

DEVELOPING AND ENABLING A SUCCESSFUL BOARD

Elaine Eisenman, PhD
Managing Director,
Saeje Advisors
eeisenman@saeje.com

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Agenda

- ❑ What differentiates the types of boards?
- ❑ Why you need a board
- ❑ Creating the right structure
- ❑ Identifying and recruiting the right board members for your company's growth and strategy needs
- ❑ Insuring your board sessions is effective, productive and valuable
- ❑ Best practices in maximizing board success
- ❑ Create your own plan and pitch to build an advisory board

WHAT DIFFERENTIATES TYPES OF BOARDS?

Board of Directors

- Legally defined with regulatory framework (SOX) for governance
- Majority independent directors
- Terms defined and re-election required
- Qualifications defined
- Required if incorporated as Corporation or S Corporation, and must hold one annual meeting at minimum
- Fiduciary responsibility/liability and legally defined responsibilities for directors
- Financial commitments-retainers/D&O/shares/meeting fees, etc.
- Represents shareholder (but majority shareholder in small companies often is CEO)
- Sets compensation for CEO
- Three required committees: Audit, Compensation, Nominating and Governance
- Regular meetings, minutes, processes



"Am I to understand that my proposal is greeted with some skepticism?"

Advisory Board

- Informal group of experts hand-picked by CEO and executive management team
- No fiduciary, governance or legal responsibilities (no D&O!)
- Guidance and non-binding advice
- Flexible mandate-can be short term
- Can easily change advisors as company/CEO needs changes
- No duty to the company and shareholders
- Often issue and challenge focused
- Directing, advising, mentoring, providing specific expertise are priorities
- Sounding board to test drive business ideas and options
- Sounding board for CEO
- Can help drive change and innovation
- Less time consuming
- Less expensive
- Can attract people cannot afford to hire
- Focused but informal

Advantages of an advisory board over a board of directors

- Easy to form, expand, change and dissolve
- Less expensive
- Less management support required
- Needs of management primary
- “Beholden” to no one
- No liabilities involved
- Opportunities for management to gain expertise and experience in framing challenges
- Mentoring is primary
- Non-binding decisions and requests
- Lower time commitments for advisors and management

