

Board of Directors: a resource or a burden for a startup?

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During my angel investor career, I have noticed that in the case of the first-timer, a founder may think that to establish a Board of Directors with more than one member is more or less a formality; it must exist if a startup is to be taken seriously and to look good and reliable to a business community and society in general. This kind of attitude easily leads to a waste of time for all involved and to the frustration of the Board members.

How then can the Board of Directors create value for a startup? It all starts from building a value-adding Board. A precondition, however, is that the CEO of the startup – in particular in a case where she/he is a founder – should be ready to discuss strategically, listen to advice, take actions based on the Board's discussions and decisions and organize administration in a professional manner. She/he must be ready, capable and especially willing to have a value-adding Board.

Building a value-adding Board

The following actions are worth considering when building a value-adding Board for a startup in Finland:

1. Map out first what external skills, capabilities and expertise are needed for the future growth of a company and create a profile.
2. Use reliable networks to find suitable candidates, make a pool and interview candidates, ask for references; personal interviews are of special importance because the references provided do not always relate to startup experience!

3. Ensure Board diversity (expertise, experience and personal interest, age, nationality, gender, race...). If you already have knowledge of a foreign market to aim at, take this into account.
4. Make sure that the members of the board have enough time available, personal interest in a business area and above all, no conflicting interests.
5. Rotate board members when new needs appear – inform board candidates accordingly at the hiring stage.
6. Consider carefully how many board members are needed to have effective meetings. Is five members optimal for you? (Chair + three members + CEO present) This is still very case-specific.
7. Agree upon the rules of the game (“modus operandi” of the Board) when beginning the Board work and agree upon the values to be applied in the company. The values of the company guide its actions.
8. Company culture should support transparent and real time communication.

“The chair functions as a sparring partner”

The role of the Chair of the Boards of Directors is of utmost importance in a startup, just as it is in a large-cap corporation. The Chair functions at best as a reliable and patient sparring partner for the CEO, easily reachable, a true supporter to help navigate through choppy waters.

The CEO as Chair is not a good option. Especially tough decisions may not easily turn into actions – or actions follow too late and opportunities are missed. Also, the Founder as Chair – if not a CEO – may treat the Board as a financing body whatever the Founder decides to do. As evidenced and by research “founder control” may destroy the value of the company. Having one or more external members on the Board from the beginning is a benefit as is having a serial entrepreneur as a Board member.

An ideal board member for a startup is a brave individual. She/he has an entrepreneurial approach and possesses a broad network. She/he has a personal interest in the business in question whether this is based on work experience, a hobby, personal mission or passion as well as commitment, and understanding of a startup’s life and lifecycle. According to my observations, a personal “clock speed” and resilience are valuable attributes of a Board candidate for a startup.

How can the Board create value?

Once a startup has nominated the Board of Directors appropriate for its future needs, how then can the Board create value? For example, by

bringing in versatile expertise and sharing experiences, coaching the CEO (by Chair) and other management

assisting in strategy building and setting up a financial control

asking critical questions on business, sales and marketing, competition...

helping in maintaining focus on growth and value creation, keeping exit in the discussions

opening up networks and doors into potential new (international) markets

organizing and helping the operational management to find finance.

So, a value-adding Board in a startup can be a true resource for its future growth if the Founder/CEO is ready, capable and willing to have it and use it!

The author has acted as a member of the Board of Directors in large, medium and small-cap companies in Finland and in the Personal and Remuneration, Audit and Board Selection Committee. She has also served as a Chair and a member of the Board of Directors in several startups and functioned as a member of multiple Advisory Boards.

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