Board Composition and Independence

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Being a Director in the 21st Century

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Size

- A good size for a young company board is five people.
- In the very early days, three can suffice.
- Even for a mid-sized company, seven is a practical maximum.

Independence

- The only member of management who should be on the board is the CEO.
- The other board members should be truly independent.
- The definition of independent is evolving.
- Like the judge said about pornography : "While it may be hard to precisely define, I know it when I see it".

Able to make a contribution

- Mentoring the CEO is always a big part of the job on a young company board.
- Directors should have spent sleepless nights worrying about meeting payroll.
- Should have been a CEO, COO or CFO of a similar company.
- “Looks good” directors from senior jobs at large companies, or from universities, are rarely good choices.

Directors must invest

- Every board member must make a meaningful investment in the company.
- It's the only way they can effectively represent the shareholders.
- Meaningful must be taken in context.
- Lots of evidence proves that higher levels of director investment correlates with better corporate performance.

Founders’ voting control

- Tech companies today can be capital efficient and the founders can have over 51% of the shares
- In that situation, it is essential to have an agreement on voting so the founders can’t just replace the board at an EGM
- Otherwise, there really can’t be a board of directors – it just doesn’t work

Don’t accept good enough

- It’s very difficult to recruit, compensate and retain good directors
- There is always a strong temptation to accept ‘good enough’
- Even one ‘good enough’ director can be fatal to young company - literally