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Created by:
Maine Venture Fund
Updated November 2020

MVF Business Guide:

Private Company Board of Directors

In this Business Guide, we look how a *Board of Directors* can play a central role in putting and keeping your company on track for success. Good directors provide a CEO with advice, perspective, and support, hold the management team accountable, and provide a fiduciary duty to shareholders. The time devoted by directors to your company is one of your most valuable resources, so meetings should be carefully planned, conducted, and documented. This paper offers practical advice regarding establishing and working with a Board of Directors.

At Maine Venture Fund ("MVF"), we invest in high-growth Maine companies that have the potential to create strong returns and quality jobs in Maine, and thus contribute to Maine's prosperity. Once we invest, we provide business advice and technical assistance to our portfolio companies as well as access to an extensive network throughout Maine, New England and beyond. We consider companies in nearly any industry that can demonstrate the potential for high growth and public benefit. For more information, visit www.maineventurefund.com or call us at 207-924-3800.

For additional resources to help you grow and manage your company check out:
MVF Business Guide: Key Performance Indictors
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The Value of a Board of Directors for an Early-Stage Company

A Board of Directors is a group of individuals elected to represent a company's shareholders. It is legal entity with fiduciary responsibility[1] to the shareholders of a company. The board plays a central role in company governance by serving as the link between those who provide capital (shareholders, investors) and those who use capital (company management).

While all publicly traded companies are required to have a Board of Directors, a board is strongly recommended for private companies as well. When private companies raise capital from outside investors it is typically required by those investors that a Board be established, or perhaps modified. Private boards may be quite active in some companies and may exercise supervisory powers; in others board members are chiefly used as occasional resources. In most cases, board members bring suggestions, make contacts, redirect efforts by good advice, identify opportunities, and otherwise participate in consulting capacities.

Many start-up CEOs cringe at the thought of creating a Board of Directors. They are hesitant to give up control and worry that others will not understand the unique nature of their business or "interfere". Further, CEOs may not feel organized enough to deal with a board, have the stomach for the constructive criticism that directors will bring, or be willing to reveal confidential company information to outsiders.

These challenges are outweighed by the benefits that strong director governance brings to a company. Good board members are businesspeople or sector experts who have a broad and deep set of relevant experiences. It is neither in their job description nor their best interests to seize control of a company – their job is to work on behalf of shareholders to ensure great management and to help the management team create value in the business. And where criticism, information sharing, and candid discussion are concerned, the CEO will find that -- like a long bike ride -- this type of (mental) exercise and reflection will ultimately enhance, not damage, the business.

"The best-governed companies significantly outperformed the worst-practice companies on 13 of those financial measures, including return on investment, annual dividend yield, net profit margin, and price-to-earnings ratio." – ISS 2004

But don't take our word for it. There is robust evidence showing that Boards of Directors enhance business value. For example, a study conducted by Institutional Shareholder Services (ISS) examined the correlation between ISS' Corporate Governance Quotient (CGQ) ratings and 16 financial performance measures from 2002 to 2004 for more than 5,200 U.S. companies. The data show that the best-governed companies significantly outperformed the worst-practice companies on 13 of those financial measures, including return on investment, annual dividend yield, net profit margin, and price-to-earnings ratio. Similar results were found for companies

[1] A "duty of trust" whereby the representative party carefully manages money and/or decisions for another party.

with independent board nominating committees: top-tier firms outperformed the pack on a wide range of measures of profit and shareholder return.

General Duties and Responsibilities of a Board of Directors

A board can add value to your company in a number of ways. Building an effective board requires an up-front understanding of the needs of the company and the role board members play to meet these needs. This is not a one-time process, but rather an iterative process as the company matures. Below is an overview of some of the typical activities that board members perform.

Assist, Mentor, Coach, and Support the CEO. As a CEO, it gets lonely at the top. There are many business issues that you simply can't discuss with your internal team. Directors provide an outlet for these discussions and offer a source of support and wisdom. A good director is someone to whom a CEO can say, "I don't know" during tough times. Vicki Marion, President and CEO of Viadux, Inc., offered the following perspective on how a highly experienced investor (and fellow entrepreneur) helped her during a critical time:

> *"This director was invaluable. When we needed longer payment terms from a supplier, he made a phone call. When we were scaling manufacturing from 15,000 units to one million units per month and I needed to hire a vice president of operations, he sent me a guy to interview who had the right experience. When we wanted a new banking contact, he introduced one…*
>
> *Over the next two years, there were many days I turned to this director for a fresh set of eyes to review a plan under development or for a sanity check on decisions I was facing. Some days, I called him just because I needed someone to talk to who understood what it was like being in my shoes. And every time I was in a fix, I called him for help."*[2]

Directors collectively possess decades of business and sector experience and wisdom that they can bring to bear on a business. They are people with broad and deep networks who can provide connections and introductions to potential partners, distributors, acquirers, and customers. In short, the board has "been there and done that."

