Rick Williams

HELPING LEADERS **SUCCEED**

MAXIMIZING THE VALUE FROM YOUR BOARD OF DIRECTORS

By Rick Williams

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Maximizing the Value From Your Board of Directors

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EXECUTIVE SUMMARY

A High Value Board of Directors will make your company more profitable and more valuable. Start by being clear about the financial motivation of your investors and what they expect from the board. Build a board with different perspectives and points of view. Only include members who will commit the time. Invest your time to educate the board about the business. Be open and candid - don't keep secrets. Listen - invest your time to understand other points of view. Make the board part of your team - not a problem to be managed.

Your board of directors can be a value accelerator for your company. Operating as a resource, a coach, a big question decider, a risk manager, a monitor of progress, and the center of governance, your board can be a valuable asset. ***What can you do to capture that value?***

My earlier article, *Your Board of Directors - Pain in the Butt or Valuable Asset,* argues that active and engaged boards make companies more valuable over time. I call these boards *High Value Boards of Directors.* Here are the core conclusions from that article and the starting point for this discussion.

High Value Boards - A Valuable Asset

- *High performance is a choice.*
- *A board can be a pain in the butt but is worth the effort.*
- *The board does not manage the company. That is the CEO's job.*
- *The board's job is governance, guidance and review of management, big decision approval, risk management, shareholder representation, and, financial reporting.*
- *The board provides added resources, accountability, and, credibility.*
- *This combination makes the company more valuable over time.*

How does a company owner or the CEO of a company with one or many shareholders get high value from their board of directors?

Shareholder Goals Establish Context for the Board's Work

The starting point for getting value from your board is being clear about the financial motivation of investors in the company and what they expect from the board.

1. What are shareholder's motivations for owning shares in the company, and what are their financial expectations from that ownership?

2. What do shareholders want the board, in collaboration with the CEO, to accomplish on their behalf?

Investors match their financial goals and risk/reward tradeoffs to the financial plans of the company. The owner(s) could be looking for:

- *Reliable, high yearly income, and low risk*
- *Modest capital appreciation, some yearly income, and sale in 8 - 10 years*
- *Rapid growth, high risk, and sale in 3 years*
- *Modest income and preservation of value over a multi-generation time frame*
- *Support for the lifestyle of the founder/owner*
- *Rapid move to an IPO to create a liquid market for the shares*

Whatever shareholder financial goals are, they set expectations for the board's work.

When there is a single owner or a controlling shareholder, such as founder/owner or PE/VC firm, the board's work must be aligned with the objectives of the controlling owner. The board's role is to help the CEO and leadership team run the company so these ownership goals are achieved.

When company ownership is diffused to more shareholders, the board has a major role in helping the leadership team develop the firm's strategic and operating plans and selecting key leaders. The goal is to have the broad financial plans for the company match shareholder expectations. If shareholder expectations cannot or will not be reached, transparency to all shareholders is necessary.

With the financial expectations of shareholders in mind, the CEO, in consultation with the board, will develop strategic and operational plans for the company intended to achieve these financial objectives. These plans become the standard against which company performance and the performance of the CEO and other operational leaders are measured.

Who Should be on the Board?

The CEO should be a board member. Major outside investors will be represented on the board. If a VC or PE fund has a majority stake in the company, then the fund will often have their representative as board chair. You do not want your biggest customer on the board, but you could benefit from having the senior leader of a complementary company operating in the same industry. Independent board members bring specialized expertise or a broader understanding of how companies similar to yours operate and compete. Diverse points of view are essential.

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Board of Director Duties

The board approves major decisions on behalf of the shareholders. When making those decisions, ***the board and each board member act under a set of expectations for their performance in that role.*** A set of standards has emerged for what shareholders can expect from the board and board members when acting on their behalf.

The duties of a board and its members include:

- *Acting in good faith*
- *Being loyal to the company*
  - *making decisions in the best interests of the company and its shareholders*
  - *not advancing personal interests above the company's interests*

The starting point for getting value from your board is being clear about the financial motivation of investors in the company and what they expect from the board.

- *Speaking with candor and truthfulness*
- *Working with diligence and care*
- *Acting as a fiduciary for all shareholders*
- *Applying business judgment*
- *Making reasonable business decisions*

At some level, these "duties" may seem like clichés. In practice, living by these expectations is hard to do when difficult issues come before a board. Information is incomplete, time is limited, and there is no clear best option. A board member may have a big investment position and is demanding that his interests prevail over other shareholders. *Ego, hope, greed, and fear are always present.*

Shareholders inside and outside the company have an expectation that the board, representing their interests, will perform its job guided by these duties. The board and company leadership directly benefit from a strong culture of duty within the board. ***If the board of directors of your company has a clear sense of duty and performs its governance and supervisory roles, your company's performance will improve and your company's value will grow over time.***

Your Expectations of the Board

The board will approve plans and set expectations for the firm's performance and the CEO's performance. At the same time, the shareholders and the senior leadership have expectations of the board.

