



SECOND EDITION

STARTUP BOARDS

**A FIELD GUIDE TO BUILDING
AND LEADING AN EFFECTIVE
BOARD OF DIRECTORS**

BRAD FELD

MATT BLUMBERG

MAHENDRA RAMSINGHANI

**FOREWORD BY
JOCELYN MANGAN**

WILEY

Table of Contents

[Cover](#)

[Title Page](#)

[Copyright](#)

[Foreword](#)

[Preface](#)

[Section 1: Board Fundamentals](#)

[Chapter 1: Introduction](#)

[What's New in the Second Edition](#)

[Who This Book Is For](#)

[Magic Words, Phrases, Abbreviations, and Style Note](#)

[Chapter 2: The Board's Purpose](#)

[Accountability](#)

[General Responsibilities](#)

[Chapter 3: Legal Characteristics](#)

[A Board Member's Legal Duties](#)

[Addressing Conflicting Duties](#)

[Benefit Corporations and the B Corp Movement](#)

[Should You Get D&O Insurance?](#)

[Note](#)

[Chapter 4: Board Member Roles](#)

[Chair or Lead Director](#)

[Executive Chair](#)

[Should You Be Chair of Your Board?](#)

[Independent Board Members](#)

[Board Observers](#)

[Outside Counsel](#)

[Note](#)

[Chapter 5: Board Functions](#)

[The Role of Board Committees](#)

[Informal Responsibilities of a Board](#)

[Control Priorities](#)

[Being Rich and Queen \(or King\)](#)

[Shareholder Rights](#)

[Economic and Performance Priorities](#)

[Emotional Priorities: Trust, Judgment, and Transparency](#)

[Notes](#)

[Section 2: Creating Your Board](#)

[Chapter 6: Size and Composition](#)

[Management](#)

[Investors](#)

[Independents](#)

[Matt's Rule of 1s](#)

[Notes](#)

[Chapter 7: VCs and Boards](#)

[Notes](#)

[Chapter 8: Board Evolution](#)

[Startup Stages](#)

[Limiting the Number of Investor Board Members](#)

[Managing Independent Seats](#)

[Chapter 9: What to Look for in a Director](#)

[General Skills](#)

[Fit with Your Existing Board](#)

[What Does Your Company Need?](#)

[Experiences](#)

[Attributes](#)

[Governance Philosophy](#)

[Chapter 10: Recruiting and Interviewing Board Members](#)

[Sourcing](#)

[The Interview Process](#)

[Interviewing VCs Before They Join Your Board](#)

[Chapter 11: Compensation](#)

[VCs and Management](#)

[Independent Directors](#)

[Notes](#)

[Chapter 12: Board Diversity](#)

[Unconscious Bias](#)

[The First Step: Appoint Independent Directors Early](#)

[The Second Step: Open Your Search to Board-Ready First-Timers](#)

[Notes](#)

[Chapter 13: Onboarding Your Directors](#)

[Using Employee Onboarding as a Guide](#)

[Onboarding New Directors](#)

[Interacting with Your Team](#)

[Chapter 14: Removing a Board Member](#)

[Removing a Founder Director](#)

[Removing an Investor Director](#)

[Removing an Independent Director](#)

[Getting Rid of the Entire Board](#)

[Notes](#)

[Chapter 15: Is an Advisory Board Useful?](#)

[Board of Directors vs. Advisory Board](#)

[Attributes of a Useful Advisory Board Member](#)

[Selecting Advisory Board Members](#)

[Building an Advisory Board](#)

[Challenges of Advisory Boards](#)

[Notes](#)

[Section 3: Preparing for and Running the Board Meeting](#)

[Chapter 16: Preparing for the Board Meeting](#)

[The Value of Preparation](#)

[The Meeting Agenda](#)

[Focus on Critical Items](#)

[The Board Book](#)

[Creating an Annual Calendar](#)

[Notes](#)

[Chapter 17: Meeting Dynamics](#)

[Seating](#)

[The Meeting Length](#)

[Including Your Team in the Board Meeting](#)

[Slides or No Slides?](#)

[Discussion or Decision Item?](#)