Offer outside perspective. Independent directors are company outsiders who possess experiences and skills that meet the needs of companies they govern. As such, those directors are able to take an independent view of the business and deliver insight that may get lost in the CEO's blind spot. As Clayton Mathile, CEO of IAMS pet food company, says, "Your outside board can be your inside sparring partner who tests your strengths and weaknesses before you get to the main arena -- the marketplace. Where else can a business owner go to find help from someone he trusts, who is unbiased, and who will help him do the job?"[3]

[2] Marion, Vicki, "Bringing Experience to the Board," The Kauffman Foundation, 2006

[3] Bagley & Dauchy, *The Entrepreneur's Guide to Business Law*, 2nd Edition.

Oversee business performance. The board determines whether the company's resources are being used to create shareholder value. Directors review and approve operating plans developed by management, as well as compare actual performance against these plans. This role is most directly related to the board's fiduciary responsibility to shareholders.

The board can also establish Key Performance Indicators (KPI) and monitor the company's progress against these benchmarks (annual customer growth, average revenue per user, etc.). When performance is lagging behind KPI benchmarks, the board identifies corrective action to get growth back on track. The MVF has created a *Guide to Key Performance Indicators* that describes this process in greater detail.

Conduct strategic and financial planning. The board conducts and facilitates long-term strategic planning and financial management (i.e., raising funds, allocating capital, and managing liquidity/equity events). This type of thinking is critical for business success. As the saying goes, "If you don't know where you're going, you probably won't get there." The board instills discipline in the CEO to work *on* the business, not *in* the business. CEOs often push this type of thinking down their to-do list as they "fight fires" and deal with other day-to-day issues. By pushing the CEO to regularly revisit the long-term strategic plan, the board forces the CEO to focus on the overall direction of the business.

Give credibility to your company. A well-respected Board of Directors gives your company credibility, which is especially important during the fundraising process. In fact, many venture capital funds consider independent board members to be a key factor when deciding whether to provide equity funding. In effect, a robust board opens the door to new sources of funding and reduces the company's cost of capital. In addition, the structure and responsibilities of the company's Board is commonly an area of negotiation with investors.

Manage senior personnel decisions. The board oversees the hiring (and firing) of CEOs, determines executive compensation, and monitors senior management performance. Directors also manage the CEO succession process and interviews new hires in senior management.

Respond to crises. As unexpected challenges surface, the board of directors can help to overcome them. Many CEOs have directors "on call" to offer advice and assistance at critical moments.

Ensure legal and regulatory compliance. As fiduciary representatives of the shareholders, the board will force your company to maintain sound regulatory and legal compliance. Directors review the adequacy of control systems for the purposes of legal and regulatory compliance. The board will objectively criticize and challenge your decisions, helping your company steer clear of unwanted trouble.

Evaluate board performance and replace directors. Finally, the board is responsible for monitoring its own performance and replacing outgoing directors.

Formal decision making as prescribed by outside investors. When a company accepts capital from outside investors, such investors may require that certain decisions be made only with the consent of the company's board of directors. In many cases, investors require that certain actions cannot happen without the approval of the investor appointed Director(s). Such actions include borrowing money beyond a certain threshold, management compensation decisions, and the transfer or selling of company IP. A more comprehensive list can be found in the National Venture Capital Association's Model Term Sheet.

Legal Requirements of Board Service

Board Directors play a formal role in the management of companies. The prior section provided a very basic overview of *what* activities directors perform; the following provides a framework for *how* directors are legally required to perform such responsibilities.

Duty of Care. Requires a director to act with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. Requires directors to:

- obtain information they believe is reasonably necessary to make a decision
- make due inquiry into the reliability of the information that has been assembled
- make informed decisions in a manner reasonably consistent with the available information

Duty of Loyalty. Requires a director to act in the best interests of the corporation and not in the interest of the director or some other party. Issues often arise where the director has a conflict of interest:

- where the director or a related party has a personal financial interest in a transaction with the company but nevertheless is involved in arguing for or approving that transaction
- where the director or a related party personally takes advantage of a "corporate opportunity" that should instead be presented to the company
- where the director serves as a representative of a preferred stockholder whose interests are in conflict with the best interests of the common stockholders
- where the director abdicates his or her oversight role; or otherwise does not act in good faith.