The board should develop a job description for service on the board and expectations of board members. A board and committee schedule will outline the expected time commitment. Beyond the formal schedule, each board member must:

- *Invest the time to learn the company and its business*
- *Commit the time to make their board service valuable to the company*
- *Commit to keeping board deliberations confidential*
- *Act on behalf of all shareholders above their own interests*
- *Ask tough questions while being constructive*

There is no value in bringing someone on your board with a great resume who will not commit time to learn the business and understanding the issues before the board. The board works by consensus whenever possible. The board's process is dialogue, probing questions, what if, what can we agree on?

What Can Go Wrong

Many studies show that teams make better decisions on average than any of us as individuals - the wisdom of the crowd. The team will be better at developing options, considering tradeoffs, reducing emotional first impressions, and acting on behalf of the whole team. A board of directors is like any group of busy individuals who come together occasionally to complete a piece of work. Usually, good work is done. Sometimes, the board does not perform well.

If the board of directors of your company has a clear sense of duty and performs its governance and supervisory roles, your company's performance will improve and your company's value will grow over time.

Enron, the $70 billion scandal-ridden energy company, *"the smartest guys in the room,"* could not have had a stronger board - on paper. Members included a member of the British House of Lords and a former dean of Stanford Business School.

Multiple factors can contribute to company blowups. A dysfunctional board can be one element. Examples of what can go wrong are:

- *Conflict over the role of CEO and the role of the board*
- *Board does not do its homework and does not understand the issues*
- *Board does not give honest feedback to the CEO*
- *Board members are advocating for their own interests*
- *CEO conceals material information*

- *Poor board supervision of finances and compliance*
- *Absence of collaboration and trust within the board*
- *Absence of collaboration and trust between board and CEO*

High Value Boards will periodically do a self-assessment of their performance and even bring in an outside consultant to gather feedback, gain perspective, and improve its game.

Getting the Most from Your High Value Board of Directors

Creating and maintaining a High Value Board of Directors can make your company more profitable and more valuable. Here are steps you can take to make your board into a powerful member of your corporate team and improve your chances for success.

1. *Recruit strong board members who know more than you, and may even be smarter than you.*
2. *Build a board with different perspectives and points of view.*
3. *Only include members who will commit time to your company.*
4. *Major investors will want board representation. Be clear that being on the board means they are representing all shareholders and not just their interests.*
5. *Articulate the company's financial goals as they relate to investors in the company. These goals set the framework for the board's work.*
6. *In consultation with the board, develop a set of corporate strategies and operational plans that can achieve the financial goals. These plans become the standard against which the board can monitor progress.*
7. *Invest your time to educate the board about the business.*
8. *Be open and candid - don't keep secrets.*
9. *Allow/encourage independent review - audit, risk, strategy.*
10. *Be open about boundary issues between the board's work and the operational work of the leadership team.*
11. *Listen - invest your time to understand other points of view.*
12. *Make the board part of your team - not a problem to be managed.*

Creating and maintaining a High Value Board of Directors can make your company more profitable and more valuable.

About the Author

Author | Corporate Leader | Board Member

Rick Williams is an inspiring writer and speaker sharing his experience as a company founder, CEO, scientist, management consultant, and board member. His new book *Create the Future* is a guidebook for making more creative and better decisions for your company and yourself.

Williams engages with an international audience through his newsletter, published thought leadership articles, and speaking engagements for leadership audiences.

He also brings his insights and experience to his service on boards of directors. He has served as board chair of a medical device company and a bank/VC firm. Williams started his career as a physicist followed by Harvard Business School, management consulting with Arthur D. Little, Inc., and then founding and leading a real estate investment and development company.

Rick Williams
Rick@RickWilliamsLeadership.com
www.LinkedIn.com/in/RickWilliams100
www.RickWilliamsLeadership.com

Rick Williams brilliantly delivers a leadership compass for high-performing companies. With his wealth of experience, Williams provides a clear playbook that's indispensable for leaders seeking a practical approach to shaping their organization's destiny. Packed with structured team exercises, this book empowers leaders to make choices that resonate with their goals and values. Like an in-house management consultant, *Create the Future* is your invaluable resource for decision-making in turbulent times.

Hubert Joly, *Former Best Buy CEO, senior lecturer Harvard Business School, Author* The Heart of Business