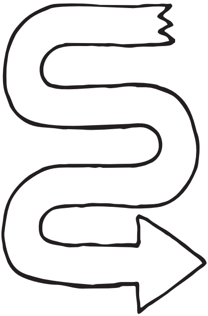
The Chief Executive Officer (CEO, or Managing Director) is responsible for leading the operational day-to-day activities according to the instructions and guidance of the Board. The CEO is specifically responsible for arranging the accounting and the financial affairs of the company.

The CEO may take measures that are unusual or extensive in view of the scope and nature of the activities of the company only if so authorised by the Board - or if it is not possible to wait for a board decision without causing essential harm to the business operations of the company.

Often companies of all sizes use the "one over one" principle for critical decisions such as recruitment. For example, recruiting direct reports of the CEO would be approved by the board. Similar procedures can be documented and defined in shareholder agreements or more lightly in working procedure documentation.

In many startups, the three roles are mixed or overlapping. One of the founders can be a majority shareholder, chairman of the board and CEO at the same time. Some employees of the company might serve on the board. While it is perfectly legal, it's not according to best practices and makes life more complicated, especially while growing rapidly.

In the growth phase the board can be fairly small. Three or four value-adding external board members, including the chairman, plus the CEO attending the meetings. The CEO should not be a member.



THE PATH TO A GREAT BOARD

Boards do not develop into excellence over night. It's a journey. For startups and growth companies high quality board work is required at the latest when Venture Capitalists enter the picture. But it makes sense to start the journey early.

When the company is founded.
Having a board is mandatory by law, but you might want to keep board work to a minimum when starting out. Instead, you can look for informal advisors to fill the competence gaps in the team and to get access to wider networks.

Start with an advisory board
Later on you might form an advisory board to enable interaction between the advisors and to get better insights. The advisory board is informal and the members are not legally responsible for any advice and do not make any decisions. So you are free to work with them as you wish.

Advisors are easier to recruit than board members as there are no legal liabilities involved.

With the advisory board, you can start developing internal practices for real board work. Practice makes perfect.

Funded startup: when investors join the board.
The composition and dynamics of the board changes when the first investors join the board. Often the chairman is no longer from the founding team and the investors require changes to approval practices (e.g. regarding new hires and leadership compensation).

VC funded startups (growth companies). As VCs invest in the company they typically enforce professional board practices on their portfolio companies. Ideally you have implemented and practiced them yourself before this - otherwise you might be unpleasantly surprised.

Proper management is often a requirement for getting an investment. Having your paperwork in order gives an impression of a professional team.

Having external board members adds muscle to any negotiations with investors. When your paperwork is in order it is less likely that deals fail because of showstoppers found in due diligence. The often painfully long due diligence process is a lot faster, runs more smoothly and costs less in legal fees if your board work is in top shape.

Tanelis Tips for Meetings

Taneli Tikka provided some advice on how to run meetings. This is a good example of what to expect from experienced board member:

Value-at-stake priority. Arrange your agenda by value-at-stake priority. Value can either be a big positive (customer win, M&A case), or negative (sued for 100M€). Start with the topics with the largest priority.

Separate decisions from discussions. Meetings are for decisions. Discussion and information sharing is essential, but should happen between meetings.

Every meeting should touch on 3 categories:
1) *Strategy & Future*. Plans from now to end game.
2) *Leadership & Culture*. Are all people on-board?
3) *Reporting the past*. Numbers, operations, KPI.

WHAT IS THE IDEAL BOARD MEMBER LIKE?

A good board member is someone that will be valuable and has at least some of the following properties:

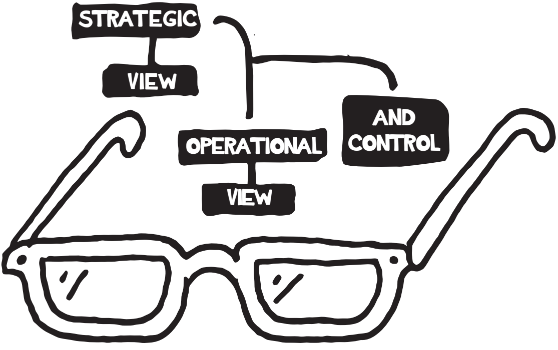
- Relevant experience, networks and ability
- Honesty and integrity
- Courage to speak up
- Time and energy to commit

In the best case, the board member is also independent. This means that he has no other ties to the company besides serving on the board. So no friends, family or employees.