Examples of not acting in good faith:

- not being truthful with management and fellow board members on a topic of significance to the company
- not devoting sufficient time and attention to required duties
- consciously or recklessly disregarding known risks
- failing to exercise oversight on a sustained basis

Failure to act in good faith can put the company at risk and also can have serious adverse legal consequences to a director. Although it is common for directors to receive protections against liability for innocent mistakes or simple negligence (through exculpatory clauses, indemnity provisions, etc.), if a court finds that the director failed to act in good faith, those protections are inapplicable. In really flagrant cases, a director's bad behavior can even result in loss of coverage under a D&O liability insurance policy.

Duty of Confidentiality. A subset of the duty of loyalty. Requires a director to maintain the confidentiality of non-public information about the company.

Duty of Disclosure. Requires a director to take reasonable steps to ensure that a company provides its stockholders with all material information relating to a matter for which stockholder action is sought.

Business Judgment Rule. Courts recognize that being a director is difficult, and that business decisions often need to be made in the face of incomplete or uncertain information. Courts therefore will give directors the benefit of the doubt under a principle known as the business judgment rule. This creates a legal presumption that in making a business decision, the directors of a company acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company. The business judgment rule helps protect a director from personal liability for allegedly bad business decisions by essentially shifting the burden of proof to a plaintiff alleging that the director did not satisfy his fiduciary duties. The protections afforded by the business judgment rule can be lost if the directors involved in the decision are not disinterested, do not make appropriate inquiry prior to making their decisions, or fail to establish adequate oversight mechanisms.

Characteristics of Effective Boards versus Ineffective Boards

The following table, adapted from the National Venture Capital Association, highlights important characteristics of both effective and ineffective boards.

Effective boards…	Ineffective boards…
+ Present a well thought out agenda with relevant supporting information to directors several days in advance of the board meeting + Establish a clear and mutual understanding of expectations between the directors and the CEO + Conduct a formal annual performance evaluation of the CEO + Have routine executive sessions among non-management board members only + Have directors who work as a team and who make important contributions outside the boardroom + Encourage open/honest communications + Resolve differences of opinion constructively and quickly + Have directors who are accountable to each other + Promote continuing director education about current best practices + Know and understand their responsibilities as directors + Are informed when they arrive at the board meeting, know the industry, and know the company's context in it + Do not attack the CEO or other board members when he/she answers their questions + Participate in free and easy communication outside of the boardroom + If appropriate, provide a different perspective as an individual member of the group	− Fail to communicate– both in and out of the boardroom − Withhold important information and gloss-over key issues and risks − Suffer from denial— fail to act and make decisions − Fail to reconcile diverging viewpoints − Avoid addressing existing conflicts − Regularly hold excessively long board meetings (over three hours without a strategic planning or other extraordinary agenda) − Allow the use of PDA's and computers during a board meeting for purposes not related to board business − Feel compelled to say something and to be heard, disregarding whether they are relevant or effective in their comments − Become disengaged because they no longer feel that their opinion matters—this could be over a strategic disagreement − Fail to resolve disagreements quickly and constructively − Do not maintain regular board meeting attendance − Deliver inconsistent messages between the actual meeting and their post-meeting behavior—passive-aggressive behavior − Succumb to lead investors who discourage constructive discussion from the rest of the board

Establishing the Structure of the Board

If the Board *represents* the owners of the company, its composition should *reflect* the ownership of the company. A Board looks different in a company with only Common shareholders than in a company that has sold preferred stock. When a company raises capital from outside investors, the number of board members, composition and structure of the board of directors is often a point of negotiation. As a CEO it is important to understand the implications of different board structures, whether you are working with an outside investor or creating a board on your own.

Typical structures and Board composition:

	Start-up	Seed Round – first outside capital	Series A- first institutional capital	Series B & Beyond- growth capital
Ownership	100% founders, family, friends (insiders)	80% Common shareholders, insiders 20% Preferred shareholders, angel investors	60% common shareholders 40% Preferred shareholders	40% common shares 60% Preferred shareholders
Board Composition	3 members – 2 company insiders, 1 knowledgeable friend/investor	5 member – 2 Common; 2-Series A; 1 independent	5 member – 2 Common; 2-Series A; 1 independent	5-7 members – 2 common; 2-Series A; 2- Series B – 1 independent
Committees	None	None	Compensation Audit	Nominating Compensation Audit

Determine Number of Directors. The first step is to decide how many directors will sit on the board. It is generally agreed that having an odd number of directors is important in order to avoid deadlock. However, in some cases an even numbered board can be beneficial because it can trigger a deeper consensus when initial opinions are split 50:50. Generally, early-stage boards contain between three and five directors. A smaller number of directors encourages the type of active involvement that is necessary for success. In general, the group “should be small enough to be accountable and to act as a deliberative body, but large enough to carry out the necessary responsibilities.”[4]

Determine Types of Directors. Directors come from inside and outside the company. Inside-company representation is generally confined to the President/CEO and sometimes the Chief Technology Officer. While other company employees won’t be given formal board seats, it is common for officers or senior management to regularly present to the board and join in certain discussions.

