

This Meeting Could Have Been an Email: Avoiding Dysfunction on Middle Market Boards

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Thoughtfully applied structure helps bring the best advice out of an engaged group.

Boards of private middle market companies are like families: if you've been on one board, then ... you've been on one board. No two boards will ever have the same personalities and business context, so the norms, procedures, and expectations for how the board will function make each board experience unique.

That said, we've observed some common themes among boards that are well-run. By well-run, we mean that the board consistently provides quality, timely, actionable guidance to the company, and in doing so increases the likelihood that the company accomplishes its long-term strategic plan.

But too often, a board only *voices* its aims (which might even be conflicting) and does not contribute to how best to *accomplish* them. Most boards come together simply as a collection of shareholder representatives, which is excellent for voicing the concerns of the shareholders, and not necessarily for anything else. It turns out that advising an executive team requires more than just voicing concerns, it's a skill - a difficult one at that - and there's no law that links ownership of a private company to the development of that skill. Those that have spent time on boards primarily comprising family

members or finance professionals have likely seen this dynamic in play.

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So what should a board be? A board should be a body of experience and expertise with the willingness and ability to guide a CEO to set goals and execute a plan to achieve them. There are several dimensions worth exploring for how a board member might contribute: it could be deep industry-specific experience, or expertise in a functional area (sales, finance, supply chain, etc.), or an ability to coach and develop executive talent, or experience with a business in a similar maturity stage. Ideally, a board collectively



would cover lots of these angles, and the shareholders would elect to curate a group that can advise from a wide range of hard-won perspectives and talents.

A quick note on governance: many assume that each board seat must have an equal vote in making decisions for the company, which is why shareholders can be anxious to allow others into the board ranks. In reality, a board's governance can be curated with near-infinite flexibility. Non-voting board members can be added in an advisory-only capacity, often the easiest way to add robust capability to the board; a single board member representing a plurality of the ownership can be awarded outsized voting power, instead of "stacking" the board with additional members from the same entity; or there can be separate levels of board alignment necessary for certain decisions (unanimous vs. supermajority vs. simple majority, for instance). All of this to say that there are plenty of mechanisms to expand the reach of a board's capabilities without requiring shareholders to give up ultimate authority.

So, let's assume we're successful in assembling our dream board. Now, how

should it work? We've collected a few best practices from our own experiences:

Alignment. Before a board can give one shred of advice to an executive team, it should collectively agree upon a quantitative definition of future success. Otherwise, board members will likely give conflicting advice, because there isn't agreement on the desired outcome. For example, one would give very different guidance to a business trying to grow to maximize a planned exit in ten years, than to that very same business trying to maximize cash distributions while maintaining its market position for the next five.

One of those goals is not superior to the other, but they are different, and have very different implications for the ongoing guidance a board might give. Aligning through true goal-setting (defined, measurable, time-bound), and ideally through a larger strategic planning process, is an excellent way to commit a plan to paper and ensure that nobody is talking past one another.

Organization. A board needs a board chair. This doesn't mean a dictator, but a "first among equals" administrative position that is responsible for soliciting and collecting feedback from the board as a whole, and articulating clear and concise directives to provide the CEO with actionable guidance. The chair also sets meeting times and (very importantly) meeting agendas. An experienced CEO can sometimes manage this function, but first-time or inexperienced CEOs almost always benefit from someone else taking the lead on solving the "blank sheet problem:" determining what critical questions need to be discussed and answered in a board setting, and what else should be pushed to the next meeting, pursued offline, or relegated to the dustbin.



Too many boards fall into the trap of "well, we'll get in a group and talk over what's been on our minds," which in my experience accomplishes filling the allotted time on the schedule and not much else. A disciplined agenda and a willingness to follow it isn't a constraint, it's an enablement to avoid tangential pontifications and accomplish more things in the precious little time that board members are in the same room.

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Information flow. Speaking of sharing information: a board meeting should not be an update! I've sat in too many board meetings where department heads

present their quarterly update slides. All factual updates and data supplements should be in a quarterly board packet distributed prior to meeting, and any airtime during the meeting (again, as outlined by the agenda) should be used to question and discuss any planned changes or action plans arising out of the previous period's performance against goals. The base level of participation for a board member is to come to the meeting having read and digested the materials provided, so valuable time isn't spent simply sharing information. The agenda should determine what information needs to be prepared and shared, saving the executive team from creating and presenting slides that don't address the key questions the board should be addressing.

Continuity. The last slide of a board deck should be the first slide of the next board deck. Too often, executive teams start from scratch to describe the goings-on of the business over the previous quarter and their future plans, which leaves board members flipping back to the previous initiatives list from last quarter's packet

and wondering why some were dropped in place of new ones. Board meetings are just episodes of the same meeting, separated in time, so continuity is critical for measuring progress on the things that truly matter for the company.

Frequency. Especially for a business in the lower middle market, a quarter is too long to wait in between communications. To be effective advisors, board members need additional informal context or information updates in between decision-making sessions. Ad-hoc calls for major events, monthly huddles, and dashboards with a brief manager's discussion appended are invaluable in providing board members a better view into a business's evolution.

If this collection of guidelines seems to follow a common thread of rigidity, you're absolutely right. There is such a thing as too much structure, and an overly draconian approach to meetings can be stifling.

But for every board that struggles with an over-application of structure, there are nine that suffer from not having enough. Our experience is that it is in the pursuit of more organization, not less, where boards typically find a well-functioning balance between structure and flexibility.

Boards lose their efficacy when they are little more than ad-hoc gatherings of people with a common investment, and even worse, can actually work against the success of a business. In the short term, it is enjoyable to have a nice dinner and cheerlead short-term wins; but in the long

term, a directionless board without internal structure and complementary experiences makes the CEO's job harder.

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Following a few simple guidelines for productive board construction and behavior is the first step to turning a board from an inhibitor into an enabler.

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