Investors and professional board members are considered independent despite their obvious financial interest.

Ideally, the board members have professionally diverse and complementing backgrounds. That will bring different points of view into the board discussions. On the other hand, they have to have mutual trust and respect in order to be able to act as a team.

The ideal chairman (or woman!)
The chairman leads the board and the CEO leads the company. Thereby the single most important task of the chairman is cooperating with the CEO and getting the board to work together. If the chairman cannot build an environment where the board can freely discuss different views and ideas, the added value of the board will not be worth the time spent in board meetings.



Board work can be split into three categories.

Strategic view: How does the company fulfil the owners' goals in the long term?

The owners state what they want their investment to produce in an ownership strategy. Often this is not explicit, though it deserves to be.

The board, in cooperation with the CEO, creates a strategy that produces the outcome the owners have defined.

A good board understands and verifies strategic assumptions, follows up on execution and coaches the executive team regularly.

In startups and growth companies, the board tends to participate in activities that could be regarded as operational in more established companies. But helping the company get the first, big customer can indeed be a strategic achievement.

Operational view: working efficiently

Boards do not only look into the future (strategy) and at the past (control), but often focus a fair amount of energy on the present. Operationally, boards follow up on the activities listed in the strategy and continue to help the CEO develop the business further. For this purpose the board needs information that it gets through reports by the CEO.

In startups and growth companies, the focus should be on doing the least amount of bureaucracy and reporting to avoid legal risks, but still gain the benefits of a great board. This means running the meetings efficiently, documenting everything as briefly as possible and covering at least the critical topics.

For the CEO, the operational view means that he has someone to talk to when considering different actions, choices and decisions.

Control: The basics of corporate governance.

The board does not represent any one shareholder. The board works and acts for the benefit of the company as a whole.

The board needs to ensure that the company follows all the existing laws, rules and regulations. For this purpose, the board has to have sufficient insight into the administration to be able to say that the company is well managed.

The board is responsible to follow the equity ratio of the balance sheet. Therefore the board has obligation to take actions to ensure that there is enough equity and liquidity in the company in all circumstances now and in the future.

Startups and growth companies that don't pay attention to administrative control can run into issues during audit or a due diligence process. Mistakes are costly to fix later on. The biggest cost may be that a deal (investment, acquisition) is lost due to administrative or legal unclarities.

The board has the burden of proving that it has worked diligently. If needed, the board needs to present evidence in court that it made the decisions it did professionally and with care. Documenting the decisions and how they were made is important to achieve that requirement.

STRAT...

STRATEGY?

Strategy. It´s a big and hairy word that carries a lot of different meanings. For any company, and a startup in particular, it is best to keep anything related to the strategy very simple.

A simple strategy is easy to **understand** and change, easy to **communicate** and easy to **follow-up** on.

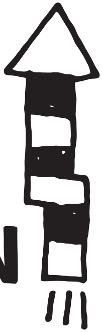
The reason you need a strategy is that you need to set a common direction to work towards. In any normal work day, you will do tens or hundreds of small decisions. The strategy helps you make those small decisions by having something to lean back on.

Creating a strategy is not straightforward, as it essentially requires you to guess about the future. This is where having a board is extremely valuable.

Experienced board members with diverse backgrounds can help you see alternatives and pitfalls that you could not see on your own. They can help you re-evaluate the strategy and avoid the blindness that being close to the business always brings. And they can help to keep you on track by reminding you of the strategy and alerting you when you are steering off course.

The strategy outlines what investors - angels or VCs - actually invest in. But the strategy of a startup is more of a working paper than a final document. Make sure you are ready to pivot, but do it with the help of the board.

SET THE DIRECTION



The point of the strategy is to define the direction of the company.

The owners' strategy sets the boundaries for the company strategy, risk capacity, ambition levels, limitations of funding options and so on.

There are quite a few methodologies to define a strategy. You could say it is a flow from vision to mission to strategy. The vision is how you understand the future in a broad manner, including the business environment you work in.

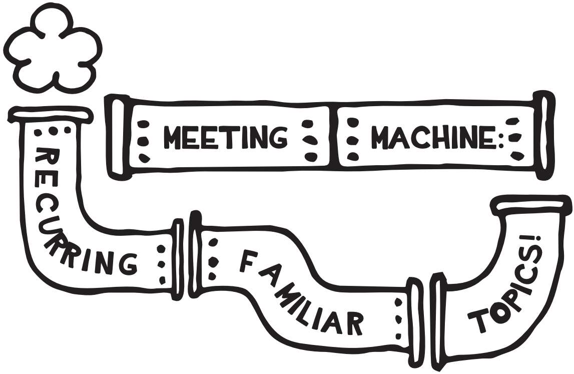
The mission defines what part the company plays in the larger vision of the future.