[4] Bagley & Dauchy, *The Entrepreneur’s Guide to Business Law*, 2nd Edition.

Outside directors are investors, investor representatives, or independent outsiders. As demonstrated in the table above, as the ownership of the company shifts toward outside investors, so does the composition of the board. If you are considering raising money from outside investors, it is likely they will require some form of access to the company's board. Many times, an investor will ask for a seat on the board. Sophisticated investors can make excellent board members – they are not only highly experienced in growing businesses but are also highly-networked and can make connections to other relevant businesses.

In addition to the CEO and shareholders, boards should include independent directors that have no major financial interest in the company or significant past relationship with company management (e.g., former coworkers, friends). These directors are especially effective in protecting against "group think" by offering outside perspective, pushing back on entrenched opinion, and delivering independent counsel.

In addition to voting board members, some companies also have Board Observers who receive Board materials, attend meetings and participate in discussions. This is a way for investors to stay involved with corporate governance without taking a full director seat. The MVF, for instance, often requires observer rights as a precondition of investment.

Board Positions and Committees. There are several positions and committees that are required for a board to operate effectively.

The Board Chair is the group's leader. The chair is responsible for leading meetings, managing the personalities of the directors, and making sure that no one exerts undue influence. The chair also sets the meeting schedule, controls the agenda, oversees committees, and ensures that time is used wisely. It is important to note that the Board Chair, not the CEO, is responsible for leading the hiring, evaluating, and if necessary, firing, the CEO.

While it is preferable to separate the role of board chair and CEO, this is not always feasible in early-stage companies; the CEO and board chair are often the same person due to practical constraints. When the CEO is the Chair, it is considered a best practice to appoint an independent Lead Director. The lead director is responsible for working with the Chair/CEO to develop the meeting agenda, providing feedback to the CEO/chair on board effectiveness, weighing in on information

Board Committees

Nominating Committee: Screens and nominates new board members and new management candidates. Considers and controls for conflicts of interest.

Compensation Committee: Establishes the compensation plan for the CEO and determines bonus due under prior year's compensation plan. Reviews changes in compensation plans of employees that directly report to CEO. Approves all stock option offers before offer is made.

Audit Committee: Prevents and deters fraud, enforces ethics and compliance. Challenges management and auditors to ensure that antifraud program and controls are adequate. Identifies fraud and ensures that any appropriate investigation is undertaken.

adequacy, serving as the go-between for other directors and the CEO/chair, and consulting with the CEO/chair on the selection of committee members and committee chairs.

Committees also play an important role in board governance. Board committees include the Nominating Committee, Compensation Committee, and Audit Committee (see sidebar). To ensure independence, it is important that these subcommittees consist of at least one independent director. Many start-up boards comprising only three directors are too small to require named committees. However, as illustrated in the table at the beginning of this section, as company ownership becomes more distributed, and the board becomes larger, committees should be formed.

How to Build a Board of Directors

While building a value-adding Board of Directors is not easy, it can be accomplished with the right mix of vision, diligence, and determination. Start by listing the skills and backgrounds you need. Then create the rules and procedures to govern the body. Finally, target and recruit candidates to fill the positions. If you are currently raising outside capital for your business or thinking of doing so, outside investors will more than likely be involved in the structure and composition of the Board. Whether you are working with an investor group or just with company management the principals of building an effective board are the same.

Steps for Creating a Board of Directors

1. Determine board structure (# and type of directors)
2. Determine the skills and knowledge needed for success
3. Establish relationship between directors and the company
4. Develop a list of candidates and create a board profile grid
5. Recruit and network

Envision Your Board of Directors. The goal of any board recruiting process should be to bring in directors whose skills, networks, and experiences meet the current needs of the company as well as those needs necessary for success over the next 5 years. The CEO, and in many cases major shareholders should design the board based on the needs of the company. This needs analysis should not be static: the CEO should look forward, thinking carefully about what the company will need to be successful over the next 18-24 months. The sidebar contains some useful questions to begin this process. During this stage, the CEO and major shareholders will want to consider both "hard" and "soft"

Questions to Consider

- What is the competitive advantage of the company?
- What will be the demands on the company and the likely changes in the next few years?
- What factors would contribute to the success of the company?
- How much technical expertise is needed to understand the company's products?
- What role does marketing play? Research and development? Customer service?
- What is the company's access to sources of financing?

