

What Makes a Great Independent Board Member?



Mark Suster [Follow](#)

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When you set up a board it is often initially a combination of the founders and the early investors. It can start 2–1 founders to investors and then sometimes moves to 3–2 but sometime around the A, B or C round the idea of “independent” directors comes up.

Note: This is part of a [series on Startup Boards](#).

This post sets out how I believe founders (and investors) should think about independent board members having worked with many of them for the past 20 years. I will also outline how to select them and incentivize them. This is really a checklist in my mind of how I think about independents.

Who Makes a Great Independent Board Member?

Local	Time to Commit
Industry Experience	Startup Experience
A Good Mentor	Has Skin in the Game
There in Good Times & Bad	An Honest Broker
Diplomatic	

* They don't need to be all of these things but as many as possible

Source: Mark Suster, Both Sides of the Table

upfront

Why Independent Directors?

There are a few reasons. As a starting point there comes a time where investors have piled millions of dollars into a company and while they don't want to control it, they also want a degree of independence in

decision-making that comes when you have somebody who wasn't a founder that is on the board of directors.

Founders on the other hand recognize that over time they are likely not to have complete control of the board of directors of the company they founded. When an entrepreneur takes on investors who take equity (i.e. not debt where they have to be paid back) they are actually co-owners in the business you created. The board is where large equity investors get their representation. Choosing independent directors is a way that founders can create independence from investors getting to make all of the most important decisions regarding the company's future and vice versa.

There are two other important consideration than the "neutrality" that comes with independent directors. The first is that if chosen correctly they should provide operating experience that is relevant to your business that will be represented on your board. They therefore often play the role of the "voice of the customer" and bring important relationships. The second is that they are usually very experienced operators that can mentor the founding team. This is important because when you have too many VCs on a board you only bring one kind of thinking to the board. Independents are critical to avoiding "VC group think." Yes, this is a thing.

Local

I feel strongly that you should consider hiring an independent that is local to you. Everybody is tempted to get a "big name" and thinks that having somebody that is known is more important than somebody who actually spends time with you. Of course there is usually an inverse relationship between how senior the person is, how much time they have available and on the other side how much time they'll spend helping you and getting involved in details. If you're amazingly successful and are a billion dollar valuation then you can command more of their time and you can ask a bigger name and being local matters less. Otherwise, I value involvement over brand.

Local means likely more time. Local means more hands-on mentorship. Local means an early-morning coffee when you have a thorny issue or a late-night drink if you hit a crisis. It's why the best angels and seed investors are local and why the best independents are, too. As your

company ages this becomes less important with investors and with independents.

Industry Expertise

You don't need a peer from another startup as your independent—you can build that with your personal peer network. You also cover off this type of experience with most VCs. What you don't get on a typical startup board is somebody who brings the wisdom of your industry. We're an investor in an amazing startup company called [Apeel Sciences](#) that creates a film that helps preserve fruit & vegetables with totally organic materials and extends the shelf life by 3+ weeks without using herbicides or pesticides. Between Upfront and Andreessen Horowitz there is plenty of VC representation on the board so when the newest investor asked the former CEO of Whole Foods ([Walter Robb](#)) to join the board I thought that was really clever. While Walter isn't local, the company has now raised > \$100 million so it's at a stage in which it gets huge value from the industry perspective. They also get huge value from somebody who has run a large business and dealt with scaling challenges more than any VC on the board ever has.

A Good Mentor

Being a founder of startup is a lonely experience because you're constantly faced with hard decisions that need to be made with incomplete information and many of the decisions can be very consequential and you have limited people from whom you can get input.

Of course great VCs play this role and many founders rely on VCs for input to hard decisions. Founders can and should also form or join peer groups of trusted other founders where they can open up and be vulnerable. That's one reason I loved my experience with [YPO](#).

I think when you choose an independent board member you should be thinking about somebody who can mentor you. It's valuable to have somebody who knows all of the confidential details of your company, knows the perspectives of your investors, knows your extended team, knows your industry and importantly knows YOU. It's true that since they're a board member it's not the same as having a peer listen to you,

but being able to open up to a non-investor board member can be hugely rewarding.

I had the former head of Oracle, UK, Philip Crawford, on my first board and I found his advice and experience invaluable. I was a SaaS company and he had been on the Executive Board and the Strategy Council for Larry Ellison at Oracle and he taught me some key lessons about sales and he served as a useful buffer between my investors and me.

Startup Experience

I highly advise you to consider choosing an executive who's had at least some experience either working at or being on the board of a startup at some point in their career. It's not a requirement but it certainly helps when they've had to deal with the kinds of issues you will face. If they have only worked at a bigger company and have never had to deal with VCs, never had to work with a company that has < 18 months cash in the bank, never had to deal with running a business with hugely limited resources—then your situation may resonate less with them than it might for other candidates.

Has the Time to Commit

This one is critical. I've been on boards with independent directors who are hugely responsive, read important legal documents, get briefed by the CEO and company counsel and know the company's financials. I've also dealt with independent directors where we struggle to get calls scheduled and when we do they are always in a rush to get through the call. In the end, the value you get out of your independent will be related to the time they have to put into helping you. Having a brand name person without getting meaningful time looks good on paper but bragging rights won't help you run a better business.

Has Skin in the Game

This is a key one for me and it's non-conventional so stick with me for a second. I really like it when independent directors write a check into the company. It can even be symbolic relative to their wealth but “skin the game” is important because it makes them think and feel more like a shareholder. If a multi-millionaire writes even a \$25,000 I assure you

that it has a psychological impact on how they're thinking about the company. As I like to remind people, "rich people don't get rich by being cavalier about money." \$25,000 is still skin in the game to them.

