# How Can You Create Value as a Board Director?

## Playbook for Board Directors

by Hristo Manov, Daniel Tomov, Michael Schuster, Svetozar Georgiev and Todor Breshkov

Storyteller Consultant – **Alexei Lazarov**

Graphic Designer – **Zhaklin Smilkova**



# Get started here!

# Table of Contents

(click on your desired topic)




## Executive Summary

**05** **Executive Summary**

## Chapter 1: **Understanding Board Responsibilities and Governance**

**07** **Why Even Have a Board?**

**08** **Fiduciary Duties:** Explores the Duty of Care and Duty of Loyalty, including a deep dive into the responsibilities board directors hold towards the company

**13** **Role and Responsibilities of the Board:** Clarifies the priorities and responsibilities of the board, details the main functions and operating principles of the board

## Chapter 2: **Strategic Planning and Execution Oversight**

**23** Discusses the collaborative process between the board and executive management in setting goals, formulating strategies, approving budgets, and overseeing progress

## Chapter 3: **Board and CEO Succession and Development**

**34** **Leading the CEO:** Covers the nuances of setting objectives for, assessing, and developing the CEO, including succession planning and CEO transitions

**46** **Developing Board Leadership:** Explores the evolution of board responsibilities as the company grows, including how to adapt board leadership to meet increasing complexities

## Chapter 4: **Improving Board Dynamics and Decision-Making**

**54** **Board Culture and Dynamics:** Discusses the culture within the boardroom, focusing on effective dialogue facilitation and creating an environment of trust, respect, and healthy conflict

**71** **Decision-Making Models:** Introduces models and processes for overcoming biases and making balanced and well considered decisions to drive successful outcomes

## Chapter 5: **Effective Board Meetings and Fair Process Leadership**

**80** **Conducting Effective Meetings:** Offers guidelines for preparing and facilitating board meetings that are focused and productive, including creating effective board packs and taking actionable notes

**92** **Fair Process Leadership:** Addresses how boards can implement fair process principles to ensure better decision-making, and a stronger board and executive management engagement, commitment and accountability

## This is Only the Beginning...

# Executive Summary

"How Can You Create Value as a Board Director" is a practical playbook by board directors for board directors at start-ups and scale-ups. You might lack training in fulfilling your board responsibilities or have limited experience. You are a founder, a VC or PE partner, an independent director, or even the founder CEO. Reading this document and applying the learnings will help you in two ways:

- Assist management in creating value.
- Protect value by avoiding mistakes and value destruction.

Even if you are an experienced board director, but have not invested in professional board education, this playbook will significantly benefit you. You will become much better at serving your organization in the following aspects:

1. Understand the role and responsibilities of a board director and focus on the priorities of a board.
2. Effectively contribute to strategic planning and executive management oversight.
3. Navigate professionally the dynamics of a board meeting and make better decisions.
4. Intentionally manage CEO performance and professionally plan the succession and development of your CEO and board.
5. Learn how to plan, prepare for, and conduct effective board meetings using practical tools and best practices.

The playbook features practical exercises, the latest know-how, and actionable advice, tips, and best practices. It is designed to equip you with the knowledge and the tools to contribute successfully to your company's sustainable growth. Applying this playbook will transform your approach from merely participating in board meetings to actively steering the company towards its long-terms goals.

We have included relevant real-life stories and **uncensored** input from Founder CEOs to bring the playbook to life... Enjoy!

Chapter 1

# Understanding Board Responsibilities and Governance

# Why have a board?

Before diving into the intricacies of building a world-class board, let's pause and ask: 'Why even have a board?'. While it seems to be a given, especially for venture funded companies, few founders or board members truly consider the actual value a board can and should provide. The answer is very specific to the type of company, the founder(s) and the challenge that the business needs to overcome. One possible answer is that the board is the only place where founders can navigate the inherent complexity of building a startup. They do so by having an ongoing discussion with involved people that share incentives but are not fully immersed in the day-to-day operations. As humans, we create reality by sharing with others, hence the board is a way of creating reality. If this perspective seems too abstract, consider this: the board is the place where founders can work *on* the company instead of *in* the company. It's an opportunity to take a step back and look at the bigger picture once a quarter, gaining a sense of accomplishment and future direction. And it is a Board Member’s opportunity to provide this perspective.

Ask yourself the question: “What is your "why" for the board?” Write down the answer to understand your perspective better.

# Fiduciary Duties

## Who is your master?

As a board director, you do not work for, or participate in, or sit on a board. You serve the organization the board governs. As a board director [1], you owe fiduciary duties to the company. The origin of the word fiduciary is from the Latin “Fidus”, which means Trust or Faith. Just as you entrust your money to the bank, the owners entrust the governance of their business to a board of directors. You, as a board director, are obligated to act in the best interests of another party – in this case the shareholders and other stakeholders. Here starts the confusion. As you have probably already experienced, the usual suspects on the board of a start-up or scale-up are the founders, representatives of venture capital funds, and possibly some significant investors. One might argue that their interests converge, and they all serve the interests of the shareholders. However, the interests of different shareholders often diverge. For example, the founders’ mission might be to create the leading company in their vertical, and the VC fund’s objective might be to return the initial investment 10x times in 5 years. Clearly this will entail different interests and decisions at times. Therefore, it is crucial to understand whom you serve. **The job of a board director is to serve the long-term interests of the company.** This is measured by increasing the value of the company over time. So, pun intended, boards are interested more in the SHARE than the SHAREholder.

This is well defined by the fiduciary duties of a board, which are often governed by the common and commercial laws in most countries. The fiduciary duty mandates that a person does what is right, no matter the circumstances.

[1] In this playbook Board Director = Board Member, that is participants in a board of directors.

# What are your fiduciary duties?

Here we will get you familiar with the two most important fiduciary duties – the duty of Care and the duty of Loyalty.

## Duty of Care

- Directors must inform themselves of all material information reasonably available to them and relevant to their decisions.
- Directors are entitled to rely on the advice of experts and management, but reliance must be in good faith and reasonable.
- Directors must take an active and direct role in deliberations and may delegate only certain decision-making responsibilities.

## Duty of Loyalty

- Directors must act in good faith in the best interests of the Company and must not use their positions to obtain improper personal benefits (for themselves or others).

If your actions as a board director are led by the above principles, you will be a good director. There are some more fiduciary duties, and here we list the four most relevant to your role:

- **Duty of Obedience** - directors abide by all applicable laws and regulations.
- **Duty of Confidentiality** - directors keep certain type of information confidential.
- **Duty of Prudence** - be aware of risks and exercise caution when making decisions; approve expenditures wisely.
- **Duty to Disclose** - if directors have information that would influence their decisions or impact the decisions of other board members, they have a duty to make that information known.

So far so good – everything seems pretty clear. Unfortunately, life is always messier. Although the above principles are universally accepted, most board directors serve different "masters" in their heads. VCs representatives prioritize their VC fund, co-founders might focus on their team or their customers and so on. Many heated discussions and conflicts on boards arise because directors have different priorities, even though everyone assumes they are acting in the best long-term interests of the company. Here is how we can fix this – discuss it openly with your fellow directors. Below I will present an example exercise from Professor Tim Rowley[2].

[2] Professor Tim Rowley is the Professor of Strategy & Organizations, at University of Toronto. He is also Director of the Clarkson Centre for Board Effectiveness and co-director of the Insead' International Directors' Programme.

# Real Life Story #1

## The Dreaded Down Round

**By Todor Breshkov**

### Background

The company provides an integrated hardware/software solution, bundled in a hardware as a service (HaaS) offering to its SMEs customers. They benefitted from the buoyant funding environment in 2020 and 2021 and raised more than USD 20m from tier 1 VC funds from the UK and the US. Additional venture debt financing was planned to finance the hardware R&D and manufacturing.

The company had a strong early product-market fit (PMF) and they quickly sold out everything they were able to manufacture and deliver to customers, with practically no churn. The business grew more than 300% YoY.

Then a 9 months' delay in the release of the new version of the hardware part of the product occurred. This led to several problems in parallel:

1. Growth stopped due to lack of sales – they stopped manufacturing the old hardware and were not selling the new unreleased one.
2. Significant funds were invested in inventory for the new hardware: The assumption was that with great PMF, scaling would be fast.
3. The cash burn-rate accelerated.

Due to all of the above factors, when the new product was finally released, the company had cash only for 6 months of runway.

At the time the board consisted of 2 founders and 4 investors, totaling 6 people. Nominally the investors controlled the board. There were a few observers with no voting rights, who advised the board when needed on various topics. The macro environment rapidly changed – VC activity dried up (end of 2022 and 2023), valuation multiples were 3-4 times lower than before, growth investors disappeared from the market.

There were no investors eager to invest or even provide bridge financing to such companies. The management (co-founders) were trying to fundraise and believed there would be someone to invest. After the release of the new product the company again grew 300% YoY, and they could not believe that the macro changes affected the funding environment so drastically.

The investor directors decided that hard, fast, and painful decisions were needed. They informed the board that the priority is saving the company by fundraising at whatever terms possible. The investors shared with the co-founders their willingness to cut the valuation of the company by 50% (this is called a down-round). The VC representatives agreed that the venture funds would part-take in the financial hit. They clearly accepted the lower valuation of their shares and committed to investing fresh money – to demonstrate confidence and support for the management. In this way it would be easier for the founders to find external investors.

It was a painful decision for the founders. The employees also suffered as part of the share option pool went down to zero. Investors lost significant economic value. Most importantly, all stakeholders were aligned, and the company raised fresh financing successfully.

## Analysis

This case is a good example of prioritizing the long-term interest of the company over the private interests of the investors or shareholders – in other words fulfilling your fiduciary duty as a board. The common goal of all board directors should be the business progress and value creation in the company. When times are tough there is an inherent conflict of interest between individual board members and the company. Fiduciary duty should always prevail.

## Learnings

- **Prioritize the company's long-term viability:** Ensuring the company remains a going concern is the board's key objective.
- **Align diverse interests:** During both good and bad times, aligning the diverse interests of all stakeholders is crucial. This alignment ensures the board remains functional and that the right decisions are made.

## Discuss openly to whom you owe duty as directors at your board

It is worthwhile to play a small game every time a board is created or reorganized. The idea is to understand the priorities of each director. You will probably not be able to align these priorities completely. It is important to understand where each board director comes from, who their 'master' is, and what their priority is. Then, their opinions and decisions (or how they vote) will seem much more logical to you. As a result, the board will be able to have healthy conflicts and to transparently argue various topics from every angle – which is why you need a board in the first place. So, without much further ado, here is what you need to do.

1. Plan time for a quality discussion at the board. The topic is: To Whom Are You Accountable as a Director?
2. You need an experienced moderator. Ideally this is the board chair, who should always share their opinion last to avoid anchoring the other directors.
3. Distribute the following form[3] to all participants and ask them to rank individually who is most important as a stakeholder.

### To whom are you accountable as a Director?

Rank 1-9 - 1 being the “most important”

| | | | |
|---|---|---|---|
| Customers | _____ | Myself | _____ |
| The Organization | _____ | The Community | _____ |
| Shareholders | _____ | Other Directors | _____ |
| Suppliers | _____ | Government | _____ |
| Employees | _____ | Others | _____ |

[3] Courtesy Professor Tim Rowley – co-director of the International Directors’ Programme at INSEAD.

4. Share openly the results and facilitate a group conversation:
    a. Ask the directors to share their top 3 stakeholders.
    b. Group common answers.
    c. Discuss all outliers and differences.
    d. Try and align the board on the top 3 stakeholders the board serves.
5. Include the outcome in the official minutes of the meeting.

If you have this conversation from time to time, it will help you clarify all positions and the reality in the board room. It will also enable you to do your job as a director better.

# Role and Responsibilities of the Board

## What is the modus operandi of the board?

Directors need to make important decisions within limited time frames and with insufficient information. These are the worst decision-making conditions. We spend significantly less time studying and analyzing the business of the company than the executive management. Boards operate with an information gap by design. We need to make every moment and every decision count. This is the biggest reason why we need to be prepared and intentional in everything we do as directors.

At the same time, it is practically guaranteed that you will make mistakes. Even the best processes, the greatest preparation and the most effective discussions can produce the wrong decision. It is good practice to lead a board with curiosity and reflection. Even if the board or the executive team messes up, we need to learn from these experiences at every iteration and get better over time. How to learn with every step is covered in Chapter 5 under Fair Process Leadership.

To create an environment conducive to candid and healthy debates, where people transparently share their opinions without feeling dangerously vulnerable, we as a board need to strive to create a *safe space* which promotes learning[4]. This is a place where it is acceptable to be vulnerable, you can honestly speak your mind without negative consequences. In a *learning zone* (see the graph below) there is judgment of ideas, proposals, frameworks, conclusions, but never of people or the person putting the idea forward. In the learning zone every story matters – this is the place to test and challenge various hypothesis. We as board directors need to lower the cost of speaking up and increase the cost of not engaging. When we engage, we need to be specific and own our statements. Accountability in this context means keeping our commitments and making sure our peers own up to their commitments too. As leaders on the company board, it is our duty to be deeply supportive while being meaningfully demanding.




Effective boards deal with grey areas, conflicts of interest, and difficult ambiguous decisions. If a decision is clean cut and the business case has an obvious conclusion, the management will make the decision on their own. Judging by our own experience and after hundreds of conversations with founders one conclusion is clear – the biggest value of a good board is helping management to ***avoid making costly mistakes.*** To achieve this, the board must be effective. We will never be able to avoid all mistakes. But even ducking some risky missteps is a great achievement. Here we will deal with several practical ways to achieve this.

[4] Courtesy of Professor Amy Edmonson at Harvard Business School.

Effective directors follow the operating principle “Nose in, hands out”. As professor Tim Rowley vividly describes, a good director assumes the posture of a ski jumper when dealing with a company. Your body, arms and legs are streamlined behind you. Only your eyes, nose, and ears are pointed forward like an arrow. Only your head peaks into the “tent” of the business to understand, question, analyze, discuss, and help management reach a better decision. Board directors do not execute (this only happens in rare exceptions which we shall discuss later in this playbook). The CEO, together with the executive management team, is responsible for running the company and its performance. When required, the CEO will think, debate, and decide with the board, but they will only implement with management. The executive management needs to support the board by providing good analysis and proposals so that the board can carry out its ultimate responsibility for the long-term success of the company.

There are three notable exceptions from the above principles:

- When the board needs to replace the CEO. Then the board deliberates, plans, carries out the executive search, and diligently goes through the selection process until the right candidate is recruited as a CEO.
- Boards set the executive (C-level) compensation and pay for performance frameworks. This is especially important when the company starts scaling and senior executives are recruited from outside. For example, if the new CRO comes in with a higher package than the CEO, the board needs to manage this potential conflict both short and long term.
- Board directors often act as a valuable resource to the management of early-stage companies (pre-seed and seed stage, product-market fit stage, Series A, and early scaling). You may support your company with equity raising, talent recruitment, mentoring key leaders, leveraging your network for potential customers and other valuable introductions. Sometimes you may even be involved in hands-on advisory activities on how to build a specific team, system, process, or strategy. But even in this role you **will not implement.** You will be closer to the action, but execution needs to be done by management. Speaking from experience, ensure that your involvement is clearly agreed with management.