Source: Bagley & Dauchy, *The Entrepreneur's Guide to Business Law*, 2nd Edition.

competencies: functional skills, personality, and demographic characteristics.

Skill sets required will evolve as companies move through stages of development. Ideally, companies will have board members with experience in governance, finance, technical knowledge/product development, marketing, and sales. High growth and venture-backed companies often benefit from boards with experience in growing a company to scale, entering new markets, mergers and acquisitions, and taking companies public.

The board should also represent a diversity of age, gender, and cultural background. Diversity has been shown to not only encourage new points of view, but also deliver real results: One 2011 study found that boards with three or more female directors outperformed those with no female directors on a variety of financial measures.[5] In addition, the board's composition should also be skewed to match the gender and cultural profile of the company's employees and customers.

> *"Building and operating a board of directors is admittedly challenging. It requires networking to find the right people and the courage to go 'hat in hand' to those senior businesspersons to convince them that helping you build a successful business is the right thing to do. Further, it requires discipline to take time away from operating in the business to reviewing progress and planning for the future."*
> *- Bill Payne, Kauffman Foundation*

Recruiting and Working with a Board

Establish the relationship between the Board and the Company. It is useful to define the relationship between the Board of Directors and Company before beginning to recruit directors. Clearly defining roles, responsibilities, compensation, expectations and procedures are essential for a well-functioning board. This contract, often called the Delegation of Authority, is a clear, written statement that defines the relationship: What decisions must be brought to the board, what decisions are the province of the CEO, and authorization on the CEO's ability to delegate to other employees.

It is normal practice for outside directors to be compensated for their time served on the board. Whether this compensation takes the form of equity, cash, or both is unique to the company and directors. Given that most early-stage businesses do not have enough cash to offer a quarterly director stipend, these companies often grant directors one-time options for 0.25-1.5% of outstanding shares, which Board members vest in over time.[6] As your company matures, you will want to consider paying board members an annual cash stipend. And, of course, the company should pay for all expenses related to board meetings.

Develop a List of Candidates. You will ideally want to identify two or more candidates for each position – allowing for the fact that some candidates will decline the offer. A great way to envision your

[5] Lublin, Joann, "Female Directors: Why So Few?" *The Wall Street Journal*, December 27, 2011, http://online.wsj.com/article/SB10001424052970203686204577115403482415704.html.
[6] These options are often accompanied with anti-dilution protections and a multi-year vesting period.

company's needs – and how potential directors can fill them – is the Board Profile Grid (Appendix A). The grid is great for comparing directors' skills, backgrounds, and other information against the profile of the current CEOs and officers. The grid also identifies conflicts of interest and highlights major gaps for recruiting needs.

The best way to find potential directors is through your professional network, and the network of your company's shareholders. Online social media sites such as LinkedIn can be helpful when you are looking for certain professional skills or backgrounds. You can also look for people in your network who are active on other boards. Prominent businesspeople in your community and retired industry veterans or regulators can be great board members. If you need an introduction, attorneys, accountants, investors, and consultants are generally well connected and are often willing to make introductions.

Approach Your Targets. Begin by prioritizing your list, giving preference to highly networked individuals who can attract other directors. When you contact the candidate, you'll want to share your vision for the company and its directors. Ask the candidate whether she or he has the interest and time to serve, as well as any potential conflicts of interest. If the candidate expresses interest, follow up with a "job description" of the director role – including a clear overview of the duties and responsibilities. You may also want to consider giving the potential director an "orientation packet" that includes information on the company's products, business model, and financial performance. As you begin to convert your candidates into directors, re-prioritize your list to focus on unmet needs.

Directors and Officers Insurance. Some directors will request Directors and Officers Liability Insurance ("D&O insurance") as a condition for joining the board. The insurance provides coverage to officers and directors for claims where the corporation is unable to indemnify them (due to state law, financial limitations, or bylaws). D&O insurance is expensive, costing between $5,000 and $20,000 per year. As such, many small, rapidly growing companies choose not to carry it. For more information, click-here.