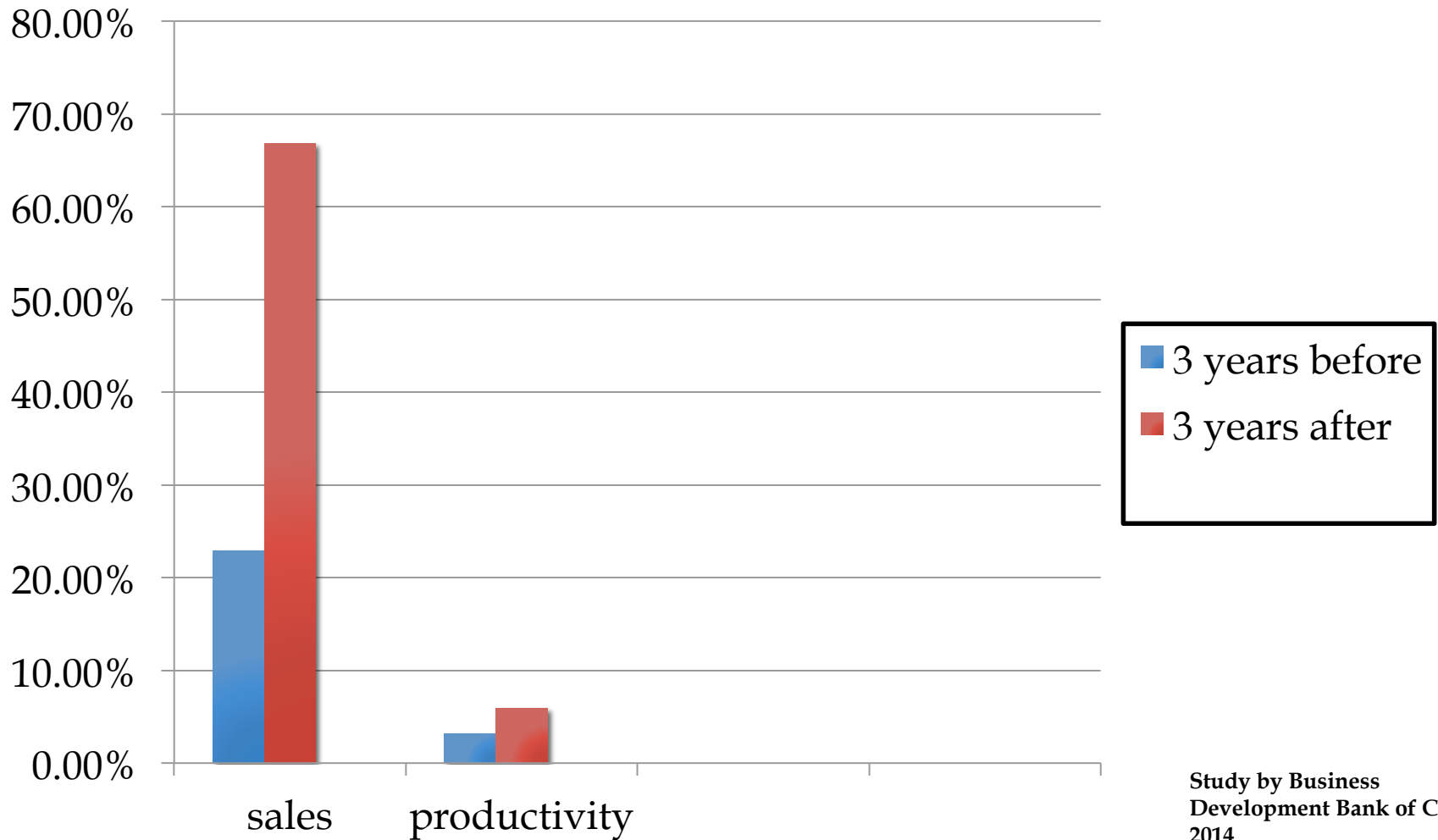
WHY YOU NEED A BOARD

Question: “How can a small company continually innovate and create exciting new ideas, open new markets, and minimize failure in today’s competitive and constantly changing world?”

Answer: “By asking for help from knowledgeable outsiders.”



The data for 1000 Canadian SMEs



Benefits, according to Canadian CEOs

An advisory board.....

- is an essential tool 8.2
- is like having a sounding board 8.1
- is a support for the owner/management team 8.1
- allows you to develop a broader vision 8.0
- strengthens the management team's convictions 8.0
- forces management to look at the company 7.5
- challenges the company's management team 7.5
- brings rigour in to the company 7.2
- is a driving force for the growth of the company 7.1

In particular, the existence of an advisory board helped them to:

- improve strategic business choices 8.0
- broaden the universe of knowledge and skills 7.8
- develop new ideas 7.8
- put in place a better management structure 7.4
- improve company reputation and image 7.3
- reassure shareholders and investors 7.2
- avoid costly mistakes 6.7
- break down the isolation of company executives 6.4
- ensure succession of the company 6.1

(scale of 1-10 with 10 being highest benefit)

Many types of advisory boards

- Advice and counsel for CEO-think tank model
- Specific expertise to expand thinking of CEO and executive team
- Innovation focused
- New market focused
- New geography focused
- Single issue/single challenge boards
- Other?????

CREATING THE RIGHT STRUCTURE

A caveat

*No matter the structure, advisory boards **cannot** and **will not** work if the company's culture is closed to accepting the wisdom and perspectives of outsiders.*

Core decisions driving structural success

Determining and clearly articulating:

- ❑ Purpose and objectives
- ❑ Desired outcomes
- ❑ Role of senior management
- ❑ Who's in charge?
- ❑ Size of desired board
- ❑ Type of advisor expertise required
- ❑ Expectations for advisors
- ❑ "What's in it" for the advisors?
- ❑ Number of meetings per year
- ❑ Term of service

Clarity of purpose is the foundation

Critical to set goals in advance. To do so ask and answer:

- ❑ Why do you want an advisory board?
- ❑ What are the critical outcomes that will make it worthwhile?
- ❑ What areas of your business need outside perspectives? Why now?
- ❑ What specific questions do you need answered in what specific timeframe?

Compensation?

How will you incentivize potential members to join?

- Meeting stipends
- Retainers
- Equity
- Intellectual stimulation
- Networking opportunities
- Fame and glory
- “Sexy” meeting locations
- Cool product/perks
- Intellectual capital
- Social capital
- Development opportunities
- Other??????