## What are the priorities of the board?

Here is a simple chart that maps out what boards need to deal with and deliver. Initially, when the company is in its early stage, you might focus on the tasks described in this table.

### Tasks and Focus

- Guide strategy
- Monitor financials
- Manage key people
- Integrate risks (deal with crisis)

### Board Value

- Identify blind spots
- Act as a sounding board
- Manage conflicts of interest
- Ensure compliance and reporting

### Obstacles to address

- Information gap
- Team dynamics (in the board room)
- Time squeeze

### Outcome

- Assist management to create value
- Protect value – avoid mistakes and value destruction

Let's go into a bit more detail on the most important priorities of the board. We believe in simplicity, so let's list your three key responsibilities as a board director:

1. **Setting general policies and strategic direction** – work with executive management to co-create the strategy for the business. They will lead, and you will participate and steer the finally agreed strategy. This is typically an annual process (sometimes more frequent when the business needs to adapt quickly or pivot).
2. **Shaping the company's framework for accountability, control, and risk management** – the board acts as the steward of the company. Ensure that the company reports financial results truthfully, that it adheres to its policies and external regulations and requirements. Create a forum and framework for discussing and assessing all types of business risks and managing these proactively. A small share of the issues the board deals with are ethics and compliance, cybersecurity, ESG, regulations.
3. **Selecting, appointing, and overseeing the performance and compensation of the CEO and key managers** – this is arguably the most important role of the board. Human talent makes or breaks a company. The board must continually assess and ensure the right CEO and executive team are leading the company. If this is the case, chances are the venture will succeed. If not, you need to be really lucky not to go into bankruptcy – or at least the company will deliver a significantly less exciting return on invested capital. This is a very emotional, difficult, and never-ending task. For example, a CEO-founder may be ideal for the company until it starts scaling internationally, at which point they may no longer be suitable. As a board member you need to intervene in such situations. We will cover this critical topic in detail in a later chapter...

As the business grows and complexity increases exponentially, the board needs to evolve. You will have significantly more topics on your table. Here is an example of what the board agenda[5] might look like after you have started scaling (probably after Series B or C):

[5]Courtesy of Professor Jordi Canals. Mr. Canals is a professor of strategic management and the holder of Fundación IESE Chair in Corporate Governance. He was Dean of IESE from 2001 through 2016. Prof. Canals is a recognized scholar in the areas of corporate strategy, corporate governance, and globalization.

| | Area of Governance | Short Term | Long Term |
|---|---|---|---|
| 1 | **Strategy** | Strategic positioning<br>Implementation | New capabilities<br>Business portfolio<br>Strategic investments |
| 2 | **People and Leadership Development** | Talent pool<br>Recruitment and turnover<br>Work atmosphere (engagement) | Mission and values<br>Leadership development<br>Commitment |
| 3 | **CEO** | CEO Assessment | Leadership development<br>Succession planning |
| 4 | **Financial Performance** | Liquidity, ROE, ROI<br>Risk management | Value creation<br>Capital markets |
| 5 | **Customers and Innovation** | Customers satisfaction<br>Efficient Resource Allocation | Growth Boosters<br>Customer loyalty |
| 6 | **Institutional Development** | Stakeholder relations | Becoming a respected institution |
| 7 | **Board Development** | Board self-assessment and development | Board composition<br>Succession planning |

# CEO Point of View #1

Name:
**Trayan Trayanov**

Company name:
**Teach for Bulgaria (Заедно в час)**

## Major Challenges with the Board

- Board directors let the CEO drive the board's agenda and only see themselves as a sounding board.
- The board is in perpetual "cheerleader" mode, failing to anticipate the challenging questions that investors/ stakeholders ask.
- The board is in perpetual "devil's advocate" or "auditor" mode, keeping the leadership on the defensive and diluting focus from agreed-upon objectives.
- The board focuses on strategy execution, neglecting board development.
- Board directors under-prepare and free-style during meetings.

## Recommendations and Expectations to the Board

- The board should define an annual agenda in collaboration with the CEO.
- The board should be the first to ask the tough questions and help the organization's leadership craft the best possible answers.
- Board directors must invest in understanding the organization's raison d'être and core strategy. There should be designated times on the board's annual calendar for generative conversations where these fundamental assumptions are questioned. The board should also celebrate progress and provide a safe space for the leadership team to share challenges freely.
- The board should early on create the space to discuss how it could fulfill its role more effectively. It should self-evaluate regularly.
- The board chair and the CEO should collaborate to set the norms for board meetings and how directors contribute.

## How do you split responsibilities between Founders, Board, Management and Employees?

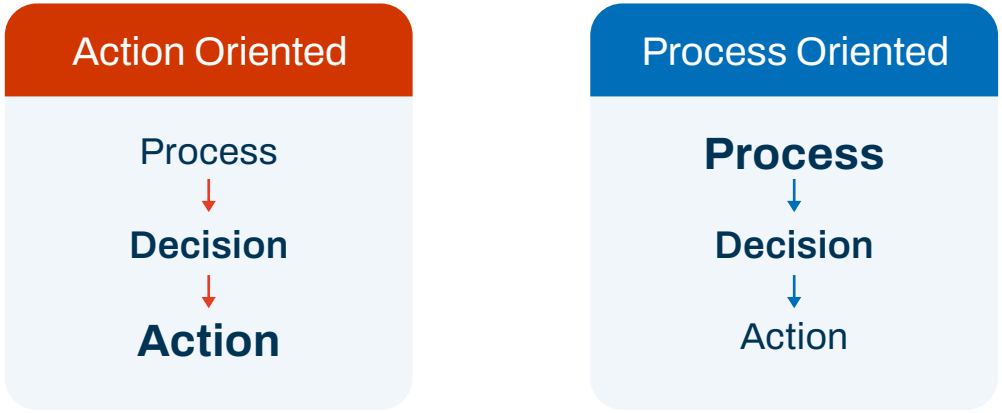
The board ensures alignment across values, mission, goals, strategy, and execution. This is critical to ensure everybody in the organization plays to their strength. What is the distribution of responsibilities among the key players in the company?

1. **Founders (owners)** define what is the mission of the organization. They outline why the company exists and what is "value".
2. **Executive management translates the mission** into specific goals the organization needs to achieve in order to deliver the value the Founders envisioned – **the Board acts as a sparring partner and challenger in the process.**
3. **Executive management builds a strategic plan** that the business follows – **in collaboration with the Board.**
4. **The employees execute this plan.**

To close the circle of business, the board oversees the entire process – on behalf of the owners.

This is the right place to compare the roles of executive management and the board. The board focuses more on the process of governance it follows to govern the company and oversee its management. Management is action-oriented, with its core responsibility being execution. As mentioned earlier the board has "its nose in, and hands out" of the business.

### A good Manager vs a good Board Member*




*Courtesy Professor Tim Rowley – co-director of the International Directors' Programme at INSEAD

# Key Takeaways from Chapter 1: Understanding Board Responsibilities and Governance



1. The job of a board director is to serve the long-term interests of the company. This is measured by increasing the value of the enterprise over time.
2. As a board director, you owe fiduciary duties to the company – two key ones are the duty of care and the duty of loyalty.
3. To build trust and commitment on the board, discuss openly with your fellow directors whom we feel we owe our duty to.
4. The focus of the board is to guide strategy, manage the CEO and key executive managers, and monitor financials and risks.
5. Effective directors follow the operating principle “Nose in, hands out”.
6. The board focuses on the process it follows to govern the company and oversee its management. The executive management is focused on actions to deliver the strategy.

Chapter 2

# Strategic Planning and Execution Oversight

In this chapter we will cover how you, the board, can effectively collaborate with executive management to create the right strategic plan and budget for the business. We will not cover models for strategic planning here – there are many. Probably the most practical ones are the W Model and Michael Porter's activity systems models[6].

Generally, most boards do not spend enough time on strategy. According to HBR, 70% of directors want to spend significantly more time on strategy, but they don't. So how can we address this? The first ingredient of the secret sauce is a clear distribution of the roles and responsibilities of executive management and the board in planning the strategy. As you might recall these roles are:

- The executive management together with the Board translate the mission into specific goals that the organization needs to achieve to deliver the value envisioned by the Founders.
- The executive management builds a strategic plan that the business follows and leads the employees to execute it above expectations.
- The Board acts as a sparring partner for the management to de-risk and improve the quality of the strategic plan. You ask the right questions to achieve this. It is an act of co-creation.
- Finally, the board oversees the execution of the strategic plan and its need of modifications.

We will now see how to successfully integrate strategy and budget planning into the board routine and what insightful questions the board contribute to the discussion.


[6]"What is strategy?" by Michael H. Porter, HBR 1996

## Goal setting discussion

The first conversation on strategy happens early in the annual board schedule. Ideally, by the end of Q2, the board and executive management should have a high-level agreement on the growth objectives for the next year. This will normally include key financial metrics and strategic priorities such as revenue growth, gross margin, EBITDA, cash flow from operations, expand into a new market, launch a new product, develop, or build a new function.

You can approach this conversation in several ways: the board leads and sets the goals, the executive management proposes the goals and the board approves, or they co-create the goals. As with anything in life, if you are part of creating something, you will be more engaged, and the outcome is likely to be better. Our favorite approach is:

1. The board discusses *in camera*[7] what their growth expectations are for next year, without sharing these with the management. You come up with key questions, which will guide management to create the first, high level iteration of their strategy. You can call these OKRs or Strategic Priorities – it does not really matter as long as you do it.
2. Then the board briefs the executive management on their key questions, the expectation for the initial take on strategy (a short crisp high-level document), and when it can be ready. Founders are normally ambitious, and often the board needs "to rein them in". So, do not anchor their minds with your pre-agreed expectations. The important point is that executive management comes back with what they believe in, and the board deliberates on their input. Here are some excellent questions to ask and set the scene:
    a. What is the inspirational high-level vision for next year?
    b. What are the key goals – how will you know you have achieved the vision?
    c. What is the path to achieve it?
    d. What are the 3 to 5 important bets the company needs to make?


[7]Without executive management in the room

# Initial strategy discussion

At the next board session (or a special meeting), executive management will present their strategic vision for next year, after the board directors have read it as a pre-read. This is one of the occasions when it is absolutely worthwhile to have a presentation and a discussion. The key questions the board may ask are:

- Why does our firm exist?
- How do we plan to reach our goals?
- What is our customer value proposition? What are the customer value drivers?
- How does each key bet reduce product (service) costs, increase sales volume, or drive up the customer's willingness to buy?
- How does our strategy consider industry trends and competition?
- What is unique about us?
- Which different activities do we perform compared to our rivals? What similar activities do we perform differently?
- What key trade-offs are we making?
- What are the risks?

The session needs to be professionally facilitated by the chair (or a lead director) to allow a rich discussion while reaching a conclusion on our strategic direction. Sometimes you may not be able to agree. It is better to sleep on it and schedule another final discussion.

Once the strategic direction is agreed, executive management goes back to the drawing board. They will include a wider group of key people, probably offsite, to piece together the detailed strategy. It needs to include each key strategic initiative they would like to allocate resources to, and what it entails in terms of:

1. Short overview of how you will approach it.
2. What projects will it need executed?
3. What is the implementation timeline?
4. What will be the impact on the business?
5. What resources are needed?
6. What are the risks and dependencies for this strategic bet?

It is good practice to also describe what the team decided not to do and why. This will make the board discussion richer.

# Approved strategy for execution

This is the most important collaboration milestone between executive management and the board in strategy development. The best practice is to organize (if possible) a 1-day strategic retreat for the board and key executive management players. You can discuss in detail and either reaffirm or modify the strategy.

Before the meeting, management sends out the draft strategy pack, and the directors read it carefully, preparing their questions and positions on the proposal. The strategic initiatives normally fall within several categories:

- Innovate new products/services
- Enhance ecosystem relationships
- Expand into new geographies
- Enter new businesses
- Shore up and strengthen key capabilities

The key questions the board may ask throughout the session are already more focused on linking strategy to execution:

1. What key capabilities and processes are critical?
2. How shall we make money?
3. How will our customers experience the promised value?
4. What needs to happen for the strategic initiatives to be implemented in practice?
5. How will our business model look like?
6. What are the risks and how shall we mitigate these?
7. How aligned is the organization on the strategy?
8. What are the key assumptions behind the plan?

The outcome of the board strategic retreat is a final draft of agreed strategic initiatives – what do we do and what not. This will enable the management to finalize the strategic plan and translate it into an annual budget for the following year.

# Real Life Story #2

## The Burn Rate Debate

**By Svetozar Georgiev**

Alignment between board members and executives is easy when things go according to the plan. But more often than not… they don't. Those are the critical times when board members have a pivotal role to challenge, question, and guide executives to come up with reasonable alternative plans.

Many early-stage companies experience delays while searching for product-market fit. Certain assumptions turn out wrong, product complexities take longer to build, the sales process has more friction than expected. This is exactly what happened to one of our portfolio companies recently. After months of hard work, they had to rebuild their budget and execution plans to account for all the unexpected challenges described above. Costs were cut, new insights were discovered and factored in the updated roadmap, and the runway seemed reasonable with 12 months to go. Great stuff! All in favor? Not so fast.

The board didn't buy into the plan, as it assumed that too many stars would align. Founders are optimistic by nature – they have to be. Yet, it is the board members' key duty to question and provide examples from their past experience, both positive and negative. The board still believed in the strategy but did not believe in the timeframe. We did what was our duty to do – push back hard and ask the executives to come back with a new plan. The board expected 6 more months of runway. Those 6 months would provide some buffer to allow for things going unexpectedly wrong. At this point, costs were the only thing which was 100% in the founders' control. They had to control it and do what a Founder CEO's #1 goal is – make sure the company does not run out of cash.

Needless to say, the founders were not happy. To put it mildly, they were devastated and started providing multiple reasons why this is the most they can cut, and how everything will be ok. We, as the board understood the message had to sink in and gave them some time.

In a few days, they came back to us - now convinced that the board was right. They shared the firm belief that they need to control their destiny by controlling their cash. They stood in front of the whiteboard and started charting potential options. At that time, though, we listened, supported, but did not provide a specific opinion. As a board member, we don't have the necessary depth of understanding to provide tactical advice: we didn't know all the team members, the office dynamics, the product intricacies, etc. I was absolutely the wrong person to assess and propose a relevant solution. What I knew from my experience is that they needed 6 months more runway. How they would do it is something they, and only they should decide.

