

Maximizing the Board: Using Independent Directors with Operating Experience

Smaller companies are expected to lead the nation out of this recession. Thoughtful management and their equity partners, searching for effective ways to negotiate the challenges of this economic climate, have instituted a proven competitive strategy: using independent directors with operations experience.

Unfortunately, this practice is not the norm. Compare how growing companies used independent directors a decade ago with how similar entities leverage them today. The majority are making the same mistakes. A lot hasn't changed – and it should.

The best things that happen to a company – as well as the worst – start with the board, with a direct connection between board involvement and success. The right directors around the table will actively engage management in the company's most pressing strategic concerns. Independent directors with strong operating expertise are this link to success.

Leaders of growing companies should realistically assess their talents, identifying limitations in management capabilities and business expertise. A founder, typically a visionary following an idea, usually undertakes the CEO role. Often this individual is a first-time chief executive, a person with little management/operations experience.

Young management teams frequently need help understanding finance, marketing, recruiting the right management team, developing sound business models and making execution as effective as possible. Frequently independent directors can fill the gaps in management and business talent until a new enterprise becomes successful.

Equity partners focused on the financial side have a strong influential voice in the company's direction, as they should. These individuals may have limited or no experience in structuring and executing a strategic process that attains financial goals by growing the idea. Independent directors with operating backgrounds do, making them essential partners for both the CEO and investor partners.

Competing priorities can cause conflict. Independent directors are a buffer between management and equity investors. Directors can mediate issues, acting as a calming voice of reason. Drawing on their operating expertise, independent directors can help forge the divergent founder's vision and venture partners' financial goals into a comprehensive, cohesive strategy.

The power that a board exerts is the power of knowledge. Independent outside directors with broad business experience can make sure that management is answering the right questions and following a plan based on the realities of the market.

Directors with operating experience do not wait for a crisis to act. Understanding the vital importance of astute management in the early stages of growth, independent/operating directors know their role demands that they cross the line from oversight to operations when necessary.

Mentoring is a primary aspect of the independent director's role. The director is a sounding board and trusted advisor, not a judge. Working closely with a seasoned director helps the CEO broaden his or her thinking and strengthen leadership abilities. Operations veterans possess what inexperienced executives, or a bare bones management, lack. These directors can



Maximizing the Board (continued)

quickly identify areas needing specific attention and temporarily fill the gaps found with a lean team.

The soon to be IPO-stage is a critical juncture for a growing company, one where the public company lens provided by experienced independent directors is invaluable. Being courted by investment bankers for an IPO is a heady time, but the markets are unforgiving and going too early before the company is able to deliver on consistency and transparency can be a big mistake. Predictability is essential in the public arena.

The board can act as a rein to getting too ambitious, a steadying influence. Stress testing plans, digging into the realities and risks in financial projections, making sure the proper public company disciplines are in place are all essential roles for the board. Having a public company CFO or CEO who has taken a company public on the board can be crucial for the pre-IPO company.

To take full advantage of independent directors, growth company CEOs need to think creatively about the best candidates for their particular needs and create a board culture that encourages their active involvement. The typical responsibilities of a growing company’s independent directors demand specific qualities. The best board directors are not necessarily CEOs with “marquee” names.

They are successful individuals who thrive on the challenge of growing a company from one level to the next. They want to be involved in strategy and operations. These directors seek the opportunity to have a greater impact, to help a growing company mature and succeed. Intellectual challenge is incredibly appealing.

To attract these directors, CEOs must be willing to create a board culture of open discourse where members ask hard questions about the market, competition, products, succession and management abilities.

While naysayers argue that these directors duplicate existing management talent and are too costly, we believe that growing companies are at greatest risk if their boards do not include the right independent members, those with operating backgrounds – and use them effectively.

<p><i>Roger Kenny is Vice Chairman of CTPartners Board Consultants. Roger may be reached at: +1 212 588 3531 or rkenny@ctnet.com</i></p> <p><i>Marie E. Kelly is a Partner with CTPartners Board Consultants. Marie may be reached at +1 212 588 3577 or mekelly@ctnet.com</i></p> <p><i>For more information regarding CTPartners, please visit www.ctnet.com</i></p>	
---	---