



## **BUILDING AN EFFECTIVE PE COMPANY BOARD**

One of the key success factors for creating value in PE portfolio companies is the board. A good, effective board can make the difference between good performance and great performance. Unfortunately, assembling the board is usually not given the amount of thought and attention it requires.

It is the intent of this GenNx360 Module (gMOD) to outline what constitutes a good board and how to ensure that they operate effectively. Let's start at the beginning---how to staff the board.

At GenNx360, we start with our minus-100-Day Plan to assess the key skill gaps of the portfolio company's senior leadership team and to identify issues that may arise from the execution of our investment strategy. Once we have identified these, we use this to screen board candidates from within GenNx360 and within our Retained Advisors Team (RAT) to select board members who can best address these items. By using this approach, we are able to assemble a board with a custom-designed skill set to meet the needs of the business from day one.

Once the board is staffed, it is important to make sure that there is clarity on what are the key issues that the board should focus on and what they should not. Many boards get off track and become ineffective because they get bogged down in dealing only

with the problems of the month. They become firefighters. At GenNx360, we believe that our portfolio boards should do five things:

1. Select the right "C Suite" leaders for the business.
2. Work with the senior leaders to develop strategy.
3. Allocate resources (people & capital) to drive the strategy.
4. Oversee the establishment and maintenance of Governance and Risk management of the business.
5. Once the board has done items 1-4 above well, they should stay out of the way of management. They should not micromanage!

## **ESTABLISH AN OPERATING RHYTHM**

It is also a best practice to establish an operating rhythm for the board that is tied to the fiscal calendar year of the business. This will lay out the timing of the annual board review of budgets, core growth strategy of the business, key talent performance reviews, succession plans, competition, and M & A for both management and board members (See Figure 1).

Having the discipline to follow this rhythm as closely as possible will help to keep the board on track and keep it from getting too deep into the weeds or firefighting.

## **SIMPLIFY & STANDARDIZE**

By standardizing the format of your board presentations, you will simplify your board reports, making them easier for your board members to understand. This will allow for more time to discuss the issues instead of just spending time explaining pages to each other. In addition, set a guideline for how many pages should be used to cover a topic. Too many boards operate on the idea that the more pages, the better the presentation.

At GenNx360 we believe that most board topics can be covered in 20-25 pages and we use this as our target. The value of a board presentation is not in the number of pages presented but in the discussion about the issues and the decisions made!

## **EXECUTIVE SESSIONS**

Since most boards are comprised of a combination of management and outside independent board members, it's important to include an executive session in each board meeting. This involves excusing all management members from the board room and allowing the independent directors to review and discuss management. Following each executive session, it's important to give feedback to management. This good governance process will help to make sure that management and the board are on the same page with what needs to be done to successfully run the business. This process also serves as an early warning to management when they begin to get off track from the board's perspective.

## **BOARD SELF ASSESSMENT**

Having your board complete a self-assessment once a year is a very good way to measure how your board members feel about the effectiveness of the board. Some of the things to pulse in these surveys are:

- Does the board have the right skill sets for what the business needs?
- Is the board focusing on the right things?
- Is the quality of the board materials adequate enough to allow the board to make good decisions?
- Is there enough time in board meeting to allow for discussions and decisions to be made?
- Are there issues that the board is not spending enough time on?

- Does the board have adequate access to the management team?
- Is the board doing a good job of holding management and itself accountable for decisions made?

## **ACCOUNTABILITY**

Taking good board meeting minutes to capture the key discussions points and decisions made is an easy way for the board to track their decisions and hold themselves and management accountable. While this may seem obvious, in many smaller, privately owned companies, this BEST PRACTICE is not done! Lack of accountability is a key indicator of poor performance by the board and the business!

## **CONCLUSION**

Having a well thought-out and well-staffed board that is operating with a clearly defined operating rhythm will be a great asset to the management team and the business. An added benefit will be that board meetings will be robust and lively while still mapmaking a good use of its time and making a good impact on the business. This type of board will also hold management and itself accountable while also working on improving the performance of the business and the board. When your board operates this way you will have an effective board!

Figure 1

Portfolio Company Y's Detailed Annual Board of Directors Schedule for Year 20XX

Each Board meeting agenda will have two parts (1) the standard board package of no more than 25 pages and (2) the special board topic for that meeting. Also no more than 25 pages. The special board topics for each meeting are as follows:

- January 20XX - Finalize & Approve the 20XX Op Plan
- March 20XX - 3 Year Strategic Growth Plan
- May 20XX - Organizational Review; Key Talent, Skill Gaps, Employee Satisfaction, and Succession Plans
- July 20XX- 1H 20XX Op Plan Status and 2H Adjustments
- September 20XX - New Product Pipeline Review
- November 20XX - 1st Draft of Next Year's Op Plan

Also in each standard board package, in addition to the financial metrics, each package should include the following:

- EHS (Environmental, Health, & Safety) status
- Enterprise Risk Status (risk heat map)
- Customer Satisfaction