In addition to being firm and assertive in critical times like this, board members need to be supportive. This whole process was super stressful for the founders, but we were there to help. I offered my perspective and practical advice:

1. Bad times are a perfect opportunity to re-energize the troops and see who the true believers are. You only need engaged A-players on the team for this rough journey. Tough times also require Founder CEOs to prove they are worthy leaders, who can inspire and rally the team.
2. Radical candor and transparency deliver miracles. Knowing the real context, your team-members will not be as opposed to tough decisions.
3. It is best to rip the band-aid at once and rush forward, rather than go out of business slowly and painfully (also known as "death by a thousand cuts"), and have uneasy discussions every month till the end.

The process of thorough assessment revealed other issues – not-motivated people who were just cruising, potential overall company culture issues, potential founder issues. Those were only addressed because the board pushed that hard and challenged the plan.

In summary, board members are not founders' friends. We are partners whose key duty is to maximize the company's chance of success, whatever it takes.

## Learning

When plans go awry, it is crucial for board members to challenge, question, and guide executives to develop realistic alternative strategies. In times of unexpected challenges, such as delays in finding product-market fit, the board must push for feasible solutions, like extending the runway, even if it means tough decisions on cost cuts. Supportive yet firm guidance from the board can help founders recognize the need for controlling cash and making strategic adjustments. Ultimately, the board's role is to act as a partner focused on maximizing the company's success through critical evaluation and strategic oversight.

# Budget approval

The final step in the annual planning exercise is preparing and approving the budget. Ideally, the budget is locked in before the start of the new financial year. While business may sometimes move faster, necessitating a budget review, this should be a last resort. The budget discussion typically goes through several iterations, usually occurring in the last two months of Q4. Planning is challenging, and it does not come naturally to many people, as it is only done once a year, so people never get enough practice.

The executive management team prepares several key documents to drive the process:

1. Comparison of all financial plans to the previous year and (if applicable) consideration of the starting point of the year in terms of ARR base.
2. Assumptions document – clear description of the key drivers for the budget and how they affect the projections
3. Customer acquisition and churn trajectory
4. Pricing changes
5. Resource allocation – important one-off investments and upsides based on the strategic initiatives
6. Profit and Loss account
7. Cash Flow statement
8. Balance sheet

Please consider scheduling a board meeting in the second half of Q4 for budget discussion. The pre-read budget schedules should be sent 3-4 days in advance to allow board directors to analyze the document and prepare. It is vital to keep all formulas in the spreadsheet to enable better understanding of the drivers and correlations. After the board deliberates, some changes to the budget might be needed. The follow-up iteration steps can be done offline to facilitate speed.

# Founder CEO Point of View #2

Name:
**Hristo Borisov**

Company name:
**Payhawk**

## Major Challenges with the Board

- **Capacity to be involved:** Board members in the VC world come from different backgrounds and experience. Some are seasoned operators, while others have never managed a business before. Their capacity to plan strategy isn't always at the level you would expect from a board member. Some VC firms are very clear that they don't want to be in the driving seat, and they prefer to be observers only. Unfortunately, most institutional investors don't admit this and do require a board seat. We have VC Partners who are sitting on 15+ boards, so they might have a very superficial understanding of our business and competitors to be able to build a strategy.
- **Willingness to be involved:** Board members have different expectations of how involved they should be in the strategy and operations of a business. Some are pushing back for decisions to be made by the founder, so that he (she) is solely responsible. Others are willing to participate in the decisions, and some are willing to make the decisions. Sometimes asking for help in a critical moment was met with *frustration about why I had not solved the problem myself.*
- **Alignment on incentives and long-term goals:** The position of each VC firm is different as they have invested in the business at very different stages. What might be an extraordinary success for one investor could be considered a failure for another.
- **Founders design the board:** Founders should remember that they design the board composition and format to a large extent. Founders also significantly contribute to designing the shareholder agreement, bylaws and governance model of the company. This is achieved by: **a)** accepting which investors join and at what terms; **b)** negotiating the shareholder agreement and the role and format of the board; **c)** ensuring equal footing of all and especially early investors in the board as the company scales.

## Recommendations and Expectations to the Board

- The founder CEO can spend as much time as possible with the investors he (she) believes have the competency and willingness to be involved. The significant level of productive involvement with these able and willing board members will help the rest of the board get aligned too.

# Ongoing strategy execution oversight

Your primary responsibility as a board director is to serve the long-term interests of the company. According to a McKinsey survey of more than 1,500 board directors, approving and tracking progress against strategy are two of the top three board priorities. Working on strategy only several times a year does not suffice. How can we intelligently integrate the strategy discussion into the board routine?

1. **Plan for a 1-hour strategy discussion at each board session** – this can include any of the focused topic discussions we cover on page 81. A discussion is considered "strategic" if it deep dives into one of the following topics:
   a. Customers
   b. Competitors
   c. Key capabilities and processes
   d. Strategic risks
2. **Track progress on strategic initiatives at each board meeting** – it should not be a long session if everything is going well. If "the market did not respond to your initiatives", you will need a focused session to modify some aspects of your current strategy
3. **Prepare strategic "one pagers"** to facilitate the above 2 strategic discussions:
   a. "One pager" on strategic initiatives progress
   b. "One pager" on customers and competition

Boards have very limited operating time. To have an effective board, you need to focus on the most important agenda items. Discussing strategy adds an external market focus to the conversation, allowing the company to identify and address important business risks early on. The process discussed above allows the board to provide effective strategy oversight without micromanagement. An engaged board with a deep understanding of the company's strategic priorities will deliver much better resource allocation, CEO selection, and compensation and risk oversight.

Throughout this chapter we have included ideas and concepts from Professor Krishna Palepu[8] of Harvard Business School, as presented in his executive training "Creating Value Through Effective Boards".

[8]Krishna G. Palepu is the Ross Graham Walker Professor of Business Administration at HBS. He has served previously as Senior Advisor to the President of Harvard University.

# Key Takeaways from Chapter 2: Strategic Planning and Execution Oversight



1. To collaborate effectively on strategy planning, the board and executive management must clearly define everyone's specific role in the process.
2. The key elements of a successful strategic planning exercise are: a) goal setting; b) high-level strategic direction; c) strategic initiatives, assumptions and business cases; d) budget.
3. The best tools for the board to support executive management in strategy definition are excellent questions and solid preparation for the collaborative sessions.
4. To oversee the strategy and its execution, the board must allocate time in its meetings' agenda, and executive management must report their progress and challenges. A good practice is to discuss strategy and its execution for 1 hour at each meeting and plan an annual 1-day strategy offsite.

Chapter 3

# Board and CEO Succession and Development

# Leading the CEO

## CEO Performance Management

Probably the most important role of the board is to select, appoint and oversee the performance and compensation of the CEO. The CEO is the conduit between the board and the company's team. So, if you have an excellent CEO this will have a significant positive effect on the business. Ironically, having just a "good" CEO is not good enough.

Assessing the performance of the CEO and providing constructive feedback is often difficult since many companies (the majority of US businesses) combine the role of the CEO and Chair of the board, as the CEO is often the key co-founder. This is like checking your own homework at school and needs significant maturity for it to work. Our recommendation is to separate the roles as soon as possible or to create the role of a Lead (ideally independent) Director, who will lead the process of assessing the CEO and communicating with her on behalf of the non-executive part of the board. The Lead Director also chairs the *in camera*[9] sessions of the board, where only the non-executive directors participate (so no CFOs nor CEOs). Interestingly, in some countries, this is called "the executive session". The idea is to create a comfortable environment, where the board can discuss the objectives, assess the performance, and prepare feedback for the CEO without their participation (but not behind their back). It makes sense to conduct an *in camera* session at least once a quarter after which the lead director can discuss the outcome with the CEO. For this process to work well, you require three key ingredients:





[9]Without executive management in the room.

1. **Plan the CEO objectives for the year (or a shorter period if required) and link their performance to the results.** – To assess their performance and have clarity of objectives, the CEO needs to operate towards clear goals set by the board and aligned with the strategic plan and the budget for the company. Several type of objectives can be part of the plan:
   a. Financial KPIs
   b. Completion of key projects or milestones
   c. Organizational development and cultural objectives
   d. Customer experience objectives
   e. Funding and capital structure goals
   f. Productivity and scaling goals and many others

   The idea is to select maximum 3-5 objectives (of the many options) and agree on the final version with the CEO in a normal board session, as it needs to be approved by the board of directors. The CEO should actively participate in the process of developing and polishing the objectives. Here is an example of a CEO objectives document, which is for illustration purposes only.

## CEO Objectives 2025

CEO: Alexia Steel

Date: 16th Dec 2024

| Business Strategy or Priority | Individual Action | Measure / Target / What is Success? | Weighting | By When |
|---|---|---|---|---|
| Financial Results | Deliver full year revenue and cashflow on budget | Performance vs 2023 Budget | 20% | Dec 2025 |
| Financial Results | Achieve planned operating expenses and EBITDA | Performance vs 2023 Budget | 20% | Dec 2025 |
| Sustainable Growth | Recruit, onboard and effectively deploy a strong leadership team - CHRO, CFO, CRO, CPO and all key roles | Team in place and engaged as per BoD approved plan | 20% | Phased starting in April and ending by Nov 2025 |
| Sustainable Growth | Design, launch and manage for the long run professional management processes, delivering strong team performance, distributed decision making and fair process leadership | Processes in place as agreed with the BoD - in-person check by a board member | 10% | 30 Mar 2025 |
| Sustainable Growth | Focus on Customer Experience as a key competitive differentiator and customer promise; deliver planned CX improvement program successfully | Performance vs. 2023 Budget and a board approved plan - NPS, CSAT | 20% | Plan approved by Feb 2025 BoD; results by Dec 2025 |
| Sustainable Growth | Execute personal development plan | Progress vs an agreed personal development plan | 10% | Significant traction by 30 May 2025 |

2. **Review the CEO's performance against objectives and provide candid and respectful feedback.** At least on a quarterly basis, have an open discussion at the board where the CEO reviews their performance in the previous period, outlines successes and failures, and proposes a plan to address shortfalls or accelerate growth (if applicable).
    a. Immediately after the board session, the non-executive directors can have an *in camera* discussion to openly discuss their performance evaluation of the CEO in a comfortable setting. The directors agree on the positive and improvement feedback.
    b. The Chair of the Board (or Lead Director) delivers the agreed feedback to the CEO in a 1:1 session. This can be done in a formal board session if your CEO is mature enough and the feedback is not difficult to swallow.
    c. During the feedback session, the CEO and the chair discuss the corrective or acceleration actions and report back to the board at the next session or in writing.
3. **Set challenging yet realistic goals and make this an iterative process.** We have seen many examples where the board is either too tough (asking for the impossible) or too lenient (patting the CEO's back amicably no matter how severely the company underperforms). The idea is to constantly scan the environment, assess the context, discuss what is possible, and then require challenging but realistic results from the CEO and their team. This process works best when it is a quarterly iteration that improves with each round.

# CEO Succession Planning

After the first 100 days of a new CEO, or once product/market fit is achieved, the board needs to start planning the succession or back-up of the current CEO. Most CEOs procrastinate this task for many reasons – habit, fear for their personal legacy, fear of losing power, avoidance, looking for an external savior, self-justification. However, this is a critical responsibility, and a well-prepared insider is your best bet when CEO succession is needed. Ideally, ensure there is a strong bench of leaders under the CEO who can be developed over time. When required one of these internal candidates can step up and become a CEO in a well planned and executed CEO "relay" succession process, managed by the board with the active participation of the incumbent CEO. The succession process outlined below is based on our experience and the work of Professor Stanislav Shekshnia[10]. Please remember that CEO succession is a tricky and expensive business – a real test for your board. Based on 2022 data from Stanford University only 23% of CEO replacements are voluntary and well planned.

To get succession right the board needs to demonstrate ownership, accountability, and responsibility for the CEO succession planning and replacement process. There are several key aspects the board needs to manage:

1. **Process** – start early so that the successor CEO is ready around 3 months before the planned departure of the incumbent CEO – this needs to be a standing item on the boards' agenda:
   a. Working hands – select a committee (usually the Nomination and Governance) or a director to work on the succession. Choose directors with knowledge, experience, stamina and time. Review their progress regularly.
   b. CEO's focus – establish CEO succession as one of the key projects for the CEO and create incentives to make it work.
   c. Candidates and development. Always look inside and outside. If necessary, engage an executive search company to assist in the process. Start with a larger pool and narrow it down as the deadline approaches. Test candidates through developmental and hands-on assignments. Utilize available programs to prepare and develop the selected candidates (e.g. at leading business schools). The best way to develop a future CEO candidate is through a meaningful real-life project at the company.

[10]Stanislav Shekshnia is an experienced ex-CEO and board director. Currently he is a Senior Affiliate Professor of Entrepreneurship and Family Enterprise at INSEAD, who has personally participated in 50+ CEO successions.

d. Review. Regularly check the progress of the succession planning effort regularly and adjust for context as needed.

2. **Profile.** Normally companies prepare long job descriptions that are highly inclusive and in 3-4 pages describe “Superman” or “Superwoman”. This is not productive and amounts to a loss of effectiveness and focus in the search and assessment process. To be successful, be very selective in your requirements:
   a. CEO profile – start with a one-page description of what the business needs (not what the incumbent is), covering areas such as the mission of the CEO, competencies, experience, values, personality traits and red flags. Here is an example:

| CEO's mission | Leadership competencies | Personal traits and values | Experience | Red flags |
|---|---|---|---|---|
| In the course of five years to transform XYZ Co. into a multi- product digital platform providing access to quality services and infrastructure and constantly improving the lives of hundreds of millions of people | • Business intelligence<br>• Social intelligence<br>• Technological savvy<br>• Talent: assessment, selection and development<br>• Teaming<br>• Customer centricity<br>• Management of complexity<br>• Stakeholders' management | • Global mindset<br>• Passion for success (Result orientation)<br>• Curiosity and learning agility<br>• Sustainability<br>• Health, Self-discipline and Self-efficacy | • Track record of P&L responsibility for a large complex business (multi-product, region, location, etc.)<br>• Crisis management<br>• Managing organizational transformation<br>• Managing powerful stakeholders | • Abrasiveness<br>• Know-it-all mindset<br>• Fraud |

b. Finding the "pivot"[11] – these are the 2-3 critical strengths and capabilities for the new CEO to succeed. Start from the business requirements, the strategic intent, and key strategic initiatives, then go through the desired CEO profile, and zoom in to select the few critical strengths. These are the competencies you need to guarantee success.
c. Assessing internal candidates – you can use various approaches: performance reviews, 360-degree evaluations, interviews with the candidates, interviews with their colleagues, assessment centers, psychometric and other tests.
d. Assessing external candidates – here it becomes even more difficult to avoid expensive mistakes. It is often a good idea to engage an executive search company, but not to "outsource" the whole process to them. The tools you can use are: interviews with the candidates, interviews with their colleagues, reference checks (preferably unsolicited where designated board directors speak directly to the referee), psychometric and other tests, assessment centers.