[The Executive Session and the Closed Session](#)

[A Board Call Instead of a Meeting](#)

[Remote Attendees and Hybrid Meetings](#)

[The Post-Meeting Survey](#)

[Post Meeting](#)

[Notes](#)

[Chapter 18: Motions and Votes](#)

[Robert's Rules of Order](#)

[Have Your Lawyer at the Meeting](#)

[The Mechanics of Voting](#)

[What If You Don't Agree?](#)

[Dealing with Formal Items](#)

[Minutes](#)

[Unanimous Written Consent](#)

[Notes](#)

[Section 4: Between Meetings: Ongoing Work](#)

[Chapter 19: Managing Ongoing Communication](#)

[What the Board Expects from a CEO](#)

[Communicate Both Good and Bad News](#)

[Note](#)

[Chapter 20: Committees](#)

[Committee Meeting Formalities](#)

[Compensation](#)

[Audit](#)

[Nominating](#)

[CEO Expenses](#)

[Chapter 21: Mentors and Learning by Doing](#)

[Mentorship and Vulnerability](#)

[Learning by Doing](#)

[Chapter 22: CEO Transitions](#)

[Situations That Lead to a CEO Change](#)

[Scale Up with Growth](#)

[Why Boards Fire CEOs](#)
[Planning for Healthy Transitions](#)
[Notes](#)

[Section 5: Transactions](#)

[Chapter 23: Financings](#)

[New Investor-Led Round](#)

[Insider-Led Round](#)

[The Down Round and a Rights Offering](#)

[How Involved Should VCs Be in Financings?](#)

[Convertible Notes](#)

[Venture Debt](#)

[Notes](#)

[Chapter 24: Stock Option Grants and 409A Valuations](#)

[Chapter 25: Selling a Company](#)

[Confidentiality](#)

[Fiduciary Responsibility](#)

[Your Outside Counsel's Role](#)

[Acquihire](#)

[Carve-Outs and 280G](#)

[Shareholder Representative](#)

[Note](#)

[Chapter 26: Buying a Company](#)

[Negotiating and Structuring the Deal](#)

[Financing an Acquisition](#)

[Board Approvals](#)

[Managing Transaction and Post-Deal Integration](#)

[Chapter 27: Going Public](#)

[Process](#)

[Committees](#)

[Confidentiality](#)

[Insider Status](#)

[VCs on Public Company Boards](#)

[SPACs](#)

[Chapter 28: Going Out of Business](#)

[The Zone of Insolvency](#)

[Responsibility to Creditors](#)

[Responsibility to Shareholders](#)

[Liability](#)

[Chapter 11](#)

[Chapter 7](#)

[Assignment for the Benefit of Creditors](#)

[Section 6: For Independent Directors and Aspiring Board Members](#)

[Chapter 29: Preparing for Your First Board Role](#)

[Note](#)

[Chapter 30: Interviewing for a Board Role](#)

[The Interview](#)

[Diligence Items to Explore](#)

[Chapter 31: Your First Board Meeting](#)

[Chapter 32: Communicating Effectively](#)

[Note](#)

[Chapter 33: How to Be a Great Board Member](#)

[Chapter 34: Conclusion](#)

[Acknowledgments](#)

[Bibliography](#)

[Index](#)

[End User License Agreement](#)

List of Tables

Chapter 5

[Table 5.1 Key responsibilities of the CEO and the board](#)

Chapter 8

[Table 8.1 The role of board members at different stages of a company.](#)

Chapter 9

[Table 9.1 Different skills of a board member](#)

Chapter 11

[Table 11.1 Director option grant size by financing round](#)

Chapter 15

[Table 15.1 How an advisory board differs from a board of directors](#)

Chapter 26

[Table 26.1 Board approvals for an acquisition of another company.](#)

List of Illustrations

Chapter 6

[Figure 6.1 Means returns by VC board members.](#)

STARTUP BOARDS

A Field Guide to Building and Leading an Effective Board of Directors

Second Edition

**Brad Feld
Matt Blumberg
Mahendra Ramsinghani**

WILEY

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Foreword

I was honored when Brad, Matt, and Mahendra asked me to write the Foreword for the second edition of *Startup Boards*. As the CEO of Him for Her, I've worked closely with Brad and Matt. They are iconic leaders who have done much to promote entrepreneurship. I also read the first edition of *Startup Boards* and found it to be a helpful outlay for venture-backed boards, so I responded with an enthusiastic "Yes!"

