Building Your First Board: Lessons for Founders

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It takes more than intuition and expertise to assemble a team of directors who can help firms stay profitable and healthy.

Sooner or later, every successful entrepreneur confronts the challenge of establishing a board of directors. Yet many founders approach this task too casually, relying on intuition rather than learning from empirical research or other entrepreneurs’ experience. Such founders tend to become disillusioned with the board they assembled, losing faith in its capacity to empower management to create shareholder value and foster sustainable organisations.

It doesn't have to be this way. Over the past two decades, we've helped dozens of entrepreneurial companies in the Middle East, Eastern Europe and Southeast Asia create or revamp their boards. The majority have succeeded in cultivating effective boards. Here’s our advice based on that experience and our research into what makes a board effective.

The three P’s of board effectiveness

In a nutshell, three factors define the success of a board of directors. We refer to them as the three P’s of board effectiveness: purpose, people and process.

Most founders prioritise people, often to the detriment of the other two P’s. We frequently hear, “Just give me a global supply chain expert, a former consumer goods company CEO, an AI guru, a seasoned financier with Wall Street experience – ideally two men and two women – and I’ll have a great board.”

We would ask: “What will these highly qualified people do? How will you ensure they work productively together?” The response, typically, goes: “They're smart; they'll figure it out” or a more candid “I hadn't really thought about that.”

Our advice? It’s more prudent to start with purpose while keeping the other two P’s in mind.

Purpose

Purpose is the raison d'être of the board of directors – a mission that board members strive to achieve together. It provides a compass for directors and guides their discussions. Unfortunately, many boards neglect to articulate their purpose. Our research indicates that members of boards who invest time in defining their purpose report higher satisfaction and better decisions than counterparts on less purposeful boards.

A clear purpose serves to unite directors who may otherwise have little in common, since they often juggle multiple affiliations and their day jobs. It also allows boards to structure their work, set agendas and assess their performance. There are no right or wrong purposes; an effective purpose reflects the founder's expectations within the context of the business – its complexity, stage of development, ownership structure, and the founder's willingness to delegate and relinquish control. Most importantly, the purpose must be understood and embraced by all board members.

We have observed highly effective boards with diverse purposes – from aiding the founder in making strategic decisions to providing access to a global network of experts, mentoring and ensuring the company's long-term sustainability.

Founders contemplating their first board should consider these questions:

- What do I want the board to achieve?
- To whom should the board owe its duty? Founders, shareholders, stakeholders and/or the company itself?
- What functions should the board perform and how important is each function relative to the whole?
- How will I measure the board's performance?

The answers will help define the board's purpose, which may manifest as a catchy statement, such as: "Our purpose is to ensure this company outlives all of us and we're never ashamed of having been its members". It could also be straightforward, such as "protect the founding family's long-term interests". Some may even prepare a detailed document describing what the board is supposed and not supposed to do.

Regardless of the format, the essence is that the mission statement or description accurately reflects the founders' expectations and constraints.

People

Even as founders define their board's purpose, they should begin to identify **potential director candidates** and engage with them. These interactions can yield insights into the functioning of their future board.

Founders typically select board members based on the candidate's technical competence and network. While these qualities are valuable, they alone do not make for effective directors. We've seen accomplished CEOs contribute little to boards because of their need to always be right. We've also seen former McKinsey consultants with Harvard MBAs struggle to voice their opinions in the presence of authoritative founders.

Effective directors balance two seemingly contradictory qualities: independent judgement and seamless collaboration. Independent judgement involves forming and articulating original opinions, offering fresh perspectives and holding executives accountable. It can only come from a broad and specialised knowledge base, business acumen, critical and systemic thinking, and the courage to dissent.

The ability to collaborate is equally vital. This requires directors to be receptive to new ideas, respect others' opinions and share information generously. Directors should also be adept at "3D listening", which entails understanding messages, observing non-verbal cues and grasping the context; expressing opinions clearly, candidly and without causing offence; and supporting and challenging executives and fellow directors to be creative and productive.

Decisions cannot be made without relevant knowledge, and founders are right to look for subject matter experts. But they often want it all, from world-class risk management expertise to a profound understanding of China. Disappointment invariably ensues when the board falls short.

We would advise founders to select areas of expertise that are critical for their first board. To do this, they need to think about the board's purpose and the context in which it operates: which stage of the business life cycle the company is in, the challenges it faces, the company management, etc.

It may be helpful to create what we call a board competency matrix. Two founders of an industrial company operating in India, the Middle East and Western Europe recently designed the matrix below with our help. It shows that the firm does not need directors to be the best-in-class in every relevant competency. This widens the pool of potential candidates and makes it easier to set up the board.

Board Competency Matrix

Competency	Basic	Advanced	World class
Industry knowledge			+
Financial expertise	+		
Risk management			+
Strategy		+	
Sustainability		+	
Talent management and development			+
Digital technology		+	
Capital investments	+		

While recruiting capable directors is important, selecting the chair of the firm’s first board is arguably the most important task for founders. Many nominate themselves, thus creating significant risks for the board and the corporate governance system.

Here’s why that’s a bad idea: The **role of a chair** is very different from that of an entrepreneur. The latter are doers, the former are enablers. Entrepreneurs make decisions, take risks, give orders and course-correct. Chairs organise the board process, moderate discussions and facilitate collective decision-making that shapes the future of the business. Qualities and practices that make entrepreneurs successful often prevent them from being effective chairs.

We recommend that founders consider appointing an independent chair who knows how to *engage* directors, *enable* collective decision-making, and *encourage* directors to keep learning and contributing to the board and the company.

Process

Good boards approach the task of designing their processes carefully, treating it as work in progress that never ends and an exercise that requires the participation of all board members. Based on our experience, we have distilled several dos and don’ts that could help boards create an effective process:

- Select agenda items based on their fit with the board’s purpose, strategic importance and other pertinent criteria.
- Specify the format and delivery deadline of documents prepared for the board. Reject those that don’t meet requirements.
- Set simple rules for board meetings, such as requiring directors to be punctual and prepared, take turns to speak and critique opinions rather than people.
- Allocate sufficient time for decision-making and articulation. Make sure managers responsible for execution know what they have to do and why the board made that decision.
- Maintain a culture of fairness and collaboration by giving all board members, especially independent directors, a chance to speak. Discuss every idea and every concern raised.
- Avoid or minimise management presentations. Use the time for discussions in which all directors are engaged and contributing.
- Conduct quick evaluations after every board meeting to openly discuss what went well, what didn’t and what could be done differently.

How founders should work with boards

We have observed numerous boards underperforming and, in some cases, dissolving because founders could not accept collective rather than individual decision-making.

Those who have built effective boards have acknowledged and accepted the need to **change their mindset and behaviour**. They have also defined their role in the new governance setup, identified the habits and practices they need to ditch as well as the skills and behaviour they need to adopt. They then tested new strategies, giving the new system and themselves time to evolve, or sought help from coaches or advisers to facilitate the transition.

Founders must embrace the governance transition from solo to collective decision-making. The success of the board depends not just on purpose, people and process, but also the founder's willingness to adapt.

Find article at
https://knowledge.insead.edu/entrepreneurship/building-your-first-board-lessons-founders

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