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Do's and Don'ts for Startup Boards

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All, Venture Capital

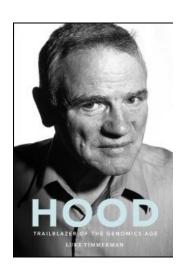
As a venture capitalist, I get to serve on boards. Many boards. After 20 years, there have been about 35 boards. From early-stage startups, to late-stage development companies, to public companies to non-profits – each has a story to tell.

The privilege has afforded me the opportunity to meet many incredible people, be a small part of some amazing companies, and learn a whole bunch.

But what has always been stunning to me is the sheer variety in the way these boards operate. Many run in a positive way, but quite YOUR ACCOUNT



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a few are negative. Each situation presents a learning opportunity.

It is rare for people go to school to be a good board member. And there is certainly no check list that makes someone an ideal board



Bob More, managing director,
Alta Partners

member for any situation. I certainly have made, and continue to make, a lot of mistakes. Creating a list of best practices is useless in a vacuum as there are exceptions to every rule.

So take this for what it is worth. Observations on some things that have worked for some of the boards I have been involved in as we all seek to support the entrepreneurs, teams and companies that do the amazing things they are doing in trying to bring drugs to patients, returns to shareholders, and value to all stakeholders.

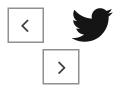
And if you end up serving on a board, recognize what the job is, and what it isn't. Great boards have a diversity of skill sets and talents. Diversity in almost any form is a strength. The main job is to hire and fire the CEO and provide oversight. There are no rules for what exactly that means, but I

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would say it comes down to companies

"doing what they say they will do." And the
most important part of that is leadership and
culture.

The following are my guidelines to having an effective board from the beginning. One common critique of early stage boards is they do not attract experienced board members. Fair enough. It is tough for a start-up. VCs are over-represented on startup boards, as are first-time board member scientists and angel investors. The benefit is they care and they have skin in the game. The downside is not all of us are good at board oversight. And we often do not know what we do not know.

So here is a bit of advice on do's and don'ts on a start-up board.

Assuming you have the best and most qualified and diverse board you can begin with, I start the first board meeting with a set of ground rules. I speak for about 15 minutes and I cover the following points and rules for behaving:

-Everything said in the board meeting should stay in the board meeting. I encourage lively but respectful disagreement, and it is very important that we come to conclusions as a board whenever possible. We can disagree on tactics and strategy and people. But it must be confidential and must not be shared outside of the board setting.

SPEAKING ENGAGEMENTS

I am available to speak about biotech trends at public and private biotech events. See me for details.

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When we agree on a conclusion in the board meeting, we all leave the room together supporting that conclusion. There should be no offline continuation of discussions among individual board members after the board as a whole has reached a conclusion. We all have to be pulling in the same direction. Even if you disagreed with the conclusion, a board is a board and needs to be unified in communication and direction to the team.

-When we interview executive or board candidates, we are selling the position. You can hate a candidate in your meeting, but that does not give you the unilateral right to communicate that to the candidate. We decide things like that as a board.

Confidentiality in talking about people is incredibly important as without it, people will not and cannot be candid.

-Anyone can communicate with anyone at any point. But don't do it in a subversive way to things that are board-level company strategy or policy discussions or that undermine already-reached board conclusions. The CEO should feel free to communicate informally with all board members for advice in between official board meetings, when new situations, new challenges emerge. But where it is specifically a CEO issue or a communication to the CEO from the Board, that message only comes through the

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Chairperson. This is extremely important. No offline advice should be given that differs from what is concluded as a group.

Be calm, steady and supportive. Remember the most important job of the board is to hire and fire the CEO. You are supporting the CEO until you are firing them. Lift people up. Thank them more than you think is necessary. They are working hard for us.

But do not be afraid to have performance discussion on the CEO in the executive session at the end, when the CEO has left the room. But do it then.

Now for board presentations and reports:

It is good practice to begin with an executive summary from the CEO to the board on the relevant things that have happened and activities underway at the beginning without other members of management present.

There may be short personnel discussions.

There may be things to alert board members as to watch out for during the meeting, and there should likely be a discussion of what may come up or needs to come up to be decided during the meeting.