The world has changed immensely since the first edition of the book came out in 2013. Today, boards deal with increasingly complicated issues, including remote work, the great resignation, pandemics, racial injustice, climate change, and social responsibility (Environmental, Social, and Governance, ESG). We now have more diversity in our board members, but not nearly enough.

It was immediately apparent to me, others, and most importantly to Brad, Matt, and Mahendra that the book's first edition had a significant flaw. The stories were all told from a single voice—same race, same gender, same age and thus missing the richness that the best modern boards today reflect. With a good amount of humility, Brad admitted that the book in this state wasn't acceptable, nor was it an accurate representation of startup boards. And then, Brad did what he does so well: he worked hard to change the narrative by spending extra time learning, engaging in many new conversations to expand his network, and broadening the diversity of the people whose stories were in the book. It's not easy to operationalize the intention to make diversity a reality. Extending networks requires leaders to spend the time and energy to find

resources outside what they already know and isn't something that can be delegated.

This edition has more voices telling stories from different perspectives. Because of this, I hope that a broader audience will find interest in this book, its stories, and the roles of CEO, founder, investor, and board member. The future we face demands that the brightest, most passionate, and most engaged people from all backgrounds work together—not a select, similar few.

I've often heard the phrase, “You can't be what you can't see.” While it's easy to think of the phrase as something applicable to role models for kids, it's equally valid for the world of business, professions, and academics. Nowhere in the corporate world are things more cloaked under a veil of secrecy than in the boardroom. Few people ever get the opportunity to “see” the inside of a boardroom or participate in a board meeting. And when conjuring up an image of a typical board member, most envision a 62-year-old White male who was previously a CEO or CFO or an investor who sits on many, perhaps too many, boards as part of an investment firm. While these are familiar images, they aren't the complete picture, and the landscape is changing. For example, you'll see a story from me in these pages. I'm a seasoned product executive who joined her first board in her forties.

Startup Boards shines at demystifying the startup boardroom. It provides readers with an insider's account of board issues, dynamics, and challenges. By breaking down exactly what a board of directors does, what a board member is, what the job entails, and all the scenarios accompanying it, many executives—of all backgrounds—can start to see themselves in this role. In addition, a new section of the book provides the details of getting that first

board seat, so readers who want to have a board role can benefit.

The best companies and the most effective boards seek to gain a variety of perspectives. Guiding companies requires experiences and questions from board members representing various industries, business models, growth stages, ESG experience, customer segments, and functional expertise. One key challenge to building diverse boards is that these roles have traditionally been filled through personal networks, which are limited. Thankfully, many, including our team at Him for Her and Matt's team at Bolster (both of which Brad supports), are working to make it easier to extend networks and build better boards.

The content in this book is helpful to all in the board ecosystem. I hope it engages a broad audience as we collectively pave the path to a more diverse group of people who form and shape our boards and the companies they steward.

Jocelyn Mangan
Him for Her, founder/CEO
February 2022

Preface

The first time I saw the inside of a boardroom, I was the most junior executive at MovieFone, a public company I worked at from 1995–1999 as the “internet guy.”

MovieFone was an interactive telephone/media company at the dawn of the commercial internet. The board consisted of the founders, the chairman/majority shareholder (the CEO's father and a formidable character I'd met a few times), one of the chair's business associates, and one independent director (the even more formidable Strauss Zelnick).

I gave my “state of the department” presentation to that board. I found presenting to that board of directors similar to how a lawyer must experience arguing a case before the Supreme Court. You talk for two minutes, someone interrupts you with a question, and then you stand in the firing line until someone mercifully tells you that it's over. You slink out of the room, rethinking every word that just came out of your mouth, wishing you could have a do-over.