The strategy defines measurable steps to achieving the mission. Key Performance Indicators (KPI's) are used to measure the progress.

While the vision and mission are fairly stable, the strategy is revisited frequently in the board of a startup. Startups are rarely stable enough for strategy cycles lasting even a year.

Creating a strategy is certainly not enough: you need to be able to execute it - otherwise the strategy is useless. The board follows up on the progress through KPIs, and makes sure that the CEO and rest of the team has everything they need to succeed.

The board keeps track of the assumptions that the strategy is based upon. If they prove incorrect, you need to redo the strategy.



We all want efficient meetings. To get that, figure out what the topics and the theme of each meeting is in advance.

Especially in startups, there will be topics requiring immediate decision and action. But to get most out of your board, you have to find time for the strategically important topics..

Certain topics like approving previous meeting minutes and the CEO status briefing are a part of each meeting. The result is lists of action points decisions that you use to follow up.

Some companies track “must win battles” in each meeting.

There is a rhythm to the administration of a company. The rhythm repeats itself from year to year. For example, each spring you prepare and arrange the Annual General Meeting.

Other topics such as revisiting strategy, re-evaluating strategic assumptions and risk management are typically covered in 1-year intervals. In startup and growth companies it makes sense to do it more frequently - and in a more agile way.

If you use a tool for managing your board work, you can automate this with a few clicks and significantly decrease the amount of clerical work.

MY COMPANY RUNS LIKE CLOCKWORK!

Operationally, the board needs to ensure that at least following issues are covered.

Meetings. Nobody likes bad, unproductive meetings. Don't waste time, plan the meetings properly (what-when-where-how) by preparing a good agenda and writing proper minutes.

Decisions. The most important result of your meetings are decisions. Decisions deserve to be documented, communicated to the team and followed up on. Record the process and options for each decision for legal reasons.

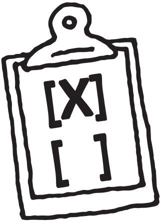
Correct decision maker. Be clear about what decisions can be made by whom.

- *Approving a strategy or a budget?* Board decision.
- *Negotiating M&A?* Definitely a board decision.
- *Investments?* Board decision, unless it's small.
- *Recruitment?* One-over-one principle.
- *A new car for the CEO?* Hmm...

Paperwork constantly up-to-date. Keeping your paperwork up to date does not only save you big bucks, but is also saves time. For example, when an investor wants to do a due diligence check you can easily end up using weeks and armies of lawyers to find and rewrite financial documents, agreements, and meeting minutes.

You'll benefit from continuously working, communicating, and discussing issues together, not only in board meetings.

REPORTING IS:



NECESSARY
COMPLICATED

Reporting is a necessity. Without knowledge of the situation of the company, the decisions of the board are based on feelings, not facts. The board is responsible for the oversight of the company and cannot do its job unless the members have adequate information.

Reporting should be ***minimized,*** then ***automated*** and finally ***delegated***. The board needs to get a written status brief from the CEO, plus a number of vital metrics, for each board meeting.

The status brief usually includes the overall view of relevant activities and events since the last meeting. Optimally, the report would include a short text on any developments related to financial, customer, process and HR issues.

Metrics - or KPIs - depend heavily on the type and phase of the company. Choosing bad metrics lead to horrendous decisions.

Generally, the metrics fall into two (somewhat overlapping) categories:

(a) **Financial metrics** - how do we know the company is solvent at next board meeting?

(b) **Strategic metrics** - how do we know the company is progressing towards the strategically important objectives?

The metrics need to be adjusted to the stage of the business and the business domain of the company. The metrics cannot change every meeting, otherwise you won't be able to recognize trends.

1,2,3,4...

SHOW ME SOME NUMBERS PLEASE!

Financial metrics are easy to compile and they help to distinguish facts from assumptions. Metrics that are too complex may cause the board to focus on the wrong topics.

A good set of financial metrics are:

- *Run-rate*: How much money does the company use per month? (Salaries, rent, ..)
- *Runway*: How many months does the company have before it runs out of money?
- *Quick ratio*: Can we pay what we have promised to pay in the future?
- *Income*: how much money is coming in and is that amount growing?