3. **Personality** – We have experienced rogue CEOs and other senior leaders who had a personal agenda and destroyed significant value for our companies. The personality of the candidates is as important as their competencies and experience. To check this:
   e. Use psychometric tests – e.g. the Five Factor Model of Personality (you can google it).
   f. Know what type of person you are looking for – open to experience (or not), conscientious (or high-level strategist), extrovert (or introvert), agreeable (or not) and what is their level of neuroticism.
   g. Personally check their unsolicited references.
   h. Be aware of the combination of the following personality traits – Rule Breaking + Materialism = High Risk for the company with such a CEO – try and avoid by all means.

The above guidance is in no way exhaustive. It provides directions on what the key factors and activities are.


[11]Courtesy of Ram Charan

## CEO Transitions

Let's start with the reasons for making a CEO change. As this is a major risk for any business, you need to thread carefully and assess the severity of the situation and in which specific area(s) the incumbent underperformed. Here is why you would want to change your CEO (a single reason or a combination of the following):

1. Underperformance in company valuation, financial or operational objectives.
2. Change in strategy that the current CEO is not equipped to oversee.
3. One-time negative event (e.g. a serious reputational risk, a personal disgrace, etc.).
4. Change in shareholders.
5. High percentage misfit between context, objectives, and CEO's capabilities.

Assessing the situation will require a series of deep and candid conversations at the board, evaluating the pros and cons of such a move. You would want to use a formal and documented decision-making process instead of just a talking club. Once you have established the need to replace the CEO, and if your succession efforts have been consistent, you will have a pool of candidates to select from. Here are a few rules of thumb (based on diligent research and statistics) you may want to consider:

- Interim succession is normally not a good idea – use it as a last resort.
- Relay succession (planned handover to a selected candidate) leads to better results than a horse race succession (selection of a CEO from competing candidates).
- The best option is an internal promotion (even if the person is 70% ready).
- If you must go for an external candidate, pick a rookie CEO.
- If yours is a family company - family member CEOs underperform in the short term and outperform in the long run.
- When the context and strategy are changing significantly – your best chance is for a well-chosen outsider to drive this change.
- If you are in a crisis and need an urgent replacement, a great choice for CEO will be an outsider, from a different industry with a "throughput" background (operations, customer experience, sales and marketing, production, etc.)

# Real Life Story #3

## Replacing a Founder CEO

**By Daniel Tomov**

Most early-stage company boards consider the replacement of a Founder CEO a taboo. Therefore, it happens rarely. Boards discard the issue automatically, while we believe that thinking about it has several merits.

The most common case for a board to consider replacing a Founder CEO is when the performance of the company deteriorates significantly, and the board loses confidence in the capabilities of the current CEO. However, even then, the investors represented in the board prefer to write-off this investment and move on, rather than going through the difficult and time-consuming job of finding a new CEO. And trust us, this is a pretty unpleasant experience! At the end of the day VCs manage a portfolio of companies and they focus on optimizing the upside rather than protecting the downside. The latter is a reserved territory for the bankers.

In extreme cases, bound by their fiduciary responsibilities to the company, the board decides to replace the Founder CEO. Usually this happens when he acted in bad faith and against the interests of the company. The accepted business practice is that a Founder CEO is rarely replaced when the company enjoys good times. We would argue that precisely good times present an opportunity for the Board to consider replacing the Founder CEO with an experienced operator in order to better support the growth of the Company – if needed.

The common denominator for all such situations is that the Founder CEO does not have the experience nor the skills to scale the Company. Often times they do not desire to be a CEO.

The latter is never obvious from the start, but it surfaces in time. And the board might consider that building this skill set would either take a lot of time or is not possible. In both cases, this jeopardizes the successful scaling of the business. Eventually, most experienced boards come to this conclusion, but this is often long overdue, and the company has lost its growth momentum. The fiduciary responsibilities

of the board members to the company demand that the board regularly evaluates whether there is still a CEO-Company-Fit and whether the Founder CEO turned into the 'Reluctant' CEO.

It might sound counterintuitive but replacing a 'Reluctant' CEO should not be considered a bad move. It is definitely not a hostile move. On the contrary, it is a move to support the founders in the pursuit of their vision. This is a very delicate matter that could easily go wrong. The Founder CEO must remain a board member, while focusing on the area where she could create the most value for the company. The board chair, who often acts as a coach as well, is the right person to engage the Founder CEO in this discussion along with the rest of the board. The Founder CEO usually welcomes this move if the process is handled well.

The typical example is when the Founder CEO has a technical (engineer or scientist) or product background and they lack the experience and the skills to scale the business. It gets further complicated as such a Founder CEO often combines their CEO role with that of a CTO (Chief Technology Officer), CSO (Chief Scientific Officer) or CPO (Chief Product Officer), respectively. These two demanding roles can rarely be combined successfully, particularly when scaling the company.

When the board brings in a talented CEO from the outside, following the right process and engaging the Founder CEO from the beginning, they unleash amazing forces that can significantly accelerate the scaling of the business:

- The experienced, commercially focused CEO scales the people, the processes, the systems, and the effective execution of commercial strategies – to accelerate growth.
- The Founder CEO focuses and adds significant value in the areas they can do this best – usually product management or R&D.
- A huge burden is taken off the shoulders of the Founder CEO and they engage in reaching the vision with renewed energy and passion.

### Example: Replacing a Founder CEO

The Context:

A very experienced engineer founded a company in the field of digital health. The Founder CEO combined his CEO role with that of a CTO. The Company quickly built outstanding technology for their business customers. However, the lack of sufficient commercial experience of the Founder CEO hindered the scalability of the business.

What happened?

The Chair of the Board stepped in and initiated a discussion within the board. Their hypothesis was that the company needs a different type of CEO to scale the business in the USA. He engaged the Founder CEO in the process and subsequently a commercial CEO with industry experience in the target market was identified and hired. The Founder CEO continued building the technology that was driving the start-up's success. After an initial onboarding period, the business significantly accelerated its scaling.

## Learning:

Once the board identifies the limitations of the Founder CEO for scaling the Company, it should discuss the issue openly and honestly at the board. After the Founder CEO is engaged and onboarded in the process, the board designs a plan for recruiting the right CEO and should act decisively. It is of paramount importance that the CEO succession decision is not procrastinated forever. Otherwise, the topic of potentially finding a more experienced CEO will forever remain a standing agenda item at every board meeting (or until the company liquidates).

## CEO Handover

Once you have selected the new CEO and it is time to hand over the reins of the business, the board needs to prepare and handle the process with utmost care. Here are the key aspects you need to pay attention to:

- Manage the incumbent CEO's exit as carefully as the new CEO's entry. Ensure the previous CEO is a good leaver and is content with the change both financially and emotionally.
- Invest time in adjusting expectations and communicating them to the new CEO. The board plays a key role in setting relevant new expectations and aligning these with the new CEO. A good outcome is when the board and the new CEO (together with their executive management team) are driving the company in one agreed direction.
- Provide special attention and support to the new CEO during the first year. Maintain an open line of communication and support for the new CEO. In the early days, the frequency of interaction and guidance by the board will be significantly higher and will taper off over time. The board's role is to support the CEO in tough and challenging times and to challenge executive management when times are good.
- Ensure a clear cut with the previous CEO – plan for a short handover between the old and the new CEO. When the new CEO takes over, there must be a clear end to the responsibilities and involvement of the previous one.
- Maintain at least two back-ups at any moment – continue building a strong talent bench of leaders under the new CEO and initiate a new CEO succession plan.

Effective development and learning depend on experience, reflection and learning from this experience. It might be a good idea to provide coaching support for the new CEO to accelerate their self-awareness, reflection, and subsequent learning.

# Developing Board Leadership

Healthy companies grow, evolve and scale. One of the key factors in this journey is scaling the people. The management team and their organization need to learn, adapt, and grow to stay ahead of the increasingly complex challenges the organization faces.

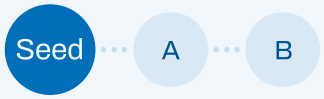
As companies grow beyond tens to hundreds of employees, they need to invest in the “bureaucracy” of management processes and planned communication. This compensates for the looser ties between people and teams throughout the now larger organization.

In a small start-up or extended family (e.g. 15 people) everyone knows everyone, and communication is direct and natural. When the team exceeds 100 individuals, you need to manage communication and processes to ensure alignment and a common sense of direction and collaboration. Professional and effective boards similarly evolve together with the business. The following infographic aptly illustrates this principle.

# Governance Maturity Matrix

**Best Practices**

- Monthly calls, quarterly meetings, annual retreat
- Should have Director & Officer insurance even at seed stage

| | | Seed | Early | Growth |
|---|---|---|---|---|
| Company Profile | **Revenues** | Early Revenue | Modest but growing | Breakeven |
| | **# of Employees** |  |  |  |
| | **Funding** |   |   |   |
| | **Year(s) established** | 0 - 3 | 3 - 8 | 8+ |
| Governance Characteristics | **Size of board** | 3 | 3 - 5 | 5 - 7 |
| | **Composition** | Founder(s) and investor(s) | Founder, investor, independent | Add more independent, usually founders get diluted between A and B |
| | **Member profile** | Understands agile and lean design and development, sector expertise | For the profile of independent directors look at the Personas List on page 66 | More traditional investors with expertise in governance, sustainable growth, and risk management |
| | **Comittees** | - | Compensation | Nominating, audit and compensation |

As the company grows, the board and its duties increase. When duties multiply it makes sense to divide work at the board – forming committees to achieve this. Board members commonly serve on multiple committees, which report back to the board. The three most important committees are:

1. Audit committee – responsible for accounting and financial reporting processes, and financial audits.
2. Compensation committee - responsible for executive pay and equity grant policy.
3. Nominating committee – responsible for recruiting and orienting new board members, and CEO succession planning

To serve the evolving needs of the business, you may decide to form new specialized committees – such as risk management committee, investment committee, AI strategy committee, and others.

The number of directors also increases over time to accommodate the more complex requirements of the business and the board. At later stages, you may start recruiting independent non-executive directors, who bring specific expertise – e.g. in governance, international expansion, organizational development, industry expertise, investment bank executives to support your IPOs, and others. This requires the company to create a board recruiting muscle and competencies. Initially, the founder leads board formation. As the company grows, this role shifts to the board chair and biggest investors. Later, the nominating committee takes charge. Leverage the board's network and connections to identify potential board directors. Approach board recruitment diligently with a recruitment plan:



There is inherent conflict built into the relationship of a CEO and a board. That is why many boards end up being “rubber stamping” bodies, readily approving what the CEO asks of them. To create an effective value-adding board, please follow a few simple rules:

| Do | Don’t |
| --- | --- |
| • Bring on people, based on merit, who will speak up in the company's interest and provide unbiased oversight of the CEO.<br>• Ensure candidates are committed to an active role on a working board.<br>• Determine needs before recruiting, then identify targets. Conduct thorough interviews and be selective.<br>• Involve your directors to increase reach and credibility. Ask for targeted intros according to needs determined by board. | • Fill board w/ family & friends who only say what you want to hear. This also poses a conflict of interest.<br>• Pay a "name brand" director just to add their name to the list of directors.<br>• Take anyone with "warm blood and a pulse." Lacking well-defined recruitment criteria will lead to major problems.<br>• Allow the CEO to be the only person involved in recruiting and bringing on his/her supervisors. |

New directors should be oriented shortly after starting to serve on the board. This ensures they will engage early and start to perform beyond expectations. The CEO should work with other board members to provide orientation – e.g. the CFO explains the key financial indicators, the Chair outlines board expectations, etc. A quality orientation may include the following critical elements:

| Orientation should cover | Board orientation package |
| --- | --- |
| • Board's fiduciary duties and roles<br>• Board organization and decision-making process<br>• Company's legal structure and capitalization<br>• Business model<br>• Key initiatives and objectives | • Bios/contact info of current directors<br>• Board policies/handbook<br>• Articles of incorporation (or similar)<br>• Past meeting minutes<br>• Board meeting schedule<br>• Current financial statements<br>• Strategic plan |

The nomination committee then takes over the succession planning of the board, based on the required skills, competencies, and diversity to ensure the board can meet its mandate. It is good practice to always maintain a one-pager outlining the current board composition, key skills, background and expected mandate. This makes it easy for the nomination committee to plan and successfully execute the board succession planning process. Here is an excellent example from Unilever[12]:



[12]Sourced from the Unilever business case of the IESE / Harvard board development program.

## Board of Directors 2016

| | Marjin Dekkers | Paul Polman | Nils Andersen | Laura Cha | Vittorio Colao | Louise Fresco | Ann Fudge | Judith Hartmann | Mary Ma | Strive Masiyiwa | Youngme Moon | John Rishton | Feike Sijbesma |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Age | 59 | 59 | 58 | 67 | 55 | 65 | 65 | 47 | 64 | 56 | 52 | 59 | 57 |
| Gender | Male | Male | Male | Female | Male | Female | Female | Female | Female | Male | Female | Male | Male |
| Nationality | Dutch/ American | Dutch | Danish | Chinese | Italian | Dutch | American | Austrian | Chinese | Zimbabwean | American | British | Dutch |
| Appointment date | April-16 | Jan-09 | April-15 | May-13 | July-15 | May-19 | May-09 | April-15 | May-13 | April-16 | April-16 | May-13 | Nov-14 |
| Expertise: | | | | | | | | | | | | | |
| CEO expertise | X | X | X | | X | | X | | | | | X | |
| Business expertise | X | | X | | X | | X | X | X | X | X | | X |
| Sales & Marketing | X | X | X | | X | | X | | | X | X | | X |
| Geopolitical networks and insights | X | X | X | X | X | X | | X | X | X | | X | X |
| Science & Technology | X | X | | | X | X | | | X | X | | | X |
| Finance | X | X | X | X | X | | | X | X | X | | X | X |

We are fully aware that this is the board of a mature public company. To apply this approach at your startup or scale-up board you will need to make changes – probably less directors, of younger age, and with a different expertise and set of skills. It is the principle of managing successfully your board's composition we illustrate here.

# Key Takeaways from Chapter 3: Board and CEO Succession and Development



1. The board manages the performance of the CEO by formally setting objectives, linking these to executive compensation (focused on increasing company value), assessing progress and providing constructive feedback to the CEO on an ongoing basis.
2. The board needs to plan each step of the CEO succession and execute the transition when necessary. This is probably the only executional work the board is responsible for.
3. For a successful transition, the board must design well the process for CEO succession planning, create the right profile (a one pager with key strengths) for the future CEO, and identify the right personality traits. Several tools can be used in the selection process.
4. Your best option for a new CEO is an insider (even if they are 70% ready) or an external rookie if you are making a significant change.
5. The best CEO transition is a "relay" one, with a clear and well-documented onboarding plan and strong support from the board in the first 12 months.
6. When your company starts scaling, you need to strengthen your board with independent directors who have complementary competencies to solve your biggest challenges. You can create new committees to handle the increasing complexity and workload.
7. The nomination and governance committee acts as the recruiting muscle of the board. You need a professional board composition planning, selection, and onboarding process.