Board materials should largely be a consistent template that runs from meeting to meeting. If it takes the team more than a day or two to put it together, that is a waste of time. Presentation materials should

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provide helpful background information for thoughtful and a dialogue. But these things easy to read and visualize. Do not create work for work's sake, or to show the board how hard you work.

Board materials should consist of:

- 1) An executive summary of 1-2 pages in prose format that is sort of a "state of the nation."
- 2) Review of minutes from last meeting

The CEO can then bring in relevant members of the management team. It is great to have management present their sections if possible

3) A presentation that should be reasonably consistent in topics from meeting to meeting:

Here are some fundamentals:

- -Dashboard:
- -Money spending on a chart and financial balance and projections with dates and milestones highlighted
- -Number of employees, needed hires and where we stand on the existing team
- -Scientific overview and clinical progress
- -Intellectual Property

- -Business Development
- -Strategic issues and planning
- -Competitive landscape
- -Finance discussion if needed
- -New Employee Options (Include number of shares outstanding so people know %)
- -Conclusion
- 4) Then do an executive session without the CEO and collaborate as a board on the messages to deliver to the CEO. That is then done 1-on-1 after the board meeting by the chair.

You will need an audit committee and a compensation committee. Use them.

Set annual goals annually and stick to them. Do not be lazy and kick the can down the road, and do not use a rubber ruler and change them just because the team gave a valiant effort. Really stick to your bonus goals, and pay the bonuses on time.

Compensation committee can set a grid up of salary ranges and options that are standard for any level and only point out when something falls outside those metrics.

Encourage everyone to turn off their cellphones and focus on the presentation.

This may sound obvious, but it bears repeating. Employees pay a lot of attention to this and it is simply respectful to give them time. Be respectful.

Manage time effectively. Don't keep talking more about something if a conclusion has been reached.

Discourage board members from shifting the conversation to their power alley simply because they want more air time.

Do not talk compensation in front of employees. Do not be sloppy and leave capitalization tables or option award sheets sitting around.

Do ask people at the end of every meeting if there is anything else that should have been covered. You might be surprised by something that might otherwise be overlooked, but turns out to be mission-critical for the board to discuss, even though it wasn't on the official agenda.

I also think it is great practice to do a deep dive in each board meeting on one topic. You cover material effectively and briefly in general like BD or IP as it comes, but every meeting provides an opportunity to do a deep dive to educate the board in important areas. This may be clinical strategy, market, program priorities, IP, competition....whatever is most relevant.

Bring in your IP attorney when it is IP. Be prepared to kill that topic.

Lastly, these meetings are a big deal for management. Thank the employees. Learn their names. Ask good questions and be thoughtful. Listen well. Remember, criticism in a board meeting for an employee can seem like it ruins their lives. I can not tell you how often something I said that I thought was trivial was quoted back to me years later. These people think you are important.

Be nice. At a minimum, don't be a self-centered jerk. Really, I can not tell you how important the people side of this business is, and board meetings are a really great opportunity to read body language and evaluate the way the team works together.

And do not be a pigeon director. A pigeon director flies in, eats the food, shits all over everyone and flies out. Stuff always goes wrong. The team knows what they promised and they know where they are falling short. People should be held accountable, but not whacked on the nose with a rolled-up newspaper, and not publicly dressed down. You are coaching a team of professionals – don't treat them like children.

What the board sees is a very small sample size on what goes on at the company. You need to pay attention, listen and look for important cues.

For management, I think it is always a great idea to communicate bad news as soon as possible as a habit. Communicate good news whenever the spirit moves you.

Ultimately, this is about trust, and about making the team the best they can be.

Our job is to surround great science and scientists with the best people we can to give them the best shot at success.

Many people think the investor or board member is in charge and teams are dependent on them. The truth is the opposite. We are completely dependent on great teams, and we need to do anything we can do to support and recognize the people actually doing the work and creating the value.

Bob More is a managing director at Alta Partners, a life science venture capital firm.

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Kevin Chow • 5 minutes ago

Great post, Bob. A lot of this really resonates having been a management support team member for many years in past companies, and now having my own BOD. I also agree you should blog more often!





LifeSciVC • 35 minutes ago

Great piece, Bob. Good list of things - most Boards should aim for most of these things all the time. As Julia says, much of it should be obvious...

I might include one more: "be prepared". Read your slide decks, review the materials beforehand, do your homework - show up ready to engage so that the board is less slide