Strategic metrics measure how the company is progressing towards strategic (growth) goals, i.e. the fundamentals of why the startup company qualifies as a growth venture. For example, in a SaaS business, most startups track the number of new customers and churn.

Many startups are familiar with the Business Model Canvas (BMC) and the board can use that as a basis for the discussion about strategic goals. If a certain type of user is expected as the core customer, how do we confirm that with metrics? Or how can we confirm the choice of sales channels?

For some startups the business is based on the assumption of using an engine of growth (Eric Ries). In that case the selected engine will define most fruitful metrics to follow-up.

DIGITAL BOARDS

Board work is sometimes seen as additional bureaucracy or “a lot of paperwork” resulting from practices that have been in use since the 17th century. Using email, Whatsapp and file sharing apps help, but you should demand more.

Digital boards remove administrative burden and helps to keep the focus on the strategic content of the meetings-- things that actually provide value to the company -- instead of administrative details.

Meeting once a month is not agile enough for the rapid pace of a startup. Getting opinions and decisions quickly is important. Using a collaboration platform can transform board work from a slow and bureaucratic process to a dynamic, agile and rapid process.

Often, board meetings are used to discuss a burning issue that requires input and a decision straight away. If the CEO cannot get input and decisions quickly enough, the risk is that he needs to act without the advice of the board. After a few iterations, the CEO will not bother asking the board at all, reducing the board to just approving decisions that have already been implemented.

Preparing an issue for discussion and then collaborating using an online tool solves this problem. Getting the wording of the decisions exactly right can be critical from a legal point of view. Using an online tool especially designed for this purpose will save you a lot of time and agony while making sure that your back is covered.

OBEY THE LAW

The law does have an effect on startups, startup entrepreneurs and board members alike. While many issues can be adequately resolved with proper legal assistance later on, there are ample examples to the opposite.

Failing to write proper shareholder agreements and employment contracts or making silly agreements early on have caused real problems for startups. Legal issues are a big, red flag to any potential investor, partner or employee.

With respect to board practices, the liabilities are typically derived from contractual obligations, liability for damages, and criminal law.

The most important principles from the Companies Act are:

Equality. "All shares shall carry the same rights in the company. The company shall not make decisions or take other measures that are conducive to conferring an undue benefit to a shareholder or another person at the expense of the company or another shareholder."

Loyalty. "The management shall act with due care and promote the interests of the company, resulting in profits to owners."

BE FAIR

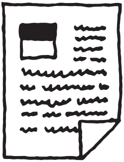
Pay **special attention** to topics and situations where the **interests of board members, investors or founders might conflict** with the company, or all the owners. Board members always represent all the shareholders and the company.

The board needs to ensure that all shareholders - despite the share of ownership - are equally taken into account when decisions are made. Decisions that provide benefit to some shareholders at the cost of other shareholders are illegal. It is possible to deviate from the above to some extent in the *Articles of Association*.

Making sure you are not breaking the law is one area in which your board and your advisors can be of great assistance. If you can get someone who is experienced in administrative matters and corporate law on your board, things will go much smoother.

Another way is getting a really good accountant and ask them to help you. You can also use a tool that helps you keep everything together and that points out what you need to do and when.

If you are not well-versed in corporate law, you need to get a short primer. *Here are the areas that you should at least be aware of*: Contract law, Employment law, Companies Act and any laws that are specific to your business and that regulate how you should operate.



ESSENTIAL DOCUMENTS

“The Board of Directors shall see to the administration of the company and the appropriate organisation of its operations (general competence). The Board of Directors shall be responsible for the appropriate arrangement of the control of the company accounts and finances.” (Limited Liability Companies Act)

In practice, the board has general authority over the company, while owners have the right to choose the board. The CEO has the authority to execute the orders and intent of the board.

There are few ways for the owners and the management to make things more clear and explicit:

The Articles of Association is a public and mandatory document defining basic characteristics of the company. It is a binding document (for all and future shareholders), and "no decision shall be acted upon against it". Carrying out decisions against the Articles of Association lead to legal risks and eventually liabilities.

The Owners' strategy is optional, but valuable. If everybody on the board and in the core team know what the owners want, moving quickly is much easier. If you talk about the hard stuff up front, you'll have less headaches later.

Shareholder agreements are very versatile documents that can define things ranging from corporate governance to board composition to minority rights and distribution of funds among shareholders. As a rule the board should be aware of all shareholder agreements.

