



Why start-ups need boards and why board members need to understand start-ups

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Technical
University of
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DTU Board Education Whitepaper

Why start-ups need boards

and why board members
need to understand start-ups

Thomas J. Howard

DTU Board Education - Driving Entrepreneurial and Innovative Enterprises

Whitepaper 2020

Introduction

The success of a start-up has many influencing factors, such as the team, culture, strategy, product-market fit and timing. In this white paper, we propose that the “board” should be added to this list, since a well composed and functioning advisory board/board of directors can be one of the most influential factors in a start-up’s journey (Blagburn 2016, Swenson et al. 2014).

In a recent report by the IRIS Group (2018) investigating into successful and unsuccessful spinouts from Technical University of Denmark, it was found that mentors, advisory boards and professional boards of directors, had a very strong correlation with the success rate of a spinout. Most notably the report contained data that spinouts with professional boards of directors were eight times more likely to be categorised as successful rather than unsuccessful in terms of turnover, employment and the ability to attract capital. Further research has shown that the greater the percentage of external board members, the higher the likelihood that the company will receive an appropriate or higher stock valuation (Dolvin and Kirby, 2016).

Despite this, “a company’s board is typically established in earnest upon the raising of a round of financing” (Pollman 2019 p167), which is typically the point at which a board is required by an investor. There is, however, a great deal of evidence that start-ups and spinouts can gain a huge benefit from an advisory board pre-investment, particularly for technology intensive development companies.

“The bottom line is this: Better boards make better companies. For the sake of unity and organization, a board of directors, even one comprised of only a handful of founders and investors, is essential for success and growth.”

(Jordan 2019)

In the development of the DTU Board Education, we interviewed serial entrepreneurs/CEOs with many experiences of reporting to a board, along with experienced board members. The insights from these interviews along with the experience of the authors, as well as recent published research relating to boards and start-up governance were used to create this whitepaper and the DTU Board Education

1) Where possible the interviewees are referred to by name, in other instances anonymity was requested.

Role of a start-up board

The first thing that needs to be recognised is that technology intensive start-ups operate fundamentally differently from SMEs or corporates that are not R&D intensive or operating in slow moving and low margin industries. An effective board must be able to bring the professionalism and connections of an established company and at the same time respect and understand the dynamic culture of a start-up company. One senior entrepreneur remarked “one of our board members was responsible for nearly killing the company on several occasions by trying to impose a corporate culture onto a development intensive start-up”.

This point was also echoed by Danish Entrepreneur of the Year John Theroux (Former CEO of Glycom A/S, exit valuation of €750 million) who made the point that boards operate on a continuum “from audit & control to support & enable” and while both modes will always exist, the benefits to a start-up always weigh toward the support and enable end.

External facing role

In all the interviews conducted, perhaps the most prominent and reoccurring point was the vital external facing role of a board, connecting this case start-ups to new markets, funding opportunities and knowledge networks to support and enable their growth. This point is also supported in recent literature: “In this early stage, the board typically will take a role to help the company with connections, resources, strategy, and expertise to succeed in launching its innovative product or service to the market” (Pollman 2019 p167).

So does this suggest that effective boards should act as a kind of marketing department for the start-up? While the research shows that this is quite a crucial part of a start-up board’s function, since the number of company followers is a strong predictor of start-up success (Banerji and Reimer, 2019), the picture is more nuanced. In a large study of US based Ltd companies, Gloor et

al. (2020) investigated the impact of the social media presence of VC board members. The results showed that the number of VCs and their activity levels on social media correlated with the success of the start-ups they governed, but only in terms of fund raising ability! Interestingly, VC board members with low social media presence correlated with the company’s “ability to translate assets into sales”. This suggests that the board has both a role of promoting and legitimising the start-up, but must also be balanced with knowledge of operational excellence and knowhow to translate ideas into ROI.