Chapter 4

# Improving Board Dynamics and Decision-Making

# Board Culture and Dynamics

A board of directors functions as a collective entity without a formal hierarchy. Each member, including the chair, holds equal voting rights and has no explicit power over the board. It is designed to promote healthy conflict, diverse discussions and to examine challenges, risks, and strategic options from various vantage points. You might say it is modelled on the council of elders in prehistoric tribes. Effective boards operate on a foundation of respect, trust, and openness amongst their directors. This does not mean group think. If you reach a complete and easy agreement in a board discussion, this is probably a red flag, and more options may be explored. To ensure a comprehensive evaluation of diverse opinions and options, let's review some established best practices.

The Board, as any team united by a shared goal, needs to learn how to collaborate effectively. Building a stellar team is not the remit of this playbook. We assume the people on your board have participated and been part of successful teams in the past. One of the best resources on building teams is Patrick Lencioni's business manga book "The Five Dysfunctions of a Team". Here is a list of probably the key starting points of creating an effective board culture:

- Invest in social activities to build camaraderie and understand each other – dinners, 1:1 meetings, and offsite events.
- Build the culture by personal example – behave in a manner that builds trust and an open environment encouraging constructive conflict.
- Show the courage to trust your board and show vulnerability when called for – do not be afraid to admit mistakes or look "stupid".
- Contribute to creating an environment where everyone can speak truth to power – have healthy debates. After you have disagreed, commit to the final decision.
- Hold each other accountable. Make sure you call out on each other when someone is slacking – creating a healthy peer pressure.

**Choose wisely the boards you participate in, and the people in them.** Make sure you feel comfortable with the chair and the other directors. You would feel like you can argue and have healthy conflict within the board, while preserving a good professional relationship. Ask yourself: "Can I work with these people for 10 years?" When selecting investors for equity increases on equal terms, first choose the partner and then the company. They most likely will serve on your board for a while...

**Prepare thoroughly for discussions.** Before each board meeting, carefully read the materials, and do your own due diligence. Formulate your own hypothesis, write it down. Go to the meeting with an opinion on each topic and be prepared to change your mind because of the discussion. Board discussions seek the best choice from a myriad of options, and this is your role – to contribute professionally to this discussion.

**Be independent.** Most directors on start-up boards are often founders, VC partners, significant investors, which can compromise independence. True independence means – be independent in your thinking and independent of management. Grab the bull by the horns and discuss the hell out of the issue until the fog starts to clear and a direction starts to form.

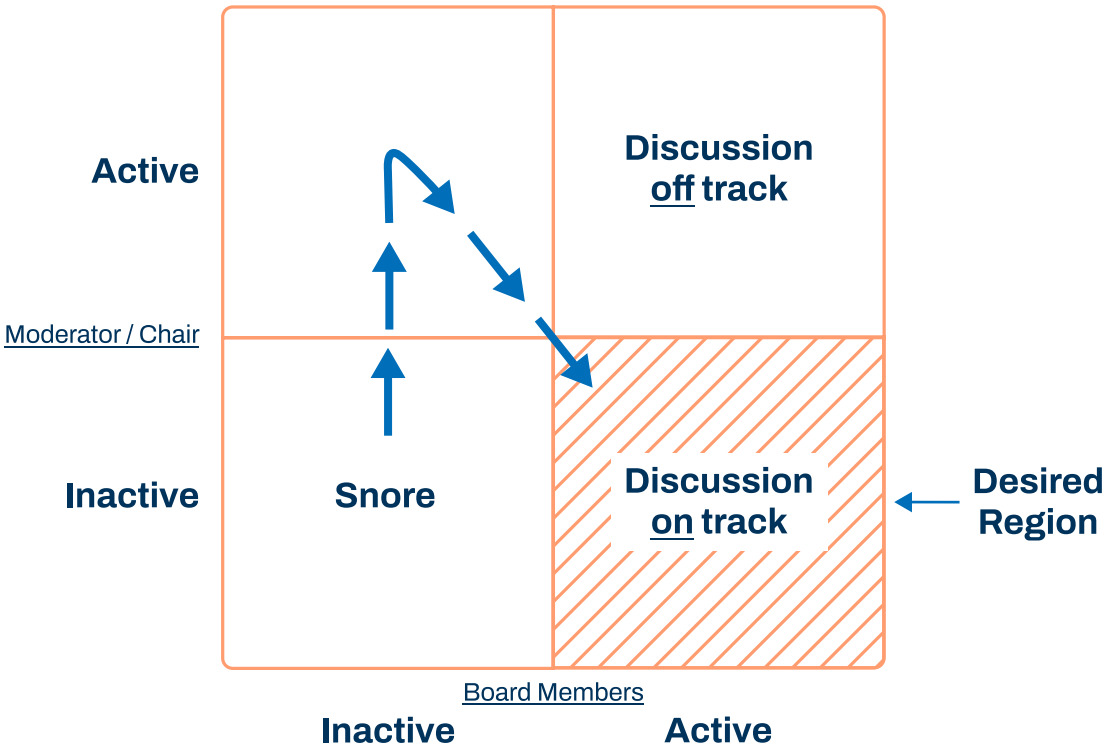
**Diverse boards look at more options.** The relationship between board diversity and company performance is a topic of ongoing research, and the findings are mixed. A healthy board culture combined with a diverse board leads to better deliberations and more solid decisions.

**Expert board meeting facilitation is key.** One of the key strengths of a good board chair is the ability to moderate board discussion effectively. The core foundations of any successful team are trust and healthy conflict[13]. Trust here means taking the risk to be vulnerable in front of your colleagues and taking the risk to speak out (and maybe look stupid as a result). The key strength of a good board is knowing how to start and facilitate a healthy debate. You and every board director should trust their colleagues to speak openly without the fear of retribution.

Effective facilitation is crucial. Facilitating board meetings well significantly increases the effectiveness of the board as it promotes a healthy and constructive board culture. We will take you briefly through what good facilitation means. Below is a simple workflow diagram on facilitation[14].

[13]As depicted by Patrick Lencioni in his excellent book "The Five Dysfunctions of a Team".

[14]Courtesy of Andy Groves and his timeless book "High Output Management".




The moderator needs to always keep in mind what the objective of the discussion is and guide the conversation on track. The desired zone of a board discussion is when the directors are active, and the chair is not. The chair promotes the conversation through open-ended questions, looking for different opinions. He/She also invites quieter members to contribute and balances the input from more outspoken ones. The facilitator helps the board clarify what the issue is, generate options, find areas of agreement, and finally reach a conclusion on the best option at hand. The Chair always speaks last. If they share their opinion too early in the process, this may sway some directors in their opinions and lead to a less productive discussion.

Consider a volleyball game as a metaphor for a good board discussion[15]. When the ball flies over the net, the receiving team slows the game down, looks for options, passes the ball around and then attacks. This means that more directors are engaged in the discussion, more people contribute, and it really becomes an inclusive conversation involving at least 80% of the team. The opposite of that would be a tennis game, where often the conversation is like a sparring game between the CEO and a specific board director. A “tennis” conversation may often be a camouflaged presentation and not a real dialogue.


[15]As shared by Professor Tim Rowley.

# Real Life Story #4

## The Chair – Shaping an Effective Board

**By Daniel Tomov**

Most boards of early-stage companies (even those at the stage of Series A or B investment round) rarely appoint a formal Chairperson or a Lead Director. This often results in a dysfunctional board resembling a tennis game. The CEO, and his executive team, is on one side of the "court", while the rest of the Board (usually the key investors in the Company) are on the other side. The board then becomes a reporting venue, where the major responsibility of the CEO (and his executive team) is to report on company performance to the rest of the board. The board hardly finds any time to discuss strategic issues, as it is swamped in performance data. This suboptimal operating mode pushes some board members to dig even deeper into operational issues, which is not the business of the board. As a result, we often hear founders asking potential investors: "How much do you meddle in the company operations?"

Because of the above flawed practices, the CEO often finds herself under attack, especially when the company's performance is below the approved budget. If this modus operandi is not corrected, CEOs naturally develop an inclination to present only the good news and avoid painful discussions around critical strategic issues.

The CEO starts to think of the Board as a nuisance, and even as a threat to his Company. The tennis game could easily turn into a "war zone". In such extreme circumstances I've seen the Founder CEO pushing hard to cancel the regular board meetings, or at least to bring their number to a minimum. The CEO then resorts to one-to-one meetings with major investors to avoid further confrontation, and to effectively manage the relationships with investors. When there is no Board Chair to challenge this, investors "sitting" on the board usually accept the new reality as they continue to be "well informed", which was their initial perception of the purpose of the board anyway. A valuable indicator of such a situation is when board sub-groups are set up in texting apps (e.g. Viber, WhatsApp, Teams, etc.) – not including the entire board.

Appointing a Board Chair is essential for the proper functioning of any board, and the company respectively. She is responsible for critical aspects in the work of the board that ensure successful outcomes. What is a good Board Chair?

1. She works in advance with the CEO to set the agenda. They identify and prioritize the most important strategic issues that need the attention of the Board.
2. She makes sure that the CEO's team has sent all relevant materials in advance of the Board meeting, including minutes of the previous board meeting (this is often missed).
3. She ensures that all board members approve the minutes of the previous board meeting. Then the CEO reports on any action items from the previous board meeting.
4. She makes sure that all meetings start and end on time, and the entire board agenda is covered. I often find myself in board meetings where the group fixates too long on an issue, which does not leave time for the rest of the agenda items. The worst comes when meetings disband without a decision or an action point agreed, creating only frustration from a long and futile discussion. It is the role of the Board Chair to avoid such situations through wise moderation of the debate. Each meeting should end with an agreed DAL (Decision Action List).
5. She coordinates with other board members on specific issues to be included in the agenda or discussed in advance. This is especially relevant when delicate matters are to be explored. The Chair is responsible for "feeling the temperature" of the board members.
6. She moderates the meetings of the board, taking off pressure from the CEO and ensuring a healthy discussion among equals. She makes sure that all board members part-take in the discussion and no one dominates the meeting.

In the rare situations when the board appoints a Chairperson, it is usually the representative of the lead or major investor (the one who invested most or holds the biggest stake in the company). This happens with no consideration if the person is fit for the job. Not appointing the most experienced and ready board director as a Chair, often leads to the board functioning sub optimally. This often has a negative impact on the business performance of the company.

## Example A: No Board Chair to Drive the Agenda

The Context:

The board of the company included the two founders and the two leading investors, however, a chair was not appointed. There was no one responsible for the agenda, which often was ad hoc and focused disproportionally on reporting. The founders, being inexperienced, were not sure when to look to the board for guidance on strategic matters. They often put important topics on the table when it was pretty late.

What happened?

The founders were negotiating a strategic partnership with a major client, which had both commercial and investment components. They came to the board with a finalized term sheet from the client. Upon further discussion at the board, it turned out that the terms of the potential partnership were not optimal for the future of the company. The board instructed the CEO to renegotiate. However, the representative of the client had already secured all internal authorizations for the presented term sheet and did not want to go back to their superiors. They just could not lose face.

The follow-up negotiations went sour, disturbed the good relationship with the client, and the term sheet was scrapped.

Learning:

The Board should approve strategic issues and have clear visibility of all progress from the start. In this particular case the Board had to approve the negotiation framework and all key parameters in advance. Only then the CEO could negotiate the potential partnership within the agreed boundaries. In this way the Founder CEO could properly manage the negotiation with the client, and increase the chances of success. Usually, the Board Chair or the Lead Director support the Founder CEO in this process.

## Example B: The Inexperienced Board Chair

The Context:

The company had a Founder CEO who was a gifted scientist but lacked experience and skills to scale the Company. The board was properly structured, however the acting Chair, representing the major investor, did not have the necessary board experience and knowledge.

What happened?

The Chair did not direct the board to act decisively on several major strategic issues which required the guidance and approval of the Board:

1. The fundraising strategy:

a. The Founder CEO had unrealistic expectations. The company slowed pace dramatically and subsequently lost its competitive advantage. The board had to challenge this strategy and provide the necessary guidance, but it did not.

2. The business plan:

a. The Founder CEO presented a business plan with unrealistic targets. Instead of challenging the assumptions and asking the CEO to redraft the business plan, the board just rubber stamped the business plan.

3. Hiring an experienced CEO:

a. Early on it was evident that the company needs an experienced commercial CEO to support the Founder CEO in scaling the business and achieving the vision of the founding team. Similar companies in the US were applying this playbook for years. The Founder CEO could then focus on research and development, where he excelled. His work would further strengthen the competitive edge of the company.

b. However, due to lack of experience the board assumed that Founder CEO replacement would break the company. This measure was always postponed until it was too late, and the business could not afford it anymore.

Learning:

Whenever possible, do appoint the most qualified and experienced board member as a Chair – regardless of the size of the investment or stake she represents. This will contribute to the health of the board agenda and the company's business results.

# Founder CEO Point of View #3

Name:
**Miro Miroslavov**

Company name:
**OfficeRnD**

## How a “missing” Board Chair looks like

- In theory we had a Chair
- In practice I never understood what he does
- The Lead Partner of the VC which led our previous financing round was elected as Chair
- I understood he is the Board Chair when we were closing our last capital raise

## How a real Board Chair operates

- We have weekly 30-minute calls with the Board Chair, and she is my personal mentor. She has been three times the CEO of $100 million ARR companies. She is very experienced and knowledgeable.
- She chose the format of our board pack.
- She works with members of my executive team to prepare them for board presentations and discussions.
- She revises the deck 1 week prior to me distributing it to all the board members.
- She asks great questions and prioritizes topics we need to discuss at the board or during additional working sessions.
- She is actively present at the company so that the team knows her.

## What makes you a good board director?

The answer to the above question starts with another question: what are the major challenges ahead of the company and who can help our management team navigate these successfully? This is the fundamental question that defines a top-notch board director.

Let's look at the personal profile of the "dream director" first. The most important probably is to be prepared, curious and independent (as described earlier). You need to recognize and manage conflicts of interest. You should be a good listener, communicator, and influencer. You must be **courageous and most importantly ask good questions.** If there is one single quality, you need to master as a successful board director – this is the one! It underpins all the other qualities.

To have significant leadership experience, solid financial acumen, and unquestionable reputation and integrity is essential. Most importantly you must possess knowledge, know-how and experience in areas where the company faces its most critical challenges.

To get you started here are some of the best questions to ask at a board meeting. These will support the discovery process of identifying and selecting options to address the key business challenges.

The first set was originally designed by Dean James Ryan:

# 5 Essential Questions by Dean Ryan

1. **Wait, What? The root of all understanding.**

   This is a way of asking for clarification which is the first step toward gaining deep understanding

2. **I wonder...? The heart of all curiosity.**

   This is a way of opening up possibilities and consider ideas beyond your first reaction

3. **Couldn't we just...? The beginning of all progress.**

   This is a way to get unstuck and effectively address different opinions or disagreements - how to take the next step when there is uncertainty

4. **How can I help? The base of all good relationships.**

   This is a way to be valuable and humble at the same time while recognizing others' abilities.

5. **What truly matters? The heart of life.**

   This is a way to identify the key factors, issues and objectives. It is a way to build alignment with priorities.