The way that I like to structure this is that for every dollar they write they get a free "penny warrant" for the same amount, so essentially when they invest they pay 50% less than anybody else at that stage has paid. That way somebody who writes \$25,000 gets \$50,000 worth of stock plus warrants. If somebody isn't willing to write a small check I would query whether they're truly committed to the success of the company in the first place. If they don't believe enough in your success to write a small check perhaps they're not best suited to be on the board?

There are some great people who could be valuable for whom a \$25,000 check would be too large of a commitment relative to other obligations in their life and if so—obviously make an exception. But if they could even write \$2,500—money is money and skin in the game matters.

By the way, for many founders they don't think about the fact that all VCs have skin in the game. While it's true that they are investing LP money from a fund, it's also true that the VCs are required to write large checks into their funds so every time they do a "capital call" (request money from an LP to fund you) they are also having to wire their own money into the deal. Yup. VCs most certainly do have skin in the game.

Diplomatic—A Good Honest Broker

The best Independent Directors are truly that—independent. They take seriously their role in representing all shareholders and even all stakeholders (which includes debt, customers, suppliers and employees). I have seen many independent directors who act as proxy founders and refuse to take a hard stand if one is warranted. I have also seen independents who are in the pocket of the VCs. This isn't healthy, either.

The appointment of a great independent board member should be somebody who thinks about himself or herself as representing the interests of "the company" and that may not mean backing the CEO.

Sound controversial? Feel free to study CBS or Weinstein Company to find out what happens when you have crony independents on a board.

Responsible—In Good Times and Bad

When you witness 100+ boards over a couple of decades as I have (not all of which I was on, obviously) you tend to see the extremes of behavior. Because board fights can end up being litigious you often don't get to read about the trials and tribulations. But suffice it to say that you want independent boards who are going to be with you in your worst moments. When things get tough on a board every member starts to think about his or her time commitments and legal risks and say, "is it really worth it all?" If you think your independent will hit the escape hatch at the first difficult situation you might consider choosing somebody else. That's why hiring somebody with some startup experience can really help.

I have witnessed some of the most honorable business people in my career in the past decade as I've watched independent directors with limited upside take their job function as a director so seriously that they've had to give up weekends and evenings to fulfill their obligations. While I'm guessing at times they wondered, "Why did I sign up for this?" they likely also felt a sense of duty and follow through. I know, I've felt this myself several times where walking away might have been easier or even more financially sound.

How Do You Pick Them?

How do you pick an independent director? There is no easy solution and I can tell you have worked with amazing VCs and Corporate Lawyers—even some of the most experienced people don't have this wired. 98% of the time choosing and working with independents isn't controversial but there are times where it becomes contentious and after all that's why legal agreements exist. The following points may make it feel that picking independent directors is contentious—I want to emphasize again that it almost always isn't. But setting up legal agreements is about thinking about edge cases and you avoid the upfront hard conversations at your peril.

Here is my recipe:

1. Somebody picks—Sounds obvious, I know. But many legal agreements say that the independent is by mutual agreement of the common (read: founders) and the preferred (read: VCs). The problem is that either side could theoretically filibuster and just not pick somebody. I know because I witnessed a founder do this. He had a 2–1 board in favor of founders with a legal requirement for 2 independents. He just didn't act and therefore he used this to keep board control. It took a legal threat to get him to follow his legal agreements and even then he violated them completely. Yes, it does happen. So it can be that the founders pick or the VCs pick but somebody has the legal right even if in practice you do it together.

2. The other side approves—If the seat requires both parties to consent then obviously the party who nominates then the other side must approve. Often there are legal conditions agreed about what constitutes an independent (i.e. has no contractual relationship with either party in existence, is not related, etc).

3 . There is a process where if the picker doesn't complete the task on time the approver gets the ball—Where I've been asked to let founders pick the independent I will often agree to this but I request to legal rights to be the nominating party if a period of time has passed and nobody has been formally nominated (for reasons outlined in point 1).

4 . Approval not to be unreasonably withheld—I sat on a board a decade ago where the other VC fund had one of its partners take on the CEO role temporarily before I joined the board (I took the seat from a former partner). We went through a search process with an executive recruiter where I was in charge of the process. The CEO proceeded to block every single candidate I put forward because she wanted to stay in the seat. That was when I learned to include “approval not to be unreasonably withheld” into appointment clauses. It's true that the term isn't legally black or white. If I nominated somebody clearly not qualified somebody would be reasonable in saying “no.” If I put forward 8 candidates in a row that were qualified and each was blocked to avoid appointing a new board member eventually I'd have grounds to claim this was unreasonable. It's an edge case, but ... edge cases matter.

5 . Clear removal and re-appointment process—About a decade ago I witnessed a board where a former partner of mine and the founding

team were at odds over how to run the company. There were two founders and two investors plus one independent. There was a lot of fighting between founders and funders that the independent quit his job because he didn't want to get in the middle. There was no process for re-nominating somebody once that happened so the board was split 2-2 and fighting. That has always sat with me that there must be a clearly outlined process for removal of independents and re-appointment of independents. Again, not pleasant to think that fighting will ever happen but if you never have a process to deal with contentious issues you may one day regret it. FWIW, in this case I stepped in to mediate (I wasn't involved with the company so I played the role of mediator). In the end I agreed that our firm would sell its stock back to the founders and new investors at a slight discount to what we paid just to avoid the conflict. My guess is that a true independent could have resolved some of the underlying problems.

If you want to read more about [Startup Boards](#) you can do so on this link.