Corporate governance (CG) models are recommended, but more applicable to growth companies. CG models can be found online and your local Chamber of Commerce can help.

Working procedures specifies the common understanding of how operational issues with respect to board practices are carried out and by whom.

Tanelis tips for Leadership and Culture

Often softer issues such as leadership and culture get run over by urgent operational topics. However, the valuation is based on people and their drive, and therefore these topics should be central on the board agenda.

The board should be interested in how the leadership evolves - not only hiring, competences or succession planning. In some teams human interaction in terms of enthusiasm, motivation, humor, flat culture, no-tabu communications, and collegial learning are regularly assessed.

When the people are motivated and moving forward, the board needs to ensure that the company mission and goals are known throughout the company and that the team members know what is expected of them. Are individual goals realistic? Do people feel accountable?

THE END

In the end, board work for a startup is about giving you support and help you to grow even faster. Once you have the basics in place, it is one of the cheapest and easiest ways of accelerating growth.

Getting the legal parts right and your paperwork in order enables growth as well. Not having your affairs in order will stop your growth, as you will have a hard time getting access to funds and people.

Good luck to you and your board!
- Teemu Polo and Rasmus Nybergh

Further reading

We stand on the shoulders of the giants.
We have learned a lot from reading the books listed below, using many of them as background for this booklet. We strongly recommend the for further reading on the topics. Sorry, most of them are in Finnish.

Hyvä Hallitustyö: Erma, Rasila & Virtanen. Kauppakamari.

Hallituksen puheenjohtajan opas: Virtanen, Miesmäki, Mäntylä & Ollila. Kauppakamari.

Vallan tasapaino: Lainema & Haapanen. Boardman

Venture-to-Capital: Tommi Rasila. Tampere univ. of Tech.

Hyvä, paha omistaja: Lainema. Boardman.

Strateginen hallitus: Lainema. Boardman.

Hallitus vai toimitusjohtaja: Tiihonen. Boardman.

Startup-juridiikan käsikirja: Honkinen, Innanen, et al. Alma.

Sukset ristissä: Ristikangas & Junkkari. Kauppakamari.

Startup boards: Brad Feld et al.

We would like to acknowledge Boardman-FiBAN initiative “Kaaoksesta Kasvuun” as an inspiration.

Credits & Acknowledgements

Rasmus Nybergh is a serial entrepreneur with a passion towards developing people, sales, organizations and board work. He has acted as board chairman and board member in multiple organizations over the last two decades. He has coached hundreds of organizations and leaders. He is co-author of the Software companies guide to funding published in 2009

Rasmus emphasizes that the value of the board is immense, if only the CEO and his team are willing to use that power.

Rasmus currently runs a startup called Kuveno, which is uniquely positioned to revolutionize the way corporate administration and board work has been done for centuries.

Teemu Polo has extensive experience from different angles of startups over a decade. After serving as a senior business developer at Nokia he attended a “startup university” of a multinational growth company.

Teemu also bootstrapped Starttaamo, the startup hub of Oulu. Recently, he worked two years as the lead of Helsinki City startup activities. Teemu has been coaching hundreds of startups over the years and is a frequent face on startup juries.

Teemu has been passionate about developing board practices since his own time as an entrepreneur, and has spent time on different board work development activities, including ramping up a Board Observer service.

Teemu holds M.Sc. (SW) and eMBA (strategy) and is a certified Approved Board Member (ABM).

Partners

The **Boardman2020** network focuses on developing board performance and entrepreneurship in Finnish growth companies. The members of B2020 share experiences and practices of their business success' and challenges, and aim to develop competence and added value through board work. Boardman 2020 is a not-for-profit organization operating under the umbrella of its mother company, Boardman Oy.

FiBAN is a Finnish, national, non-profit association of private investors that aims to improve the possibilities for private persons to invest in unlisted potential growth companies. The association's work is based on the activity by private investors and cooperates with networks supporting high-growth goals.

Kasvu Open is the largest project for sparring eager to grow companies with growth experts in Finland. Throughout the competition every company eager to grow has an opportunity to present their own growth plan to a great number of experts free of charge. As a result, companies have a clarified growth plan, enlarged network of the best possible growth venture experts and investors in the country.

NewCo Helsinki is a centre of entrepreneurship support operated by City of Helsinki Department of Economic Development and Helsingin Uusyrityskeskus ry. NewCo helps 1500 entrepreneurs each year to establish their business in the Helsinki region.

BOARDMAN
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