Getting the details right

- Create a board charter outlining purposes, goals, and expectations.
- Have advisors sign confidentiality agreements, NDAs, and define parameters
- Schedule meetings at least 3-6 months in advance.
- Circulate agenda before each meeting.
- Distribute pre-reading etc. at least 2 weeks in advance of each meeting so meetings are discussion not updates.
- Keep advisors informed and engaged between meetings on progress and challenges related to goals and actions BUT do not inundate them with information.
- Take minutes/notes of meetings and circulate.

Role clarity: CEO and executive team

Who:

- Sets expectations of the advisor's role?
- Chairs the meetings?
- Is responsible for the care and feeding of the board?
- Manages the communications with the board?
- Sends identifies content for pre-work and board agendas?
- Takes and distributes minutes?
- Takes responsibility for overseeing recommended actions and follow-up?
- Deals with under-performing advisors?
- Determines term extensions or conclusions?

IDENTIFYING AND RECRUITING THE RIGHT BOARD MEMBERS FOR YOUR COMPANY'S GROWTH AND STRATEGY NEEDS

Why would anyone say yes?

“Advisory boards need to be a ‘spa’ for the mind. To attract smart people who are always busy, you need to make it exciting and interesting.”

Claudia Kotchka, former VP, design, innovation,
and strategy at P&G

“It is the company’s responsibility to design an experience for board members that is stimulating and makes all board members feel that their advice is valued and applied.”

Susan Stautberg, CEO, PartnerCom

Identifying and finding the right advisors

- Identify your company's strategic challenges and key initiatives.
- Identify the critical perspectives necessary for achieving those goals.
- Determine board size.
- Create “job” descriptions of the role you want your advisors to play.
- Avoid family and friends.
- Review your networks and the networks of your networks.
- Take risks seeking out the right people.
- Don't be afraid to ask.

Preparing for “the ask”

Your pre-work

- Clarity re your need and purpose
- Clarity re why them
- Transparency re how you found them
- Clarity re what they will gain-their ROI
- Clarity re what exactly you want and need
- Do your homework re everything knowable about this person

Process:

- Slow is better than fast
- Have a clear agenda for first contact and next meetings
- Be grateful for time spent
- Be responsive re questions and concerns
- Follow up
- Chemistry check critical
- Date before proposing marriage
- Start small

INSURING YOUR BOARD IS
EFFECTIVE, PRODUCTIVE,
AND VALUABLE

In the beginning...



Foundations of good governance

Based on:

rules, procedures, structures, regulations, risk mitigation, committee composition, financial experts, former CEOs and executives, formal board evaluations, required meeting attendance, equity, no term limits, long tenure, independence, etc., etc., etc.

The ideal



Achieving the ideal:

“what distinguishes exemplary boards is that they are robust, effective social systems. The best boards are strong, high-functioning work groups where members trust and challenge each other and engage directly with senior managers on critical issues facing their organizations”

Foundations of high performing teams

A virtuous cycle of respect, trust, and candor allows:

- A culture of open dissent and constructive feedback and debate
- Information sharing not hoarding
- No one is the “smartest” in the room
- Fluidity of roles and ideas
- Individual accountability
- Individual responsibility
- Recognition when board membership needs to change

Signs it just isn't working

- Missed meetings
- Calendar tag failures
- Lack of preparation
- Aggressive questioning
- Intra-group conflict
- Passive behavior
- Passive aggressive behavior
- Acquiescence
- Back channels to managers in the company
- Lack of focus on goals and outcomes
- Diminished contribution



BEST PRACTICES IN MAXIMIZING BOARD SUCCESS

Lessons learned

Jack Ouellette, Executive Chairman of American Textile:

1. *“Painstaking planning precedes a potent powwow.*
2. *Local advisors are easier to reach.*
3. *Come clean with the dirt.*
4. *Tackle the tough tasks and seek advice, not admiration*
5. *We know our business best, but we don’t always know what is best for our business.”*

To sum up: best practices

- Goal clarity
- Role clarity
- Homework
- Preparation
- Presentations
- Participation
- Engagement
- Commitment
- Follow-up
- Knowing when to disband and/or regroup
- ROI for *both* Advisor and CEO



Checklist for Creating an Advisory Board

- What are the business challenge(s) to be addressed?
- What critical perspectives are you currently lacking?
- What are the goals for your Board?
- What types of advisor skills do you need?
 - Where will you find these people?
- What is the structure?
- How large a Board is necessary to meet your goals?
- How often will you meet?
- What compensation will you offer?
- Who will manage the Board?
 - To insure effective meetings?
 - To insure follow up?
- What obstacles do you anticipate?
 - How will you overcome them?