In a similar study in Germany, the connectedness of board members (in terms of social media profiles) did not correlate with start-up success, “confirming that online ties are only as good as the real-world relationships that underlie them” (Gloor et al. 2018). The quality of the board member’s connections is quite vital, as is their board level experience, evidenced by the fact that start-ups that share at least one board member with other start-ups have a better opportunity to grow their sale opportunities (Gloor et al. 2020).

Internal facing role

In complement to the external facing role, the internal facing should not lean toward controlling the management team of the start-up, putting additional pressure on documentation and following corporate style procedures to perfection, but instead helping the management team and company to achieve its full potential. Torben Andersen, former CEO of GreenMobility A/S and CCO of Better Place (world’s most financed start-up at the time) states: “the board’s role is to hold a mirror up to the management team to help them reflect on their direction as well as helping them to maintain a course, avoiding strategic distractions”.

“Start-up founders often are too eager to plow full-speed ahead into development and production, and in turn sacrifice the objectivity and wisdom that a strong governing body provides.”

(Jordan 2019)

The interviews further stated that a board must be well balanced, and the next best board member entirely depends on the composition of the current board. Just as is the case with the start-up founder team, the board should have a balance of skills and knowledge from different areas. One interviewee remarked on an experience on one board, stating that two members were extremely experienced with great profiles, but essentially had the same background/experiences and always tended to give the same viewpoint; in essence, it felt like two board seats taken by one person.

As pointed out by Jakob Mikkelsen, Executive partner at Warburg Serres Investments and CFO of Gorm's, “each start-up must be approached according to its needs” and therefore the skills or knowledge of the board may also reflect this. However, in a study of 40,000 directors covering all US Ltd companies, it seems to be the case that companies with tech savvy boards reliably outperform companies without (Weill et al. 2019). Sophie Bech Birkelund (investor, board member and chair) commented that the “Chairperson of the board is pivotal to creating success for the start-up”. In fact, the majority of the interviewees also commented

on how important the role of the chair was as a link between the management team and the board. Being a CEO can be a lonely job with no one to share certain information or to help make critical decisions, a good chair can and should fill this role and as such, trust is a key issue. A CEO who can trust the chair will be more transparent regarding the status and needs of the company and will trust the chair to guide board meetings toward a constructive beneficial dialogue.

It was clear feedback and true to experience, that boards should focus on a strategic level such as market focus and crisis management and not taking over managerial roles of the start-up. It was also suggested that a Board Education including a focus on start-ups should have limited focus on finance, auditing and legal aspects and instead on strategy, culture, trust and crisis management. This suggested focus is reflected in the content and structure of the proposed DTU Board Education.

Concluding remarks

It is a huge help to the management team if members of the board have already walked and experienced a similar journey to the one the start-up is embarking on. There is no substitute for experience, and so is the case with entrepreneurship education; you can only get so far in the classroom, the rest needs to be experienced or is already present through tacit knowledge. It is for this reason that the participants accepted into the board education must have some knowledge and experience to bring to the table on a board. The first question he or she will learn to ask or recognise is whether he or she is a good match for the start-up and its existing board. In addition, the DTU Board Education will have a large networking and practice based element, exposing the delegates to real start-up cases and embedding them as prototype board members in early stage start-ups.

The education will enhance knowledge and deal flow from established industry into the start-up ecosystem. This will bring new exciting board opportunities to experienced professionals and also increase performance of Danish start-up companies.

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DTU Board Education Whitepapers

This DTU Board Education whitepaper describes the background research and scoping for the new board education programme. The insight drawn from the research described in this paper along with the value of the education was used to scope the course and to describe the content and aims to Danish professionals.

The intended readers are professionals who are:

- Board members hoping to improve their skills and receive further training and networking related to operating as a board member
- Entrepreneurs looking to build a board for their start-up/spinout
- Working in Tech Trans departments looking to improve the quality of their spinout companies
- Corporate representative investing in Open Innovation, looking to place members of their organisation onto the board of start-ups they invest in or companies they spin out
- Experienced in any particular industry looking to take their first or next board position within a start-up or spinout company

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