

# Special Edition Newsletter

## Board Director Focus: Board Composition



**Joy Randels** launched her first venture at age 17. Nine successful acquisitions and two IPO's later, she exercises her passion for building high-value, scalable businesses as founder and CEO of The Prowess Group, working with gifted founders, entrepreneurs, and their teams to transform the way they lead and succeed. She is also the founder and Chairman of New Market Partners, which has helped launch and fund 96 companies, worked with over 900 more to build scalable businesses, transform valuations, and experience highly successful exits.

Joy has led public and private companies from bootstrap through IPO, raising \$360M in capital and generating over \$15B in revenue. She has held C-level roles at Apple, Akamai, and CA. Her cybersecurity, software, and data privacy expertise have led her to serve and chair boards in the U.S. and abroad. Joy is a frequent public speaker, author, and columnist on entrepreneurship, diversity, and venture capital. For additional information, contact Joy at [joy@theprowessgroup.com](mailto:joy@theprowessgroup.com).

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## Having The Right Board Can Amplify Startup Growth and Valuation

Joy Randels

When entrepreneurs set out to build a new company, they rarely spend time thinking about forming a board of directors or the value it can provide. The CEO is typically a founder who controls the majority stake in the business along with any cofounders. In the early stages, the management dynamic is not as pronounced as in a big company, and founders are focused on traction rather than governance.

Early stage startups often have loosely formed boards consisting of cofounders and one or two angel investors who rarely have fiduciary responsibility. A formal board is formed when the company raises institutional capital and investors require board seats to influence governance.

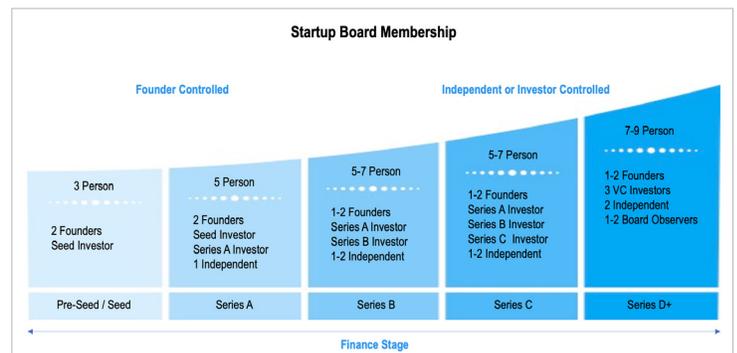
My first two businesses had no formal board of directors. As founders, we made all decisions and ultimately exited for mid-seven figures. While a positive outcome for twenty-something founders, we could have scaled faster and increased our acquisition price with proper guidance. Lessons learned from those early experiences motivated me to be more purposeful when laying the groundwork for launching future ventures. Minding those lessons and leveraging the value of a board resulted in IPO's and acquisitions by companies like Akamai, Computer Associates, and Hewlett Packard in my subsequent ventures.

Startups often have two types of boards. A Board of Directors governs and typically has fiduciary duties, and a Board of Advisors guides founders and key team members through their fields of expertise. Many startups begin with Advisory Boards because they have no fiduciary responsibilities. An advisor's subject matter expertise and highly specialized skills ranging from technical, domain, or operational knowledge can significantly improve a startup's probability for success. Creating an advisory board at the onset of a new business can be highly beneficial for a startup.

For those beginning their board career, advisory boards provide a great entre into board service.

Many startup founders believe they should postpone forming a board until they raise capital. In my experience, creating a board early on has many benefits. Having formal board and governance procedures in place means being able to lean on a trusted panel of talent for advice and expertise. It also demonstrates discipline and gives founders more weight when negotiating board seats during financing. Startup board members and the value they provide are similar but not the same as board roles in large private or public companies.

At early-stage startups, board members need a willingness to roll-up their sleeves and support management without micro-managing. An open and collaborative mindset, coaching and mentoring skills, and, potentially, a network that can open up opportunities can be transformative. The board is often consulted on challenges related to strategy, fundraising, budgeting, exits, commercial expansion, and organizational restructuring. For example, they may help guide product decisions or provide advice and access to attract other great



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board and team members, customers, and investors. More established startups often need assistance around scaling engineering, logistics, internationalization, and other functions. These experienced advisors are hugely valuable, especially as startups begin to grapple with the relentless operational and strategic decisions that often leave even experienced management feeling overwhelmed.

