



Pathway Advisors LLC Management & Financial Counsel

Financial & Management Insights for Business Professionals

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Dear Gerry,

Of the approximately 450 privately owned, financially challenged companies I've worked with, less than 20 had an active board of directors. And while not statistically significant, I'm certain there's a real correlation between financial difficulties and the lack of a competent, involved board.

I can also add that from my own experiences sitting on five private company boards, I've seen first-hand how significant their contribution can be.

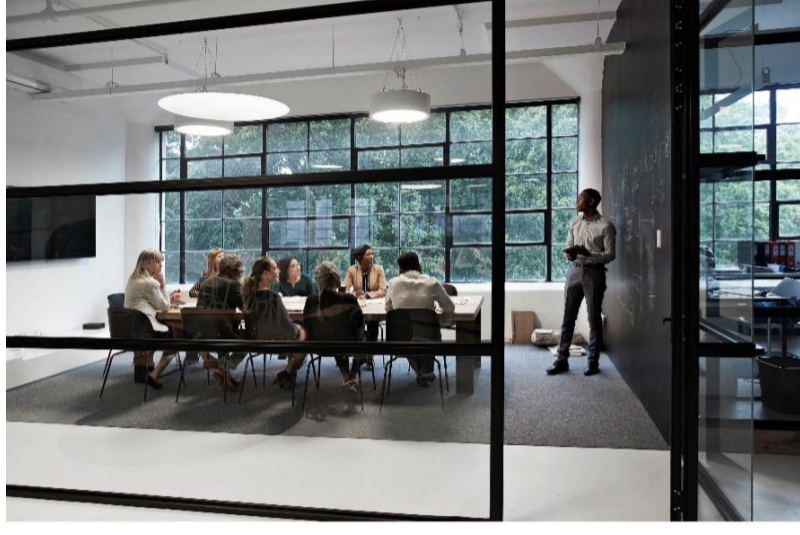
Today I'll be talking about why a board can be so important and how to build one with the potential to contribute game changing value.

As always, your comments are invited,

Best wishes,

Gerry

A GOOD BOARD CAN BE A GREAT DIFFERENCE MAKER



Why Boards Can be So Invaluable

"It's lonely at the top" became a commonplace saying decades ago – and with good reason. To that point, my experience with the financially-troubled smaller and lower middle market companies is that the owner/CEOs are almost always THE decision maker about threshold issues, and often, less significant ones as well. At the same time, I'd speculate that the saying "Two heads are better than one" has been commonplace every bit as long. Taking it one step further, I can also say that a thoughtfully constructed board with at least three or four outsiders adds all the more.

The same is true in the case of family-owned companies as they tend to become very insular. Furthermore, as is painfully well-known, family dysfunction is often a huge issue.

So, what are the most significant benefits of a board for smaller and lower middle market companies?

- *A diverse range of skillsets and business experiences. Specific industry knowledge is also vital.*
- *Consistent collaboration*
- *A focus on both the short and long term*
- *Accountability for owners and senior executives*
- *Balanced decision making*

The value of consistent collaboration is a particularly important benefit to me. Most all people know what it feels like to come to better solutions collectively with a team than they would have on their own. I also want to mention that the benefit of having a diverse board should not be overlooked.

All and all, my experiences leave no doubt about the value of boards and that belief is shared by a huge number of business professionals and academicians as well.

The Underlying Resistance Points

It's interesting. Often when I speak with a business owner or executive about the use of the board, they respond with interest. Nonetheless, it's rare for that business owner or executive to actually take the next step. I see two very basic and understandable reasons why:

Common Practice

As a rule, outside investors insist on the presence of an active, competent board. With owner led and family-controlled companies, however, there's generally no pressure or driving reason to put a group together. It just doesn't happen very often. Why? First and foremost, my view is that the potential value of an active board just isn't widely understood or even considered.

Human Nature

Proactively forming a board of directors simply goes against the grain of many CEO/owners. A board of directors is often looked at as carrying a lot of negatives: too time consuming, too expensive, too intrusive, or simply an unnecessary constraint of one's autonomy. It's not all that hard to understand why a person could feel this way.

The fact is that working with a board does take time, does cost money, does open a business owner up to some level of scrutiny, and does create, to differing degrees, a barrier to unfettered freedom of action. The fact of the matter is, though, that taken together these supposed "negatives" can coalesce into one huge positive!

Getting Started

Forming and managing a board is both common sense and nuanced. I recommend the approach below:

Find an experienced mentor to help guide the process

Ideally a person with experience on a for-profit company board.

Develop a set of criteria for selecting board members

What skill sets and experience levels would best the company's needs?

At least one member should be experienced in the company's industry.

Establish a compensation program

Members should be compensated, at least minimally, for starters.

In the long run, members should have an upside.

Identify numerous candidates

Interview them and select what's seen as the best group.

Hold a formation meeting

This helps assure a similarity of values and goals. One or two prospective members will often opt out and generally should be replaced.

Make final decisions for membership and establish a meeting schedule

An agenda for the first meeting should be mutually established.

Establish governance processes

Rules of engagement are foundational.

Appoint a meeting facilitator

Often it's the CEO, but sometimes another member is better equipped.

My Promise

The potential benefit of a board is even greater than you may think. Give it a committed try, and you'll see for yourself.

If you want some initial guidance, please free to email or call.

Best Regards,
Gerry

Pathway Advisors LLC is a specialized business advisory firm focused on helping our clients effectively resolve the most significant of profitability, cash flow, banking, operational, and organizational challenges. We pride ourselves on the ability to analyze issues quickly, develop plans to solve them efficiently, and leverage our deep relationships in the financial and business communities to do so. Pathways has helped over 450 companies throughout the eastern half of the US.