While I worked there, I presented to the MovieFone board several times. Each session was uncomfortable, but I got a lot out of each one. I constantly confronted one question, “Why is your group losing so much money?” I responded each time with an unsatisfying combination of mumbled apologies, while pointing out that other internet businesses were losing much more money.

Even though that wasn't a winning answer with the MovieFone board, it was a formative experience in my career. By the time I started my first company, Return Path, I felt like at least I had a running start on how to form, lead, and report to my board of directors.

I was CEO of Return Path and chaired its board for two decades. We scaled the business through multiple pivots, acquisitions, financings, divestitures, growth spurts, layoffs, two recessions, 9/11, and the dot-com bust. When Validity acquired Return Path in 2019, we were a vibrant, \$100 million revenue, profitable industry leader.

Our board started with two independent directors and me. It grew to a highly functioning board, including three great venture capitalists (Fred Wilson, Greg Sands, and Brad Feld, coauthor of this book) and two outstanding independent directors (Scott Petry and Jeff Epstein). Over two decades, we have had over 15 directors serve on the board. I learned how to build and run an effective board of directors from each of them.

While I've made many mistakes, I've gotten a lot of things correct and have learned a lot. I realized the immense power of a strong board many times, but the most memorable was a board meeting when we were wrestling with several tough decisions since the business was going sideways. These decisions included whether to sell off two business units to focus on our most promising line of business, even though that meant shrinking the company by over 50%. We were also considering whether to expand internationally, and whether we should build an indirect sales channel. In a long and boisterous board meeting stretching from the boardroom to a dinner that included my senior management team, we charted a bold new course for the business that set us on a path we ended up following to a successful exit a dozen years later. A less functional board could have taken a more conservative approach. The business likely wouldn't have thrived and might not even have survived.

Today, my new company, Bolster, helps startups, scaleups, and public companies find and recruit talented executive

leaders, mentors, and coaches. We help CEOs build their boards and have helped dozens of CEOs think strategically about bringing in independent directors. We help CEOs determine the kind of executives they want to add to their boards. And, we help them find, hire, and compensate those directors.

I've taken a different approach to building Bolster's board. The Return Path board consisted of seven White males with prior board experience, similar to most companies throughout history. In contrast, the Bolster board has two White men, one Black man, and three women, one of whom is Asian-American, one of whom is Black, and one of whom is Latina. Four of them are first-time directors. Three of our investors, who are White men, chose to be board observers rather than take a board seat so we could fill board seats with diverse directors. It's early in Bolster's life, but I already feel that our board is more powerful and effective than the one we had at Return Path, especially at this stage. This approach is a new way to scale up a board: leveraging excellence through the observer roles while expanding the boardroom's diversity of experience and demographics.

I've served on a dozen boards and chaired about half of them, including private companies, a public company, a non-profit board, university alumni boards, and a complex industry trade association board with over 40 members. I've spent a lot of time with venture capitalists and entrepreneurs understanding their views on boards. I've also observed my wife Mariquita's experience serving on and chairing several non-profit, civic, and community organization boards.

After completing the second edition of *Startup CEO: A Field Guide to Scaling Up Your Business* and the first edition of *Startup CXO: A Field Guide to Scaling Up Your*

Company's Critical Functions and Teams, I realized that I often wrote and blogged about boards publicly for Bolster and on my blog at startupceo.com. I approached Brad, whom I've worked with in different capacities for 20 years (including sitting on four other boards together), and Mahendra, whom I met when he and Brad wrote the first edition of *Startup Boards: Getting the Most Out of Your Board of Directors*, about collaborating on a second edition.

Since the first edition was written in 2013, I thought an update could include more contemporary thinking about boards. For example, Delaware created Public Benefit Corporations (PBCs) in 2013, and the dialogue about stakeholder vs. shareholder capitalism has recently gained momentum.

While the discussion around diversity in the boardroom was becoming more extensive, George Floyd's tragic murder in 2020 significantly changed the dialog and the urgency around boardroom diversity. Finally, the COVID-19 pandemic impacted all aspects of business, including the boardroom. After a brief discussion, Brad and Mahendra enthusiastically supported the idea. The second edition is the result of our collaboration.