Educating new board members and setting expectations. It is important for someone on the board to take ownership of welcoming and education new directors. In a well-established board the nominating committee could hold this responsibility. When welcoming a new director the following items should be included in the welcome packet:

New director welcome packet

- ✓ Roles, responsibilities, and expectations of a board director custom for the company's current situation
- ✓ Summary of legal requirements of board directors
- ✓ Characteristics of an effective vs. ineffective board
- ✓ Compensation package and reimbursement policy
- ✓ Information regarding D&O insurance
- ✓ Term and committee expectations
- ✓ Schedule for upcoming board meetings
- ✓ Minutes from prior 12-month period of board meetings

How to Conduct Board Meetings

MVF has generated a Board Meeting Scorecard (Appendix B), which helps companies to plan for, execute and follow up with Board Meetings. The following breaks down these items in more detail:

Prepare Before the Meeting. Several days before each board meeting, the management team should provide directors with a packet of relevant information. The packet should include the following:

- Upcoming meeting agenda
- Minutes from prior meeting(s)
- A summary of the company's financial position (operating statements, balance sheets, statements of cash flow, comparison of current results vs. budget and historical performance)
- Management's explanation of any variance between budget and actual performance
- Updates to operating plan
- Key Performance Indicators: market share information, KPI dashboards, sales pipeline, etc.[7]
- Product roadmap update

MVF has prepared a template board reporting package, which is available on our website.

Running the Meeting. Boards should meet regularly. Boards of companies that are still consuming investor capital generally meet monthly (in person or by phone). Boards of cash flow-positive companies meet less frequently, typically quarterly. Of course, emergency meetings may be necessary to address unforeseen issues – these meetings are often conducted via teleconference.

An agenda should be included in the information packet provided to board members in advance of the meeting. The agenda should be detailed and enforced during the meeting by the board chair. The agenda lists topics to address, specification of how each topic will be addressed (e.g., make a decision, recommend an action, determine next steps), and a timeframe to address each item.

Finally, it is important to record careful minutes of the meeting. The minutes should be concise and comprehensive. A good guideline is to note matters that were voted upon, items carried over to future meetings, and resolution of discussed items. A brief summary of the discussion is also helpful as it demonstrates the due diligence of the meetings. Once drafted, the meetings are first reviewed by the chair and then published in draft form to all directors. Directors provide any comments and approve a final version at the next meeting. A board secretary or corporate counsel normally records the minutes.

Follow-up after the Meeting. Many CEOs find it helpful to keep in contact with the board between meetings, as such a relationship facilitates a healthier CEO-board relationship and makes calling on

[7] See the MVF's KPI primer for a more detailed introduction to KPIs ("Information Pack on KPI Tracking," August 2011).

directors in times of need much easier. A good goal is to communicate with each board member at least once in between each meeting.

Sources

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- Payne, Bill, "Using the Board for Company Growth," The Kauffman Foundation, 2006
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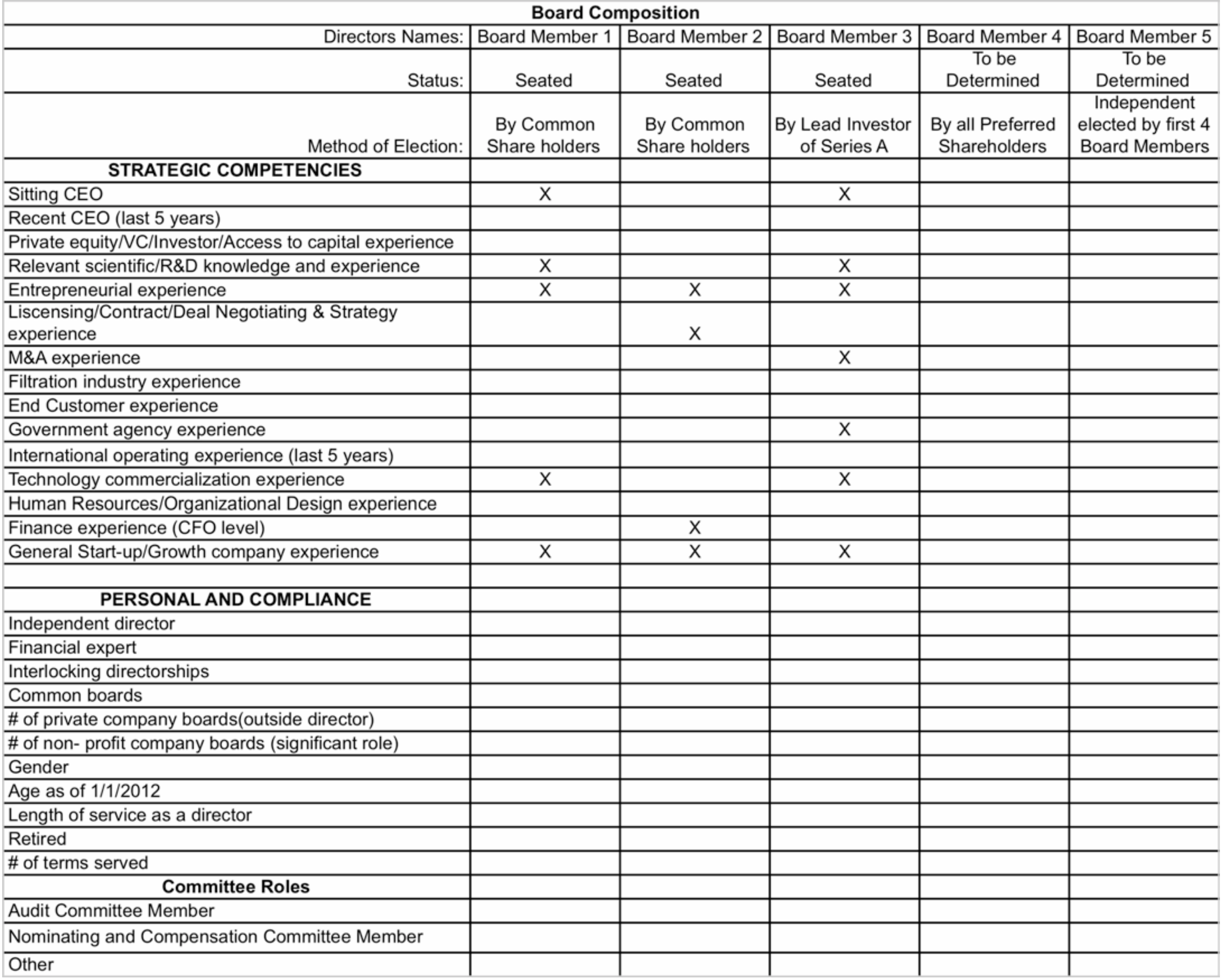
- National Venture Capital Association

