

The Essential ABC's of High-Performance Private Company Boards

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By Don Yee

As a board director of private companies for over 20 years and a CEO of several leading businesses, many have asked me what it takes for a private company board to be a high-performance board that really makes a difference.

Many valuable board governance and “best practice” surveys are available today that summarize approaches to board governance practices, but the tools and tactics they often profile are only beneficial if certain essential ABCs are present.

In addition, two other key considerations include:

1. Understanding private company environments, their settings, and the value added role of the board and,
2. Defining high performance and excellence in straightforward, practical terms.

Diversity characterizes the private company setting including broad revenue ranges, investor backgrounds, executive leadership experiences and differing financial objectives.

For example, a private equity sponsored company may have a much sharper focus on faster profitability, cash flow management and debt/capital structure issues within a three-to five-year ownership horizon, while a family business often is much less leveraged and has a much longer time horizon in building and sustaining the business.

The private-equity-backed company may go “outside” for new leadership while a family business may be working on grooming family members to transition one day as part of a plan to perpetuate the business from generation to generation.

In between these settings may be the entrepreneur founder who has grown a substantial company but has a desire to exit the business within the next five to 10 years before retirement. A common denominator in all these situations is that a thriving business is more valuable and always provides for the best flexibility and optionality, no matter what future transitions may be.

High performance means results

The bottom line is that a high-performance board must contribute to high performance results and value creation, delivered by the leadership team managing the business. Depending on the circumstances of the business, this could be in the form of turning the corner on industry challenges and putting the company on a path to success or it might be achieving industry leading financial and customer results with exceptional returns on investments. It is hard to imagine anyone considering a board to be high performance if the company is not. Outcomes matter!

The essential ABCs

As a serial business builder and CEO, I've experienced the benefits of having a high-performance board. I have also served on the boards of companies in private equity, founder-led, family-held, ESOP-structured, and cooperative environments in addition to serving as a strategic business advisor to boards and executive teams, both private and public.

From these diverse experiences I have distilled down some key tenets of board excellence that are common to all successful private company boards regardless of the setting or business. Of course, these can apply to public company boards as well but the opportunity to excel at these fundamentals is greatly heightened without as much time dedicated to the compliance and reporting needs of public companies. These are the essential ABCs of private company board excellence and a high-performance board.

- **Aspiration.** You must have a shared board and executive team aspiration to be a great company and want to have an excellent board. Without this you have form over substance and board practices without purpose.
- **Alignment.** The CEO and company must have alignment with the board in its view of what a great board can contribute and how it should function. It's about collaboration, shared team success and the health of the business, not about control.
- **Anticipation.** The best board will help a business anticipate opportunities and challenges in its future. It's about strategic thinking, exercising the best judgment in a changing environment, and decision making for the future, not yesterday's thinking.

The A's build a strong foundation. For example, the founder CEO of successful middle market private company created a new board with truly independent directors. When asked why, his response was "I want to make sure I get much broader options for the future of the company and I want to be accountable for taking the company to the next level. I'm eager for more input and insight from others who have built successful companies." He clearly had thought about aspiration and alignment in anticipating the future of his business.

- **Begin the journey.** Begin the journey to board excellence with a simple plan and adapt and improve. Think about and commit to sustained governance progress, and not perfection. Waiting doesn't help add value.
- **Business building.** Private company boards should be focused intensely on business building. Dedicate the board's efforts to building a superior business, i.e. one that can successfully transition to the next generation or one that someone wants to buy, not one that you have to sell.
- **Board director selection.** It is clear that better directors make better boards but what do you look for? In addition, private company boards are generally smaller than public boards so you have fewer high impact opportunities to add the right people. Look for directors with proven results as business builders so they can support the company with broad experience and judgment about decisions affecting the future. Assess their fit with the company, their communications style and their egos. Remember that they will serve as fiduciaries, counselors and coaches. Select people who will do the hard work, really care and be team players. Combine hard facts with soft skills.
- **Best practice on best practices.** The best practice on the use of "best practices" is to learn and adapt what makes sense and adds value. Shamelessly copy board best practices if useful, customize if needed, and ignore completely if it brings non-value added complexity. Don't follow "expert" consultant recommendations without challenge and discussion. High performance boards know what is useful and keep it really simple.

- **Big things really matter.** Only the big things really matter, so focus on strategy, leadership talent, incentives/rewards and performance oversight, with an ever-vigilant eye on unnecessary risk.

The core message here is to get started on a simple game plan toward a high performance board, whether you are forming a board for the first time or rejuvenating one that you have. In addition to the aspiration (the A's) and beginning the journey (the B's), the C's complete the essential ingredients.

- **Confident, capable CEO.** A strong CEO wants the benefits of having a board and is energized by the discussions and debates that occur and welcomes the perspectives that lead to the best outcomes.
- **Chair excellence.** High performance boards work hard, but their performance is greatly enhanced by chair excellence, both at the board level and committee level. There is a real skill to leading the discussion on the big things that matter, to encouraging and soliciting the insights of board members and to driving a constructive debate that leads to common commitment.
- **Culture.** Board culture needs to be clear, aligned and integrated with that of the company's. A thriving board culture is characterized by accountability, respect and trust, collaboration and a high performance expectation of itself and the company's results.
- **Courage.** A high performance board needs to also consciously include courage...courage to ask the hard questions, to bring up alternative views on key matters, to listen and really hear, and the courage to come to consensus. Without courage you can slip into the dilemma of groupthink.
- **Caring and commitment.** In private company settings you often have the opportunity to be closer to the shareholders whether they be the founder, family members or members of a cooperative. I have found that this drives an exceptional level of caring and commitment and when coupled with courage and objectivity, improves board performance and decision making with a more complete perspective. If you know the owners and love the company, you'll think like owners and certainly understand how to represent them well.

Serving on an exceptional high-performance board of directors is an incredibly fulfilling endeavor, knowing that your contributions are both expected and valued.

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