I hope you enjoy *Startup Boards: A Field Guide to Building and Leading an Effective Board of Directors*. If you are a CEO looking to build and lead an effective board, an investor thinking about how to improve some of the boards you are on, or an executive thinking about how to create a “board-ready” profile for yourself, as I did at MovieFone, we hope you find this book useful.

Matt Blumberg
Bolster, founder/CEO
February 2022

Section 1

Board Fundamentals

Chapter 1

Introduction

The word *boardroom* conjures up images of important people puffing on cigars or sipping Scotch while sitting in leather chairs in wood-paneled rooms. They talk about complex things that determine the company's future. Formality and seriousness fill the air. Big decisions are being made.

While first-time CEOs and founders often have an elevated view of the boardroom, great startup boards aren't fancy, complex, or pretentious. Instead, a startup board is usually a small group of people trying to help build your company.

We've served on hundreds of boards. A few were great, many were good, and some were terrible. When things were going smoothly, the board was congratulatory and supportive. When there were challenges, some board members helped, others panicked, and a few vanished. The tempo and interactions of these boards varied dramatically. In some cases, reality dominated the discussion, while often, it was ignored or denied.

After a particularly tedious board meeting, Brad realized that a startup board's default structure, composition, and approach were an artifact of the past, dating to how early venture-backed company boards operated over 40 years ago. Things had changed and evolved, but the dramatic shift in communication patterns and technology hadn't been incorporated into how most boards worked. As a result, Brad ran a two-year experiment where he tried different things—some successful, some not. As with every experiment, he did more of what worked, modified and

killed what didn't, tried new things, and measured a lot of stuff.

The idea for the first edition of this book emerged during this experiment. We decided that in addition to describing the new startup board approach that resulted from Brad's experiment, it was essential to lay the groundwork and clearly explain how startup boards worked and how they could be most effective. Brad's board approach builds upon the traditional board of directors, so rather than throw it out, we use a highly functioning one as the basis for a new and more effective approach to a board of directors.

While the topic may feel dry, we've tried, as Brad and Jason Mendelson did in *Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist* (2019), to take a serious topic and cover it rigorously in plain English with our brand of humor. Our aim is to demystify how a board of directors works, discuss best and worst practices, and provide a set of tools for creating and managing an awesome board.

Unless you've been a startup executive who regularly attended board meetings and interacted with board members, you probably don't know what a startup board looks like, how it functions, or how it impacts a company. Even if you're a founder, you may never have served on a board of directors before, let alone built and managed one. Early in their careers, even venture capitalists often have little board experience.

You may envision a board as a collection of faceless notables, convening meetings around a large conference room table with agendas packed with legalese about corporate governance. You might view the board as a boys' club full of older men either telling the CEO what to do or supporting whatever the CEO wants because they are in the CEO's pocket while enjoying expensive board dinners and periodic boondoggles to exotic locations.

We wrote this book to dispel these myths, demystify the workings of a board, help you understand how to create and build your board while sharing our decades of experience about leveraging your board so it becomes a strategic asset for you and your company.

What's New in the Second Edition

Brad and Mahendra have collaborated with Matt Blumberg on this edition. You met Matt in the Preface, and we quoted him several times from his book *Startup CEO* (Blumberg, 2020) in the first edition of this book.

It's been almost a decade since we first wrote this book. Since then, a Cambrian explosion of entrepreneurial activity has occurred worldwide. We've helped democratize entrepreneurship globally through Techstars, our investments, organizations building startup communities in many different cities, and our writing. While Brad updated several of his earlier books, such as *Venture Deals* and *Startup Communities: Building an Entrepreneurial Ecosystem in Your City* (Feld, 2020), the original version of *Startup Boards* was starting to feel stale.

After completing *Startup CXO*, Matt reached out to Brad and Mahendra with ideas on revising and updating *Startup Boards*. Matt's newest company, Bolster, took over the Startup Revolution series of books and startuprev.com. Brad and Matt have served together on four boards over the past 20 years, including Matt's company (Return Path), two boards where Brad was an investor and Matt was an independent director (FeedBurner and Moz), and one non-profit that Matt co-founded and where Brad served as an independent director (Path Forward). This shared experience made it easy to collaborate on the second edition.