Additional Resources

The following are several sources of additional resources on effective board practices:

1. From the National Venture Capital Association: A Simple Guide to the Basic Responsibilities of VC-Backed Company Directors. *As described within, an excellent white paper aimed at helping VC-backed companies establish an effective board of directors.*
2. Fled Blog: http://www.feld.com/wp/archives/category/board-of-directors *A well-respected VC blog that covers a broad spectrum of entrepreneurial topics, including board of directors.*
3. Deloitte Board Governance: http://www.corpgov.deloitte.com/site/us/board-governance/;jsessionid=drvSRvXRKpShN2xfrWs1hX6hRBQk992gTLG3vNrC2FGnKVhJH1ls!1574159443!NONE *An overwhelming resource of white papers, templates and tools for best board governance practices.*

Appendix A: Example Board Profile Grid

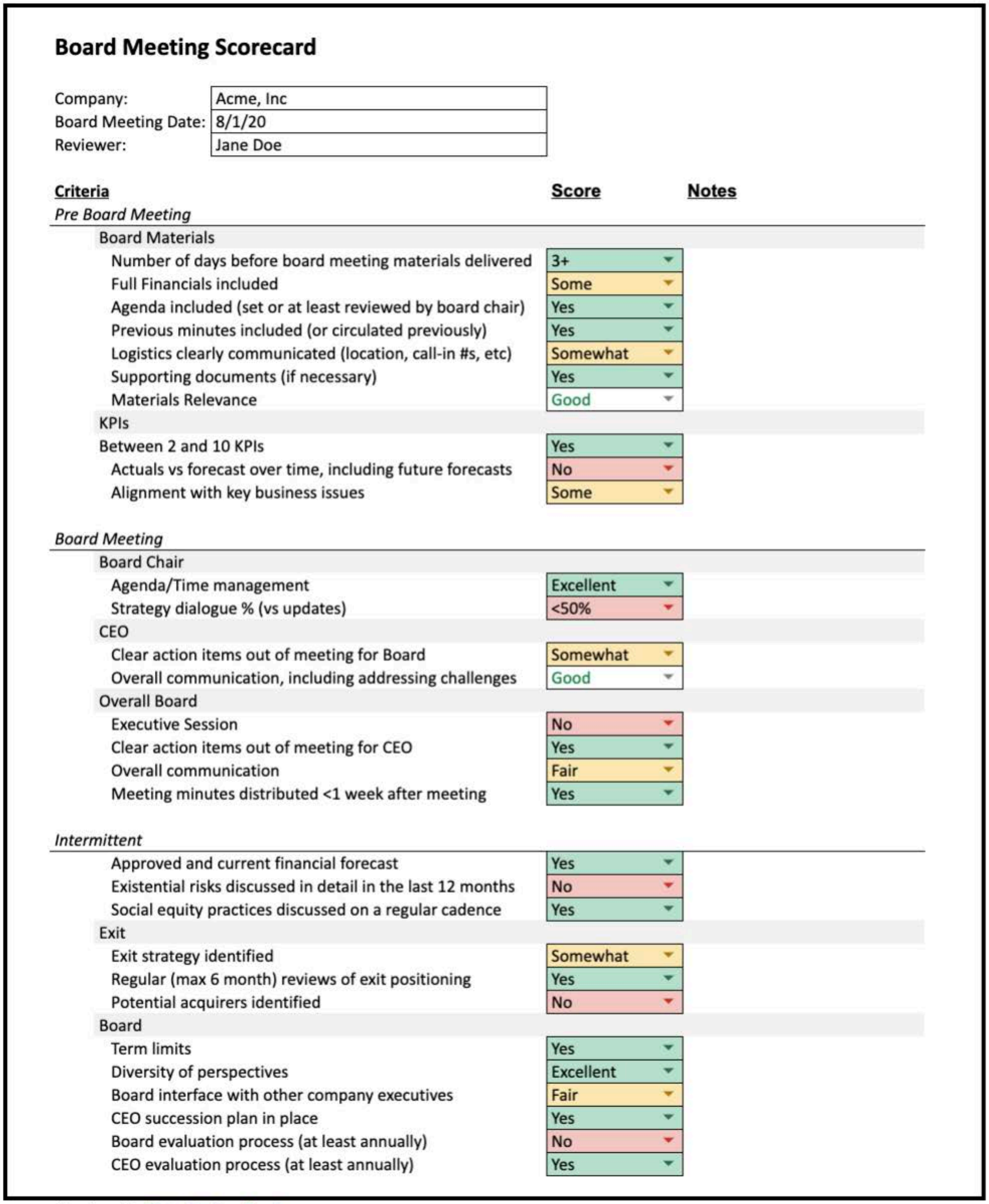


Board Composition					
Directors Names:	Board Member 1	Board Member 2	Board Member 3	Board Member 4	Board Member 5
Status:	Seated	Seated	Seated	To be Determined	To be Determined
Method of Election:	By Common Share holders	By Common Share holders	By Lead Investor of Series A	By all Preferred Shareholders	Independent elected by first 4 Board Members
STRATEGIC COMPETENCIES					
Sitting CEO	X		X		
Recent CEO (last 5 years)					
Private equity/VC/Investor/Access to capital experience					
Relevant scientific/R&D knowledge and experience	X		X		
Entrepreneurial experience	X	X	X		
Liscensing/Contract/Deal Negotiating & Strategy experience		X			
M&A experience			X		
Filtration industry experience					
End Customer experience					
Government agency experience			X		
International operating experience (last 5 years)					
Technology commercialization experience	X		X		
Human Resources/Organizational Design experience					
Finance experience (CFO level)		X			
General Start-up/Growth company experience	X	X	X		
PERSONAL AND COMPLIANCE					
Independent director					
Financial expert					
Interlocking directorships					
Common boards					