In essence, the question “What truly matters?” might end in several different ways – what truly matters to me, to the board, or to the company’s growth. You can fine tune here. This is an excellent segue to the second-best set of questions we are aware of[16]:

- Why do we exist (as a company)?
- How do we behave?
- What do we do?
- How shall we succeed (in this endeavor)?
- What is most important, right now?
- Who must do what?

Start-up companies are fast moving, dynamic, always under-resourced, under pressure, and with many conflicting priorities. The executive management needs to have a laser focus on their top priorities instead of spreading themselves thin and trying to be everything to everyone. As focus is critical, our favorite question of all times is: **What is most important, right now?** In conclusion, before starting to impart your wisdom to the board, you must first ask several questions, listen, understand, and think. This makes you a better director and the board is much more likely to add value to the business. As an added bonus, here is another great resource – Jerry Colona’s questions to awaken authentic dialogue.



[16]Courtesy of Patrick Lencioni from his seminal book “The Advantage”.

# Founder CEO Point of View #4

Name:
**Ivan Osmak**

Company name:
**Quantive, MeatBorsa**

## Major Challenges with the Board

- Different share classes create a fundamentally misaligned board – to the point that I don't think it can be fixed – only managed.
- Veto rights of any sort are a gun to the forehead. Even one veto right, such as budget – can translate into absolute power (if you don't do XYZ, I don't approve the budget for example).
- Non-executive board members don't really face any [real] downsides for poor judgement or advice.

## Recommendations and Expectations to the Board

- Have only common shares. Solves 90% of all problems.
- No veto rights, follows from all common shares. Clearly defined qualified majorities for important issues. Whoever wants to run the company, is free to buy enough shares to vote accordingly.
- The best and most helpful board members I've ever worked with have one distinguishing quality: they do not give advice, just ask a lot of questions. Advice is cheap, great questions are priceless. Anyone who says they've seen "X" working at "company Y" is a charlatan who is at best not helpful and at worst dangerous.

When joining a company's board, it is imperative that you ask yourself: What are the key challenges here, and how am I going to help? What role am I going to play? Until when am I relevant as a board member? There is no exhaustive list of board director personas and their role on a board. Here is an example of the five most common personas (roles you can play) of board directors[17]. Consider your strengths and where you can add the most value. If you can play several of these roles, especially in earlier stage boards, even better.

## Building a Board of Directors: The Five Most Common Personas



### CEO Whisperer

TYPICAL BACKGROUND

CEO, general manager, or president of a large division

SAMPLE CHALLENGES ADDRESSED

How do I build and manage my board of directors?

How do I build and manage my executive team?



### Voice of the Customer

TYPICAL BACKGROUND

Functional leader who represents the buyer of your product (i.e., CTO, CIO)

SAMPLE CHALLENGES ADDRESSED

Are our products ahead of industry trends?

How can we get introduced to decision makers to expand key accounts?



### Industry Expert

TYPICAL BACKGROUND

High-profile executive in relevant industry

SAMPLE CHALLENGES ADDRESSED

How do we establish credibility in a key market?

Who can introduce us to regulators in our industry?



### Functional Expert

TYPICAL BACKGROUND

Functional leader (i.e., CRO, CTO)

SAMPLE CHALLENGES ADDRESSED

Should we hire a CRO?

How do we continue innovating on one product while investing in new product lines?



### Venture Capital Expert

TYPICAL BACKGROUND

Experienced Investor (Partner, Principal, Board Partner of a respected VC firm) with expertise in financing startups

SAMPLE CHALLENGES ADDRESSED

Who is the right investor for this venture?

How do we approach fundraising, what's the equity story?

What is the situation on the market right now? What are competitors doing?

[17] The Strategic Approach to Building a Board by Jeff Stump and Shannon Barbour at a16z

For start-ups, the board is not just a governing and oversight body. We are also a resource. Each board member may help in several ways:

1. Expertise and skills
    a. You can mentor leaders in the company in the area you are an expert in (e.g. if you have sales experience, you can help the Chief Revenue Officer plan their management processes better).
    b. You can help design effective policies and procedures in areas you have significant experience in (e.g. you might work with the CEO to design a process to attract, hire and retain talented staff).
2. Network and connections
    a. **Capital:** You can be a great source of introductions to potential investors
    b. **Sales:** You probably know some potential customers and can introduce them to the company
    c. **Recruiting:** As a seasoned business operator, you might be able to help recruit talent at different levels of the company
3. Feedback – The CEO and their team grapple with “a few” strategic and tactical decisions. Be ready to act as a sounding board on issues you are experienced in. You can readily provide your feedback and input in the boardroom and outside of it. As a board director, you are probably the best source of strategic advice for the team.

Anyone who thinks the job of a board director is a cushy role with plenty of perks, where “fat cats” smoke cigars in mahogany boardrooms, is probably disappointed by now. It is a lot of work, and you must be truly aligned with the mission of the company. We must all be ready to roll up our sleeves, constantly learn, get better, and stay the journey.

# Founder CEO Point of View #5

Name:
**Miro Miroslavov**

Company name:
**OfficeRnD**

## Major Challenges with the Board

- Being scared of your board and especially your investor board members.
- Turning the board sessions into CEO reporting to investors.
- Unsure how to use the board and organize the members to drive company success.
- Having the wrong board members for the company (its size, goals, etc).

## Recommendations and Expectations to the Board

- Try really hard to fully understand the company - the problems, the customers, the market, the strategy, goals – all of it.
- Be prepared for every board meeting.
- Work for the company - always be an ambassador who is selling the products and recruiting the best talent.
- ·Support the C-suite executive managers and help them be the best versions of themselves.

# Real Life Story #5

## A Fallen Star with Broken Board Dynamics

**By Michael Schuster**

### Background

This consumer business was benefiting from the positive funding environment in 2021, when it raised 40m Euro in a financing round from a family office that promised to contribute expert industry knowledge and a wide network of contacts for expansion into other countries. Part of the financing round was a secondary for the founders, who took about 5m Euro off the table.

The board consisted of one of the four founders as board chair and the previous round investors. With this financing round the number of board members was increased to 6+1, with the CEO controlling 3 board seats, the main investors having 1 board member and 1 observer, and the right to nominate an independent member (an industry expert with a background in corporate business), plus the existing investor retaining their board seat.

About a year after the investment, it became clear that the lofty business plan was unachievable, the market entry into another geography wasn't working, and the bull market of 2021/2022 was coming to an end. As the results were bad, the leadership team got into a conflict and the CEO was asking the board to remove two executives from it. After a lengthy discussion the board voted to remove the CEO over disagreements on the strategy and put an existing leadership team member in charge. The ex-CEO retained his board chair and still was the biggest shareholder.

Soon after the board became dysfunctional, unable to make decisions. The directors were stuck in long discussions without achieving any productive outcomes.

## Analysis

The case above is a perfect example of one of the five dysfunctions of a team. Following a number of questionable decisions (removing the CEO and putting the “internal rival” in charge; founders taking money off the table when the business suffered shortly after; the CEO being Board Chair and controlling three votes, but board seats being de-facto empty) the board members did not trust each other any longer. No matter what they tried to accomplish, the absence of trust was leading to fear of conflict (“If I say what I really think, how will the others react?”) and rendered the board almost unable to perform its role.

From a team with a common goal, it transformed into a lever for exercising power. This power dynamic was destructive, as it turned the conversation away from “What’s best for the company?” to “What’s best for me?”. Egos prevailed over company goals.

## Learnings

- Trust is hard to build but easy to lose.
- When the business fails, fundamental conflicts arise. When the business flourishes, many conflicts are not visible. It pays off to actively look for conflicts and resolve these while times are good.
- CEO Succession (no matter how the business performs) is a difficult exercise, needs a lot of work, and has a high chance of failing. It is always advisable to make a clean cut.

# Decision-Making Models

The ultimate objective of any business is to create value. As directors, that is our primary focus. At the same time, every business has a mission, a purpose – defined by the founders or owners. The winning combination for a business is to deliver both profit and fulfill its purpose. An excellent quote from Professor Colin Meyer at the World Economic Forum in 2020 illustrates this thought well: "The purpose of the corporation should be to produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people or planet." All start-ups go through a development period from ideation to cash flow generation. While the ultimate objective is creating economic value, there are a few steps a start-up goes through to get there:

1. Creating a compelling pitch
2. Securing funding
3. Achieving product/market fit
4. Scaling the business – getting to profitability and positive cash flow generation
5. Building a moat and scaling further – reach a leveraging[18] effect in your P&L

In the real world, you will likely serve on the board of a company that has already secured funding (step 2. or 3. Above) and is now working hard to demonstrate product-market fit. We focus here on the trajectory to profitability and how it impacts our board decision making.

## Ultimately generate profit and free cash flow

The objective of a business is to create value added, or in other words to increase the market valuation of the company and generate profit and free cash flow. Initially, startups burn cash until they reach product-market fit and scale. Ultimately, the business needs to generate a return higher than the cost of capital it must pay back to shareholders and banks. And there are four levers to help our company achieve that:

[18]When your sales, general and admin costs grow significantly slower than your topline, most of the gross profit is converted to EBITDA. As a result, the EBITDA grows even faster than revenue and gross profit. Your P&L account is experiencing a positive leverage.

1. Sales growth
2. Cost control of input prices
3. Cost control of overhead
4. Efficiency of resources (capital, inventory, equipment, receivables, payables) used

The moral of the story is that when we (at the board) discuss past performance or future plans proposed by management, we need to ensure we understand how the above four drivers of value are positively influenced by our actions, so that the company creates value added. If we don't, we are just participating in a talking club.

This is particularly important when the management proposes a new initiative. You need to help create discipline at the board of building and presenting solid business cases for the most important projects and initiatives before you approve these. Otherwise, you might be undersigning the destruction of value. There are widely accepted ways to evaluate the feasibility of a business case:

- Discounted Net Present Value of future cashflows
- Internal Return on Investment
- Breakeven period

We prefer the incremental Profit and Loss (P&L) account for each meaningful business case. This simple approach helps evaluate the business case, ensures everyone involved has the same understanding, and is easy to add as an overlay to the annual budget. When you prepare a separate P&L account for a business case, you use the format of the budget P&L, adding only the incremental costs (overhead, cost of goods sold, investments), the additionally generated revenue and profit/loss for a period of time (normally by the end of the budget year to start with). This is not a finance textbook, but we want to underline the importance of having solid financial acumen and addressing these crucial points throughout the board deliberations.

Here is a simple concept to focus our board discussions on creating value. It is called the **Strategy Stick**[19]. Strategy and financial projections must be analyzed together. If the strategy is not expected to deliver value creation it is not worth pursuing.

[19]Courtesy of Professor Tim Rowley – co-director of the International Directors' Programme at INSEAD.




This graph illustrates the three major components a strategy might address to create value. Each strategic initiative should either reduce costs, drive volumes, increase customers' willingness to pay – or deliver any combination of the above. We must ask ourselves as a board – which of these three components are positively driven by the activities performed or strategic initiatives implemented. We can even draw our Strategy Stick in comparison to competitors and visualize our value proposition to our clients. Use this approach to focus every board strategy discussion on the potential merits of any initiative.

If only life could be so simple. We are all human, and when we make decisions, we are constantly subject to our biases, which severely affect the quality of our decision making. Let's see how we can address this.

## How to overcome your biases – individually and as a group?

Decision making on boards is always under risk, time pressure, uncertainty, stress, and complexity. This reality is further complicated by our human biases in decision making. Decision-making bias is like a magical fog that clouds our judgment. It occurs when we unknowingly rely on our past experiences and beliefs to make choices. These mental shortcuts can lead us astray, causing decisions that differ from what we'd do without biases. A good resource to help you navigate the murky waters of biases can be found here. We will cover four key biases and ways to overcome them throughout your board work.

1. **Anchoring** – imagine you are at a marketplace in Istanbul, and you are buying a beautiful rug. The seller tells you it costs $1,000. Your mind latches onto this initial number—the anchor. Now, even if the seller drops the price to $800, it feels like a steal. "Bargain!" you think, ignoring the fact that it's still a princely sum. And the real market price can be $150, but you don't know that. What can you do about it?
   - View the problem from different perspectives.
   - Think about the problem on your own before consulting others – as you may be anchoring them and yourself.
   - Be especially aware of potential anchoring in a negotiation situation – organize a tender.
   - Start the discussion with several anchors – or a range.
   - Look for independent third-party datapoints.
2. **Loss aversion bias** (also known as the Sunk Costs bias) – one of our deep biases is to make choices that justify bad choices we have made in the past. Like investing a lot of effort in improving the performance of an employee, who will never make it. Or pouring money into an existing project that will never have a positive return on investment. What can you do about it?
   - Ask a new team or person to make the decision about an issue that has been ongoing for a while. A team that has not been involved in this project in the past and has no emotional attachment to it.

- Remind yourself than even smart choices can lead to bad outcomes. You are not immune to errors in judgement. Per Warren Buffet “When you find yourself in a hole, stop digging.”
- Look out for potential loss aversion biases in the decision of others. When necessary, reassign responsibilities.

3. **Confirmation bias** – our innate preference for information that is consistent with our own point of view, rather than information which opposes it. What can you do about it?
   - Choose a devil’s advocate on a rotating principle from the board – depending on the subject.
   - When seeking the advice of others, don’t ask leading questions. If you find that the adviser often gives you the advice, you would like to hear – replace them. Do not surround yourself with yes-men.
   - Try to obtain information that disconfirms your hypothesis, beliefs, or your data sources. Think of reasons why your hypotheses, data or beliefs might be wrong.
4. **Overconfidence bias** – Most of us are not very good in making estimates and forecasts. We are overconfident in our forecasting accuracy. This can lead to dire consequences, particularly in a business setting, where most investment decisions often hinge on a range of estimates. What can you do about it?
   - Women statistically are less overconfident than men – so bring women to your board.
   - Start by considering the extremes – the high and low values of the range you are considering. Then challenge your assumptions and test different drivers of the values you are considering.
   - State your estimates honestly and inform others if they have been adjusted or not. Share your assumptions and take a second look at the more sensitive estimates.

When we make decisions, we either use our intuition or decision making models. Biases are a product of our intuition, which is a result of our experience and learning. Our intuition can serve us well for making quick and easy decisions on simpler topics. A good resource to help you navigate the murky waters of blind spots is the Mental Models approach. Understanding and using some mental models positions you to make fewer errors, see things others miss, and take better actions.

## What is a decision-making model and process?

When decisions involve complex issues, we will be considerably better off by using a decision model and process[20].

