Choosing your startup's officers: who should serve? In what roles? And why?

A company is made up of technology and people. To be successful, you need to clearly define and carefully consider not just who should serve as your officers but the roles they will fill. If you are an early-stage company comprised of a small number of highly talented individuals, you need to devise a management structure that will best utilize your team members' capabilities and lead to an effective business enterprise.

You have probably already put a lot of thought into what each of your startup's team members will do. You probably chose each other because of your diverse backgrounds and abilities and what each of you can bring to the table. But when you actually form your business entity, the company must appoint officers with official titles, a process that can sometimes feel like condensing dynamic relationships into artificial boxes.

This post is designed to stimulate your thinking about some of the important questions involved in establishing the official titles for your founder team.

There are two general considerations you need to be mindful of when establishing official titles and roles for your management team: legal considerations and practical considerations.

Legal considerations

An important distinction to keep in mind is that the roles of officers and managers are distinct from those of a company's directors (or an LLC's "managers"). Directors are elected by a corporation's stockholders to supervise the company's management and sign off on key decisions. Officers are appointed by and report to the board. Other managers are typically appointed by and report to the CEO (or another C-level officer).

The legal dimension of establishing officer titles is fairly simple, and it depends on the type of the entity (see our article on choice of entity issues) and where it is being formed (see our article on where to form your corporation). A Delaware corporation, the most common choice for startups in the US, must have a president and a secretary. Other states, such as California, require that a corporation formed under that state's laws also have a treasurer. Other than statutory requirements such as these, you have complete control over officer titles. In fact, many companies appoint individuals to multiple officer roles in order to comply with the laws of the state while still using the company's desired officer titles. For example, it is common for the president to also be the CEO or COO.

Even though you are free to double up on an individual's officer roles and delegate responsibilities as you see fit, it is helpful to understand what these required roles traditionally represent. The president of a company is the most senior officer responsible for executing core functions of the company. As mentioned above, in many young companies (and some large ones, too), this role is often referred to as the CEO. The secretary is the senior administrative officer and is in charge of the company's records, including minutes of board meetings and corporate documents. Many documents included in financing and banking transactions require the secretary's signature. Even in a company where one founder will fill all other officer roles, it can be wise to appoint a separate person as the company's secretary. This way, there is an alternate officer to sign agreements on behalf of the company when the other party to an agreement is the main founder (*eg*, the main founder's employment agreement and stock purchase agreement). The treasurer is tasked with administering the company's finances. Unsurprisingly, many companies combine this role with that of the CFO.

Practical considerations

The majority of your decision-making process regarding officer roles will be guided by practical considerations. Agreeing to officer titles can be contentious, with ego and personal ambition muddying the waters. Keeping the truly important factors in mind will help guide your team over this hurdle.

First, the purpose of officer titles and roles is to clearly define each team member's function and responsibilities. This is about setting up an efficient system in which each person is highly competent at his or her role and everyone understands who is in charge of what. Simplicity is key.

Second, avoid overusing "chief officer" roles for all early-stage officers. There are several reasons for this. For one, your company needs to be designed to grow. Growth often entails bringing in experienced officers later in the game, once your company has made some progress and can attract specialist and experienced leadership, which will be needed for the company to reach its maximum potential. By appointing every founder to a chief officer role, you fail to leave room for high-level hiring down the road and set the stage for a conflict that could potentially prevent your company from recruiting a key individual. Also, your company is probably not large enough yet to require any chief officer roles beyond CEO and, potentially, CFO. If everyone gets "chief" in their title, it can create the appearance that you don't take the roles seriously, or that there is not a clear command structure. Stick to the basic officer titles that you need to structure your company effectively, and leave the lofty name plates as a carrot you will use to make strategic hires in the future.

Finally, be honest and realistic with your co-founders about how the company's management should be defined. Although distributing equity in the company is probably more contentious, establishing officer titles and roles can be a strain on your fledgling enterprise. Be aware of this, but also keep in mind that these are crucial decisions that will impact your company's long-term prospects. Your ability to make difficult, foundational decisions in the early days will contribute to how your company fares in the long run.

Admittedly, the director-officer-lower manager structure may feel somewhat awkward and unnecessary in an emerging company, especially if all of your team members are going to be stockholders, directors and officers (which is completely normal in the early days of a company). It can feel even stranger in sole proprietorships, where one person wears every hat in the corporate governance structure. But getting a proper structure in place at the outset makes your company scalable; it also makes the company appear more serious. Furthermore, sorting out these issues now while your company is small and fluid is immeasurably easier than doing it in two years when you have more employees and are seeking professional funding. Get this done correctly now, and avoid headaches down the road.