We've updated the content from the first edition and added more depth for first-time founders about how to build a board, recruit board members, and onboard, compensate, and evaluate them. We've added content for aspiring board directors about identifying board opportunities and preparing for their first board role. We'll extensively discuss recruiting board members, managing an advisory board, and communicating with a board. We've updated many of the book's sections, bringing in relevant research, current best practices, guidance, and learning from the changes brought to boards by the COVID-19 pandemic.

When we wrote the first edition, we had a short section on board diversity with a primary focus on gender. Over the past decade, especially in the last few years, board diversity has become a major issue in entrepreneurship. Increasing board diversity is an important goal of many entrepreneurs, investors, and entrepreneurial support organizations. This edition addresses how startups can increase board diversity and the tangible benefits of board diversity to a company.

We've added quantitative data on key startup board characteristics. Bolster created a first-of-its-kind Board Benchmark Survey as part of its larger offering of helping startups create boards. Until Bolster's survey, the actual demographics of a board—the composition, number of directors, compensation, length of service, and several other board characteristics—were largely unknown.

Who This Book Is For

We're deeply committed to entrepreneurship, having spent our entire careers starting, funding, and building companies while helping create entrepreneurial ecosystems worldwide. Our focus on entrepreneurship, along with the book's title, may lead you to think *Startup Boards* applies only to entrepreneurs and early-stage boards.

While startup boards do have specific issues and challenges, there are far more similarities than differences. The leader of any type of organization with a board, including a larger private company, non-profit, public company, community organization, or family-owned business, will find many useful ideas in this book.

Our primary audience is founders, entrepreneurs, or non-founder CEOs. However, this book also addresses anyone on a board, including investors and outside directors. We've worked with thousands of board members, covering a wide range of experiences, challenges, and problems. While some of these board members were spectacular and had a dramatic positive impact on the trajectory and outcome of a company, many were average and had a neutral or insignificant impact. Others were detrimental, causing more problems that negatively impacted the company and the board's functioning. We've learned extensively from these experiences, which we've tried to incorporate into this book in a way that's helpful to any board member.

We also wrote this book for management teams. Most management teams are directly exposed to the board and interact with them regularly. Some participate in most board meetings, while others are called in to provide an update or explain a situation. Bringing management team members into a board meeting can be extremely helpful or

completely disruptive. The responsibility for an effective relationship between board members and management team members belongs to the board members, the CEO, and the management team alike.

Finally, we include specific advice and guidance for an aspiring board member. Serving on a board is a meaningful career objective, but the challenge of getting on your first board is non-trivial. In addition to learning how to function effectively on a board, we help you learn how to be a compelling prospective board member.

Throughout this book, we've incorporated advice and stories from investors, board members, entrepreneurs, and executives whose views we respect. While we provide guidance and tools, we continuously learn, so follow our blogs and the startuprev.com website for things we have learned, new experiences, and experiments.

Magic Words, Phrases, Abbreviations, and Style

Having written several books, we've learned the importance of being precise with particular words and phrases. The following are several magic words with their synonyms and abbreviations.

Angels: We include “friends and family” and “seed” investors in the definition of an “angel investor” and shorten the phrase to “angels.” These are early investors in a company who are investing their own money. We don't include “seed-stage venture capitalists” in this category.

Board: We'll start abbreviating “board of directors” as “board.”

Board member, director: We use these words interchangeably.

CEO: The CEO can be one of the founders, but it doesn't have to be. Occasionally we'll refer to “*founder/CEO*” when this is an important distinction.

Chair: While “chairman of the board” sounds serious and weighty, there are plenty of “chairwomen.” We prefer to use “chair” since it's gender-neutral. While in some sections we refer to a lead director, they play a similar role to a chair.

Entrepreneur, founder: We use these two words interchangeably. To us, they mean the same thing.

Lawyer, outside counsel: While we use these words interchangeably, we generally refer to outside counsel. If we refer to a lawyer who works for the company rather than an independent law firm, we'll call them “general counsel.”

VC, investor: We abbreviate “venture capitalist” as “VC” and are referring to a person, not an entire firm (which we call a “VC firm”). It also takes the letter count down significantly. We also use *VC* and *investor* interchangeably.