A good example is the decision weights model. The procedure is pretty simple:

- Identify all the important criteria.
- Divide 100% points among the criteria according to relative importance.
- Translate information about each option on each criterion into a numerical equivalent.
- Compute the weighted overall total for each option.
- Decide

Here is an illustration of a decision weight model for opening new offices in a new location:

| OPTIONS | Country risk | Size | Population in radius of 3km | Labour Cost | Cost of living | Price of row material | # of business not competing |
|---|---|---|---|---|---|---|---|
| 1 | high | 100 | 300K | 2.5 | low | high | 3 |
| 2 | low | 25 | 1M | 3.82 | High++ | medium | 5 |
| . | . | . | . | . | . | . | . |
| . | . | . | . | . | . | . | . |
| 15 | medium | 10 | 250K | 3.96 | Low-- | low | 7 |
| Ranges | 5 levels | 0-100 | 0-1M | 2-4 | 7 levels | 3 levels | 0-20 |

You then come to the conclusion by using simple linear model to rescale the table into a decision weight ranking:

[20]Informed by the work of Enrico Diecidue, Professor of Decision Sciences at INSEAD.

| OPTIONS | Country risk | Size | Population in radius of 3km | Labour Cost | Cost of living | Price of row material | # of business not competing | Total score |
|---|---|---|---|---|---|---|---|---|
| 1 | 0 | 100 | 25 | 60 | 80 | 20 | 40 | 47.5 |
| 2 | 100 | 60 | 100 | 70 | 0 | 50 | 50 | 59.5 |
| . | . | . | . | . | . | . | . | . |
| . | . | . | . | . | . | . | . | . |
| 15 | 75 | 20 | 15 | 95 | 100 | 90 | 60 | 65.0 |
| Ranges | 5% | 20% | 10% | 25% | 10% | 10% | 20% | |

In conclusion, high quality decision-making at the board level requires a solid decision-making process, particularly for important and non-trivial decisions. A good process includes several elements:

- Fair and transparent with clear criteria and evaluation principles.
- Accountability and targets are crystal clear.
- Different phases with a precise timeline.
- Clear list of people responsible and deliverables expected in each phase, check lists and milestones.
- Decision makers don't only tell, but they listen to the input.
- The process needs a phase of testing hypothesis for sound learning.

Converge and agree on a process, then stick to it! Define success beforehand and measure it. Remember that a well-made decision does not always guarantee the expected outcome. Groups, all conditions being equal, always make better decisions than individuals. The best group composition for a decision on a particular topic includes: a subject matter expert, supported by a professional team with diverse views, and members who disagree with each other.

# Key Takeaways from Chapter 4: Improving Board Dynamics and Decision Making



1. A productive board meeting must have a chair, be expertly facilitated, and include healthy debate, based on diverse opinions, and come to a clear conclusion on next steps.
2. The best director is independent, curious, well prepared, courageous, and asks great questions. She has formulated an opinion prior to the meeting and is ready to change it should significant new information emerge.
3. Creating Economic Value Added should underpin all major decisions you make as a director. Having a solid financial acumen to understand and assess this is an important prerequisite of being a director.
4. We are all human and have biases – simple approximations that help us make quick (and often wrong) decisions. You need to be aware of biases and take specific practical steps to overcome them.
5. When making decisions on more complex issues, use decision-making models and tools (e.g. decision weight table) to significantly increase the probability of making a better decision.

Chapter 5

# Effective Board Meetings and Fair Process Leadership

Boards have limited time together. In that precious time, you need to make important decisions under pressure, often without enough information. Every effort to make each board discussion as productive as possible is crucial.

# Conducting Effective Meetings

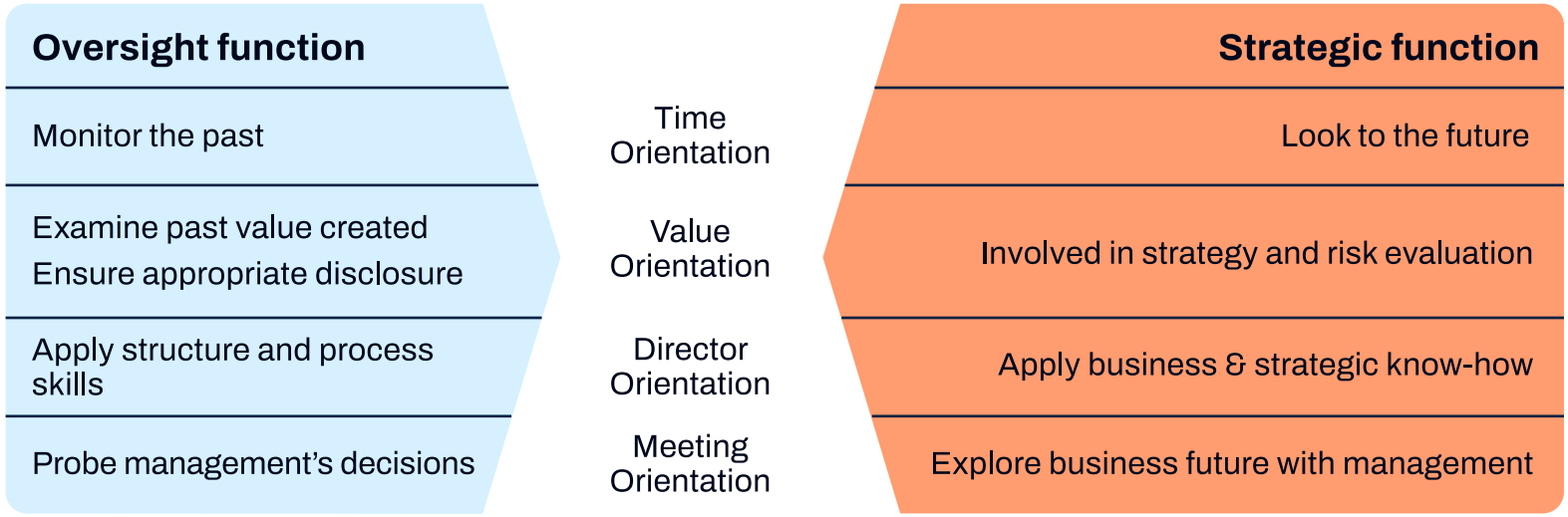


1. **Agenda** – the chair and the CEO must agree the most pertinent agenda for the meeting, based on the question "What is most important right now?"
   a. The agenda needs to be circulated at least a week in advance so that directors have ample time to prepare for the discussions.
   b. The executive management needs to send a board pack at least 2-3 days before the meeting. The board pack serves as pre-reading for the directors, follows the agenda and creates context for the planned discussions.
2. **Agenda content** – the agenda should maximize the time spent on discussions addressing the biggest challenges, opportunities, and most important initiatives in the business. Here are some best practices on the agenda structure:
   a. **Start with a CEO update** (15 min max) – a best practice for the CEO to approach the update is in the following way:
      i. What has changed since the last meeting - strategic logic, analysis of change?
      ii. What decisions were made to address these changes and what is the rationale for that?
      iii. What are the risks and downsides keeping the CEO "awake at night"?

   In this way the board and executive management will be on the same page, focused on the same priorities. The inherent information gap becomes narrower as a result.
   b. Spend 20% of the time on presentations and **80% on discussions.**
   c. Have a **Q&A session, based on the pre-read pack,** distributed by management.

d. **Select focused topics** (max 1 or 2 per board meeting) – important topics which may drive forward the valuation of the company. The idea is that the board helps the executive management through deliberation to make potentially the best decision on each focused topic, while considering and weighing all the options. It is very good practice to frame the focused topic discussion in the meeting – for example by drawing out the options available and the key questions which need to be answered. Some examples of focused topics are: go-to-market strategy, expansion into a new market, organizational design, recruiting a new CFO, etc.

e. Most of the time at the board needs to **be future oriented** – so less time digging into the details of financial reporting, and more time discussing strategic challenges and opportunities like go-to-market, talent planning, strategic initiatives, equity raising, product development, expansion strategy, organizational design, customer acquisition, systems and processes, etc. Below is included an illustrative direction on how boards can best spend their time, courtesy of Tim Rowley.



3. **Preparation in advance** (preferably in writing): Every director needs to carefully read the pre-read and tap into diverse information sources, beyond what management provides. Focus on:
    a. Prepare some good questions.
    b. Prepare your own individual position on the agenda topics and your own answers to the questions posted.
    c. Going into the board meeting, remain ready to be convinced.
    d. Prepare in writing as our memory is imperfect.
4. **Meeting facilitation** – for every discussion, agree on a decision-making process and appoint a chair to facilitate:
    a. If new information appears, feel free to reset the agenda topics.
    b. The chair manages the process to achieve the meeting objectives and agree next steps. The chair keeps her opinion till the end of the discussion and does not try to influence the others in the room. You, as chair lead from the front on the process and from behind on the decisions. Keep the ideas documented and follow through.
5. **Discussion objective – to improve the decision / model** – Many CEOs use the board to confirm their model and validate their ideas, turning the meeting into a "tennis match" or a disguised presentation pitch. A valuable use of the board time is to improve the model and decision quality. Here is the differentiation between the two approaches:

| Board Discussion Objective | |
|---|---|
| **To confirm your model** | **To improve your model** |
| 1. Seek similar views<br>2. Strike down different views | 1. Seek out different views<br>2. Strive to understand differences |
| **Concequences in behaviour of these two styles** | |
| • Defensive behaviour<br>• Right or wrong evaluations<br>• Judge people as positive or negative<br>• Culture competition and tension<br>• Political process rather than consensus | • Surface your assumptions<br>• Improve your model<br>• Influence others (change their model)<br>• Build common views in the team<br>• Build deeper understanding and a better model |

6. **Decision Action List**[21] – It is essential that all decisions and agreed actions are aligned and recorded. This will have a triple positive effect – make sure the team is fully aligned, ensure focused execution and guarantee people are accountable for their responsibilities. A special chapter on the DAL is included on pages 90-91.
7. **In camera sessions** – At the end of each board meeting, hold a short session without the executive management. This allows the board to freely discuss and assess the CEO and her team's performance and agree on interventions, feedback, and next steps if necessary. Make this a habit.
8. **Annual Board Calendar** – Certain items are discussed at every board meeting, like the CEO and financial updates. Other important topics may be discussed periodically throughout the year. Creating an annual calendar ensures no important elements for the company's rapid scaling are missed – like budget, strategy planning, talent development, equity fundraising, international expansion, and others.

[21]Courtesy of Jaap Koopmans, an excellent executive coach. He taught us the power of this simple concept and we have never looked back.

# Founder CEO Point of View #6

Name:
**Dejan Nikolic**

Company name:
**smartocto** (previously **Content Insights**)

## Major Challenges with the Board

- Presenting the situation in a way the board members fully understand what is going on and how they can help
- [Too many] Reports
- [Making] Predictions

## Recommendations and Expectations to the Board

- The board is there to support, not to manage
- Find a board member who will serve as your shrink, friend and confidante.
- Always keep the board directors prepared for fundraising (especially if the board members are VC partners)

# Real Life Story #6

## Navigating Difficult Times or the Value of Independent Directors

**By Michael Schuster**

### Background

The company, a scale up in Travel eCommerce, did a growth round of €50 m about 18 months before COVID hit. It was in full growth mode, spending millions on advertising every month to bring in customers. The board at that time consisted of all the previous investors (3 members, one observer), the main investor (one member and the board chair), one founder and numerous observers (from previous investors and debt providers).

When COVID hit and global travel quickly came to a halt, the board had to switch to emergency mode, having board meetings every second week, assessing the situation as it unfolded. The revenue went from a couple of million a month to negative revenue (!) as the down payments that customers had made for their trips, had to be refunded.

The growth fund that had invested became progressively critical of the business, doubting the long-term prospects of the company and focused their efforts on other portfolio companies (that were also in trouble but had a better outlook for the fund). That posed a significant challenge, as the board became an essential resource to the business. It had to secure emergency funding to bridge financing needs before public aid would kick in and the workforce could be reduced (about 70% of all employees had to leave).

Strengthening the board included the following steps:

- Bringing in an industry expert as independent chair.
- Replacing the chair previously nominated by the main investor.
- Replacing the board member of the main investor with someone else from the firm.

The company also formed a fundraising committee and raised €10 m more in a mix of debt and equity from existing investors. The existing debt was restructured along the way. Strategy changed to diversify revenue streams in the future. The business survived COVID, came out stronger and more resilient and is now back on a growth path, boasting a significantly higher capital efficiency.

## Analysis

The swift and open resolution of switching out the two board members of the main shareholder to bring in people who could dedicate enough time and were in full support of the business proved to be critical for the process. The independent industry expert was a perfect pick, as he worked with the CEO in a coaching capacity to transform the business. He also facilitated the board discussions to resolve major conflicts. His contribution was less in terms of industry know-how, but significant in his role of a trained coach and facilitator.

Bringing all significant investors into a committee of 5 people to tackle fundraising was highly effective. They could work together on a common goal, securing funding for the company. Two factors were essential to bring all committee members on the same page:

- The smaller size of the group
- Everyone who needed to contribute funding was involved in the entire process and felt ownership.

As this story unfolded, it proved to be a blessing that the board members had complementary skill sets and had built mutual trust in previous years.

## Learnings

- Investing in a working board pays off – not short term, but long term.
- Addressing major conflicts fast offers the opportunity to change things for the better.
- Independent directors can help facilitate difficult discussions, especially when they are experienced in that.

Smaller groups, focused on a common goal, help bring people on board.

## How to prepare the right board pack?

The board pack is not a presentation – it is a pre-read and a preparation document that sets the context for the board's work. Ideally, the board and executive management will have a specific discussion outlining the areas covered in the board pack – both as standing agenda items and focused topics. Each company and board have their specifics. We offer an example board pack outline as a starting point for your board to build its own. Business evolves, and with it the topics the board needs to deliberate on. You will likely update the board pack from time to time.

An example board pack:

1. **Decision Action List** from previous session
2. **CEO Update**
   a. What has changed since the last meeting - strategic logic, analysis of change?
   b. What decisions were made to address these changes and what is the rationale for that?
   c. What are the risks and downsides keeping the CEO "awake at night"?
3. **Financials** and performance
   a. P&L vs last year, last month and budget
   b. Cash flow statement vs budget
   c. Burn rate and cash flow projection - when capital needs to be raised
   d. Balance sheet
4. **Sales and marketing** update
   e. Lead generation funnel
   f. Sales funnel status and 3 months forecast
   g. Churn analysis
   h. Unit economics = ACLV[22] / CAC[23]; if < 3 you need to reduce acquisition cost or increase ACLV; if > 5 you might want to accelerate the sales and marketing effort – to drive scaling
   i. MRR and ARR development

[22]Average Customer Lifetime Value
[23]Customer Acquisition Cost

5. **Customer experience** update
    a. NPS score
    b. CSAT score
    c. Major improvement initiatives
6. **People** update
    a. Organizational development and status vs headcount plan
    b. Key roles to be hired and risks
    c. Talent development needs and plans
    d. Company culture and engagement
7. **Product** update
    a. Progress vs product road map
    b. Development productivity metrics
    c. Planned changes and features – which customers are ready to pay for these
8. **Strategic initiatives progress** vs plan – track progress on the 3-4 critical strategic initiatives vs plan – e.g. if you open a new geography or scale-up product development.
    a. “One pager” on strategic initiatives progress
    b. “One pager” on customers and competition
9. **Focused session** (ideally 1 per board meeting; if more are needed, extend the meeting or move the additional topic to another board session). Some examples of focused sessions might cover go-to-market, sales funnel development, international expansion, organizational design, product development, outsourced activities, customer
    a. Context
    b. Questions to be answered
    c. Options considered
    d. Advise and support needed
10. **Fundraising** update (if currently relevant)
11. **Requests for support** to the board

Please note this example is more relevant for a scaling company well beyond product/market fit. Ideally you will start with a much shorter board pack – agreed between executive management and the board. Then over time you are likely to augment and expand it, based on your company's reality. The board pack is a living document that needs to support quality board discussions, strategy development and oversight. Often a lot of the topics in the board pack will not need to be updated at each iteration.