#### **Common skills for startup board roles include:**

- Board experience with a successful market-disruptor business.
- A track record of raising capital, investor relationships, and leading fundraising strategy.
- Experience leading or advising organizations in mergers or acquisitions, evaluating potential targets, due diligence, negotiation, and integration.
- A proven track record in helping companies increase enterprise value, ideally having led a company through a successful exit event.

Those considering service on the board of a startup should note these companies move fast, so board members need to be committed to the company's success and available when needed – sometimes on short notice. At this stage, the board's principal role is to act as a sounding board, providing advice and counsel to the CEO and senior management. It is crucial for young companies with first-time founders, but the need for counsel continues as the company matures, even with very experienced CEOs.

Selecting and leveraging the right Board can double or triple the acquisition price of a startup. I know because it has for me. My Boards have been cognitively and demographically diverse. Members have included Jon Medved, the most well-known VC in Israel, Managing Director of MarcumRachlin, nonprofit leaders, CIO's, investment bankers, product managers, consultants, founders of other successful startups, to General Ken Minihan, former head of the NSA.

When board members can open doors to your ideal customers' decision-makers at Lehman Brothers, SOCOM, Office Depot, Tom's Shoes, or Starbucks it is a catalyst for growth regardless of your plans to secure outside capital or intended exit.

A talented team of serial entrepreneurs founded Velocitude, acquired by Akamai (Nasdaq: AKAM) less than two years after we launched. We understood how to engage a board to amplify our growth and made the decision to create a Board of Directors on day one. We selected board members for their ability to open doors and provide value in the area of finance. Board members' introductions contributed to our securing 28 of the F500 clients in eight months, and they played vital roles in negotiations during acquisition. Our board's contributions resulted in a multiple seven-figure increase in our acquisition price and saved us hundreds of thousands in fees as well.

Understanding the skills needed at the board level and how to go about recruiting the right people is more complex than drawing up a wish list. Building a highly effective board is hard work. Founders should consider their business and seek specific attributes when seating independent non-executive directors (NEDs).

#### **What does a great NED look like?**

Startup Board level proficiency requires a combination of professional experience and personal attributes. Great NEDs are authentic, patient, influential leaders, and strategic decision makers.

#### **What Founders should be seeking:**

- Look for NEDs who can quickly focus on areas where they can add unique value and influence to fellow board members without causing friction.
- Can you work together? NEDs will be the CEO's sounding board.
- Does the candidate fit with the business's strategic aspirations? It is critical board members buy into the founders' concept and vision.
- How do they 'fit' with other board members - what will the chemistry be like?

#### **What NEDs need to consider:**

- Being a NED comes with a range of responsibilities and risks. Before agreeing to join a startup board, consider the personal reputation and financial liability at stake. While there are legal options to mitigate risk, early-stage startups rarely have D&O insurance.
- Directors who place too much emphasis on formality and governance aren't a good fit for highly dynamic early-stage businesses.
- Experienced startup execs new to board service must quickly transition from hands-on operators to leveraging IQ & EQ and ask thought provoking questions regarding strategic decisions.

Having qualified independent directors on the board drives better governance and decision making. Their skin in the game is different, and their advice is impartial. The best performing CEOs often have high-performing boards, and this is no coincidence.

The board evolves as the market dynamics, strategies, and tactics require change during its lifespan. At the first round of institutional financing, founder participation on the board is typically limited to two people, one being its CEO. Where multiple founders are involved, this can be a point of contention, but they need to understand this natural evolution required for the business to grow. The same principle applies to other early non-founder board members. Board composition changes over time; regardless of the value of their contribution, most directors will be replaced.

Founders and investors both derive tremendous benefit from having diverse voices on the board. Research shows that 75% of companies between Seed and Series B only include management and investors without any independent directors. With my experience as a founder and service on 17 startup boards, I can personally attest to an independent directors' value. Earlier traction and profitability paths, higher valuations than competitors, and a force multiplier of three to twenty times in acquisition prices have been my experience when independent directors were included on an early stage board.

Finally, remember board members are co-navigators in the startup journey. Their role is not to manage the company, but they can be invaluable in achieving optimal outcomes for young companies. An independent director's primary role is to be a supportive catalyst and provide valuable counsel to the management team, especially the CEO.

If you're a founder, I hope you see how building an effective board can help your company succeed. If you are a director and possess the appropriate skills, consider the impact you could have on a startup board. Your contribution and leadership could make a remarkable difference in an emerging business, the founders' and their employees' lives, our national economy, and possibly change the world.

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