After much debate and discussion with other writers and editors, we decided to use the Singular *they*¹ as our primary pronoun, unless we referred to a specific person.

One of the challenges with this book is writing it for a broad range of readers, including founder/CEO, non-founder CEO, VCs, the management team, independent board members, and aspiring independent directors. To avoid confusion, we address the advice in the book to the CEO, except for Section Six. When we discuss situations that only apply to a founder/CEO, we clarify that.

Regardless of who the reader is, we refer to a CEO when saying “You.”

Whenever we have a list of things to explain to support a point, rather than weaving seven paragraphs into the text with lots of transitional phrases, we start each paragraph with a bold bulleted summary of the point we are making. Having read 17,325 business books, we wish more authors would use this approach to make it easier to summarize and skim key points on a topic.

Whenever we refer to another person in the book, we'll include their credentials in parentheses the first time we mention them. In later references, we only list their name.

We've written this book together. While we each had different experiences, we felt using one voice would be more effective. We'll often refer to one of us in the third person. You're familiar with this approach if you've read the book *Startup Life: Surviving and Thriving in a Relationship with an Entrepreneur* (2013) that Brad wrote with his wife, Amy Batchelor.

Okay, let's begin.

Note

1. See Khan Academy's excellent presentation on this at <https://www.youtube.com/watch?v=f21t7DRKlg8>. Wikipedia has an extensive discussion at https://en.wikipedia.org/wiki/Singular_they. And the American Psychological Association (APA) Style guide has a clear explanation at <https://apastyle.apa.org/style-grammar-guidelines/grammar/singular-they>.

Chapter 2

The Board's Purpose

Why have a board of directors in the first place? What do they do? How big should they be? Do you even need one?

A board is legally required the day you incorporate your company. Frequently, the board consists of the founders, or even just one founder, until a startup receives outside financing.

Waiting to build a board is a mistake.

Your board can be a powerful strategic asset. If you choose the right directors, build and manage your board effectively, and actively engage your directors, the board can help you dramatically accelerate your business. When you run into trouble, which all startups inevitably do, the board can help guide you through the tough spots. As Jeff Lawson of Twilio is fond of saying, “As the founder and CEO, I get to build two teams to help me—my leadership team and my board.”

Clint Korver (Ulu Ventures, Partner), who used to teach a course at Stanford University titled “Startup Boards: Advanced Entrepreneurship,” says, “The most common mistake startups make is not having a board at all.” Clint points out that research shows that most startups fail due to self-inflicted wounds, including internal decisions about founding team roles and equity allocations. “Founders who are overconfident or choose to avoid conflict often miss an opportunity to bring in fresh perspective with input from appropriate individuals,” says Clint.

Depending upon the stage of the company, three kinds of boards exist: (1) a working board; (2) a reporting board; or

(3) a lame-duck board. Ideally, for a startup, a working board is best as the board members don't pontificate, ask mindless questions or just show up for meetings relatively uninformed. Instead, they focus on the critical challenges of a company.

Accountability

In *Startup CEO* (2020), Matt wrote that the fundamental reason boards exist is that “everybody needs a boss.” For many founders, one of the reasons to create a startup is to get away from having a boss. Unless you own 100% of your startup, are a solo founder, have no intentions to ever grant or sell equity to anyone, and don't think you benefit from anyone else's experience and knowledge, you're accountable to others. Even then, you're still accountable to stakeholders, including employees, vendors, and customers.

The board ensures that the interests of all shareholders and other stakeholders are considered. In many startups, the primary shareholders and board members are the same. As companies grow, outside board members who aren't involved in the business and don't have a significant economic stake are added to the board. Collectively, this group is responsible for considering and balancing the interests of all shareholders.

Accountability is a powerful construct. Consider how effective you are at dieting or exercising on your own. Are you more effective if you have a nutritionist, trainer, coach, or friend to whom you're accountable? Regardless of how much you enjoyed your favorite class in college, how many papers would you have written if your professor hadn't assigned them and given them due dates? While it's possible to be completely self-taught and highly disciplined