As a board director, you need to be prepared to roll up your sleeves and provide subject matter expertise or support in areas you are well-versed in. Formulate your own opinion prior to the meeting but be ready to change it based on relevant new information or insights. Ensure you understand the support requests from executive management and act timely on these, as agreed.

## How to take effective notes?

Board meetings should have formal documentation summarizing discussions, decisions and actions agreed upon. In many countries, this is a legal requirement. Minutes are mandatory and must be accurate. It is important for legal reference that:

- A designated director ("Recording Secretary") takes minutes. If the board resolution is legally complex, a lawyer should review all minutes taken by the Recording Secretary.
- Most items should not be recorded in detail – an overview with brief, factual statements are best. Use objective language and fewer adjectives.
- Avoid using names that come up in discussions, especially people you want to recruit, prospective investors, and potential buyers or acquisition targets.
- Certain topics, like voting, must be recorded in detail – you may want to consult your lawyer.
- Type up the minutes as soon as possible after the meeting.
- After minutes have been reviewed, send it out to attendees, and keep a copy.
- Directors formally approve minutes at the following board meeting.

The formal board meeting minutes are not the primary topic of this chapter. The above information is provided for your awareness as a valuable board director. You can find sample meeting minutes here, courtesy of Brad Feld[24].

Every team meeting, especially a board meeting, needs clear alignment by every participant on the decisions made and actions agreed upon. To help you record the outcomes of your board discussions in an actionable and easy to follow format, we propose the Decision Action List (DAL) instrument

## Decision Action List

| No. | Decision/Action | Who | When |
|---|---|---|---|
| 1 | Finalize pricing strategy by tier | George | 16 Dec 2023** |
| 2 | Prepare options for new market entry prioritization based on agreed criteria - market size, cost of market entry and active competitors | Alicia | May board meeting |
| 3 | Increase sales funnel by 5% in value terms | Anita | 30 Jan 2024 |

*Each asterisk means one delay

[24]Brad Feld is the lead author of “Startup Boards” - an essential guide to understanding the dynamics of a startup's board of directors

You can use the DAL instrument in the following way to increase the clarity, effectiveness and accountability of your business:

1. **Have a dedicated person** who takes and maintains the DAL over time. You can rotate the directors doing that or have an appointed responsible.
2. **Start each board meeting with the DAL** – go through and check if actions have been taken as agreed (this should take 5-10 min max):
    a. If the action is done, take it out of the DAL.
    b. If the activity is delayed for a good reason and needs to be rescheduled, change the target date in the “When” column.
    c. If the activity is delayed one iteration, put an asterisk (*) next to the date in the “When” column. Normally after two ** the board chair should have a separate conversation with the person responsible.
    d. In this way you will ensure commitment, accountability and will create constructive peer pressure for people to follow through with their responsibilities.
3. **Record Decisions and Actions throughout the meeting** – the dedicated DAL scribe diligently records the agreements as clearly as possible during the meeting
    a. Ideally when she makes a record in the DAL, she would read aloud what goes into the DAL and seek unanimous alignment on the language, deadline and person responsible.
4. **Check the DAL at the very end of the meeting** – if you make it a habit to validate the precise language of the DAL as a conclusion to the board meeting, you will significantly increase productivity (this should take 5-10 min max):
    a. Read aloud (ideally also project on screen) the DAL and ensure everyone has the same understanding of what is captured.
    b. If necessary, make adjustments and validate these.
    c. In this way everyone will be on the same page, your board will avoid misunderstandings and delays.
    d. Everyone on the board will know that now is the time to deliver on the agreements.

Learning is a process. It will take your team several iterations until you become experienced in using the DAL effectively. One thing the DAL is not, is a cemetery where “to do” lists find final rest.

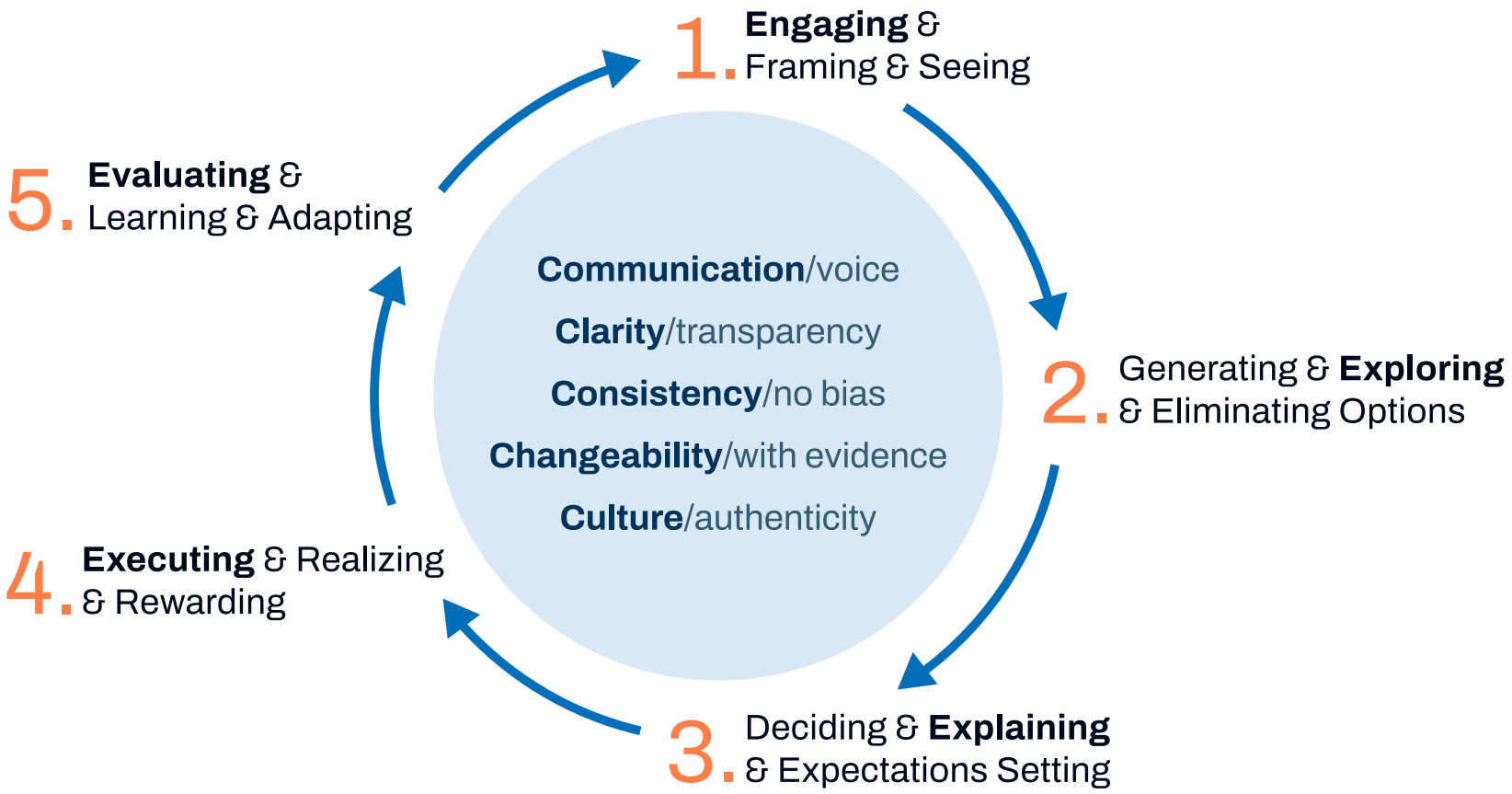
# Fair Process Leadership

One of the critical factors in making any board meeting successful is the process used to find solutions to the company's issues. This is not a new concept, there are tons of materials on the subject[25]. We will guide you through how to run a fair process. Fair process is about procedural justice – it fosters engagement, is driven by clear explanations, and provides clarity of expectations. In essence, **fair process involves everyone in the discussion before a decision is made.** When people are engaged and feel that their opinion counts, they voluntarily cooperate and go beyond the call of duty. If people are managed fairly, they often exceed expectations because their actions are self-initiated and not imposed by others. **Fair process is very similar to the expression of free will.** When others consider our opinion and needs, we may agree to go in a different direction for the benefit of the team.

Here follows the step-by-step guide on how to implement fair process in a board discussion:

1. **Engaging**, Framing and Seeing: Before anything is achieved, the board needs to openly discuss the issues to be resolved. Frame the issue to recognize diverse points of view around the table. This is often the most challenging step but if not taken care of, any other steps in a decision-making process are pointless.
2. Generating and **Exploring** and Eliminating options: Once the issue is clear, structure and stage a healthy confrontational debate. Generate many options to solve the problem and narrow the focus by eliminating less beneficial ones. Everyone around the board table participates, as this is where most value may be generated.
3. **Deciding and Explaining** and Setting Expectations: Select the best options and decide which to choose and which to discard. Agree upfront on the decision-making process – whether by vote, CEO decision, or another appointed person/team. Document the decision clearly, outlining next steps and responsibilities. Ensure everyone is fully committed to the board's decision, even if they initially disagreed.

[25]We would recommend the article "Setting a tone of fairness at the top" by Ludo Van der Heyden, Mubadala Professor of Corporate Governance, INSEAD.


1. **Engaging** & Framing & Seeing
2. Generating & **Exploring** & Eliminating Options
3. Deciding & **Explaining** & Expectations Setting
4. **Executing** & Realizing & Rewarding
5. **Evaluating** & Learning & Adapting
**Communication**/voice
**Clarity**/transparency
**Consistency**/no bias
**Changeability**/with evidence
**Culture**/authenticity

4. **Executing,** Realizing and Rewarding: Executive management executes within the pre-agreed parameters and reports outcomes to the board. The board can reward specific people or teams based on results or delegates this power to executive management. This step ensures follow-up and appropriate consequences for the responsible individuals.
5. **Evaluating,** Learning and Adapting – we all strive to be part of a learning and ever evolving organization or team. To close the virtuous loop in our fair process, we convene as a board to review the outcomes of our decisions, learn, and adjust our approach as necessary.

One key insight is that even an excellent process does not always guarantee the best outcome. As a board we focus on the process – trusting it fosters creative collaboration and produces the best decision, given the current information. Even good boards make bad bets, but we learn from them.

# Key Takeaways from Chapter 5: Effective Board Meetings and Fair Process Leadership



1. Have a well-prepared board meeting agenda, driven by an annual calendar to ensure you thoroughly cover important business priorities.
2. A good board pack serves as an excellent pre-reading and preparation tool for the board directors. This allows the board meeting to be 80% focused on a healthy debate about the future.
3. Seeking different views and understanding them will strengthen your model, help you make better decisions, and improve engagement.
4. Use a Decision Action List to record all actionable output of the meetings and oversee progress. This will increase the accountability and responsibility of the entire team.
5. Fair process is about engaging the entire brainpower of the board to identify the issue at hand and generate options for solving it. If you do this, people will be engaged in execution even if the decision is not in line with their initial opinion. Overseeing execution will help you learn and improve with each iteration.

# This is only the beginning...

If you haven't realized it yet, serving as a non-executive director on a company board is a serious job. In our volatile, complex, and fast-paced world, this requires lifelong learning and professional development. We have referred to many articles, books, and resources throughout this playbook to get you started. Most good business schools provide training, education, or certification for current and future board directors. All leading executive search companies have a board practice. Many countries have professional bodies – Directors' Institutes. In summary, there is an abundance of information available to assist you on your exciting journey as an effective and value-adding board director.

If you need specific pointers or help with resources, please contact us, the authors.

Bon voyage and Godspeed!



## Hristo Manov in

Hristo is an experienced board director and chair. He actively serves on the boards of 6 companies across the world and 2 NGOs in Bulgaria. He is an entrepreneur, angel investor and mentor of leaders and entrepreneurs. He has 27 years' experience in senior leadership roles at Microsoft, Avon and Xerox across 30+ countries. His personal "why" is opening possibilities for people and businesses to grow.



## Daniel Tomov in

Daniel is the founding partner at Eleven Ventures where he has been investing in some of the most promising and exciting tech startups in CEE since 2012 - 160+ to date. Upon the success of their first two funds, Eleven launched a third €60m early-stage VC in 2021 supported by some of the most successful tech entrepreneurs and executives in the region. Being passionate about building companies, Daniel has been involved in startups since 2000 as an investor and a founder in diverse domains ranging from software to cleantech.



## Michael Schuster in

Michael has been working in or with startups for the past 25 years, first building two tech startups, then starting Speedinvest, a Seed stage venture fund that raised over 1bn Euro and invested in more than 300 companies. He served on dozens of startup boards, is currently a board member for a listed CEE banking group and is building Boardroom, with the vision to turn bored meetings into delightful Boardmeetings.



## Todor Breshkov in

Todor is a co-founder and Managing Partner at LAUNCHub Ventures - a leading seed stage venture capital firm in Bulgaria, investing predominantly in tech companies. Todor has a substantial banking experience and his professional expertise lies within the areas of Business Management, Finance, Business Development, VC and entrepreneurship.



## Svetozar Georgiev in

Svetozar Georgiev is a co-founder of Telerik, Telerik Academy, and Campus X. After spending 14 years building a global software company, he is now dedicated to sharing his learnings with the next generation of Bulgarian entrepreneurs. As a co-founder and co-CEO of Telerik, Svetozar has been instrumental in steering the company from a bootstrapped startup to a global market leader, employing 850+ people in 11 offices around the world. Today, he is also overseeing the development of the educational institutions Telerik Academy and Telerik Academy Foundation, as well as the biggest private incubator in Bulgaria – Campus X. His mission is to help the local tech and start-up ecosystems evolve and become strong bottom-up forces for positive change in Bulgaria.



## Alexei Lazarov in

Alex believes deeply in the power of stories to explain the world and make it a better place. For most of his career, he has worked at the business media outlet "Capital," starting as an intern and serving as Editor-in-Chief from 2020 to May 2024. He has witnessed and participated in all significant storytelling transformations in recent years. Alex thinks we are living through the greatest communication revolution in human history, creating enormous opportunities for people and companies.



## Zhaklin Smilkova in

Zhaklin is a graphic and UX/UI designer at Telerik Academy, with previous roles in the Telerik Academy School and Campus X teams. Supporting eleven with graphic design projects.

THE END