# of private company boards(outside director)					
# of non- profit company boards (significant role)					
Gender					
Age as of 1/1/2012					
Length of service as a director					
Retired					
# of terms served					
Committee Roles					
Audit Committee Member					
Nominating and Compensation Committee Member					
Other					

Appendix B: Board Meeting Scorecard

Link to live scorecard here

Example format:



Board Meeting Scorecard

Company:	Acme, Inc
Board Meeting Date:	8/1/20
Reviewer:	Jane Doe

Criteria	Score	Notes
Pre Board Meeting		
Board Materials		
Number of days before board meeting materials delivered	3+	
Full Financials included	Some	
Agenda included (set or at least reviewed by board chair)	Yes	
Previous minutes included (or circulated previously)	Yes	
Logistics clearly communicated (location, call-in #s, etc)	Somewhat	
Supporting documents (if necessary)	Yes	
Materials Relevance	Good	
KPIs		
Between 2 and 10 KPIs	Yes	
Actuals vs forecast over time, including future forecasts	No	
Alignment with key business issues	Some	
Board Meeting		
Board Chair		
Agenda/Time management	Excellent	
Strategy dialogue % (vs updates)	<50%	
CEO		
Clear action items out of meeting for Board	Somewhat	
Overall communication, including addressing challenges	Good	
Overall Board		
Executive Session	No	
Clear action items out of meeting for CEO	Yes	
Overall communication	Fair	
Meeting minutes distributed <1 week after meeting	Yes	
Intermittent		
Approved and current financial forecast	Yes	
Existential risks discussed in detail in the last 12 months	No	
Social equity practices discussed on a regular cadence	Yes	
Exit		
Exit strategy identified	Somewhat	
Regular (max 6 month) reviews of exit positioning	Yes	
Potential acquirers identified	No	
Board		
Term limits	Yes	
Diversity of perspectives	Excellent	
Board interface with other company executives	Fair	
CEO succession plan in place	Yes	
Board evaluation process (at least annually)	No	
CEO evaluation process (at least annually)	Yes	

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