NACD Northwest
Program Takeaways
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The Challenges Facing Emerging Growth and Private Company Boards

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Things to consider when deciding to join the Board of an Emerging Growth (ECG) or Private Company (PC)

1. The role of an independent director can be very time consuming and unpredictable. During challenging times, it can turn into more than a full-time job. Because of this you should limit the number of EGC and PC boards you are on – maybe only one or two at the most.

2. The compensation is often primarily in equity awards, which can mean there is a lot of effort and work for an uncertain reward. It is often not a rational economic decision. The independent director has to be a "missionary" who is personally committed to the company's goals and objectives and not a "mercenary" who is primarily there for the compensation.

3. Once you are on the board you should stick it out for the duration. Resigning from a board to pursue another more lucrative board position will most likely damage your reputation and limit your future opportunities.

4. Your reputation is often dependent on the reputation of the other people you are associated with because of being on the Board. You are all in it together so be sure you understand the reputation of the company, management and the other directors before joining the board.

5. Companies at the A & B funding level are usually looking for directors that can help with direction on the product road map and marketing. Public companies are usually more focused on directors with experience and knowledge in building a structure for governance (e.g. the right people for the audit, compensation and nominating/governance committee's).

6. Early stage companies typically have a more ad-hoc and informal approach to recruiting board members. The focus is primarily on the person and the comfort level the decision makers (founders, major investors) have with the individual. Late stage and public companies focus more on the company – what is the skill set needed for the company at that time.

Unique aspects of serving on the Board of an EGC and PC

1. Founders of ECG's and PC's often need some kind of "guard rails" to keep them focused on the mission and thoughtful about how to best solve new problems. The best directors are those that give constructive feedback and persuade in a positive way.

2. Cannot learn to be a director by just reading a book. Learn from exposure to experienced directors, watching, listening and noting the good and the bad examples of how to be a valuable director. Good judgment often comes from the experience of previous bad judgment.

3. Give credit, don't take it. Listen carefully to other points of view, exercise good judgment and facilitate and participate in consensus building discussions. Do not try to always be the smartest person in the room or "make your mark". There should be a healthy debate and then everyone should commit to the decision made.

4. Ideal size of an EGC or PC Board at the stage of a B funding round is 5 – 7 with two typically being from management.

5. Making the decision on whether to pursue an IPO or alternatively a sale of the company is often one of the most difficult decisions. A director that has experience with this decision is invaluable.

Current developments and trends

1. A challenge for late stage EGC and PC directors in the current market is balancing the desire for liquidity for some investors with management's desire to not lose control. Often times the founders and key management people at these companies are not good at dealing with other people telling them what to do. On the other hand, being public enforces a level of discipline that can be very beneficial as the company gets bigger.

2. There is an increasing awareness that "People Risk" is as important to consider as the more traditional risks related to product development, market, financial strength, etc. There is a need to understand the culture of even early stage companies. The mood in the middle and the buzz at the bottom is important and directors need to think about the source of the information they receive about the company's culture.

3. The compensation committee is increasingly becoming the owners of oversight on culture risks at many of these companies.

4. Boards should consider the need for recruiting directors with substantive HR expertise. The "people risk" is even higher at smaller companies because of the fact there are fewer people - one "bad" actor out of a total of 10 can very disruptive.