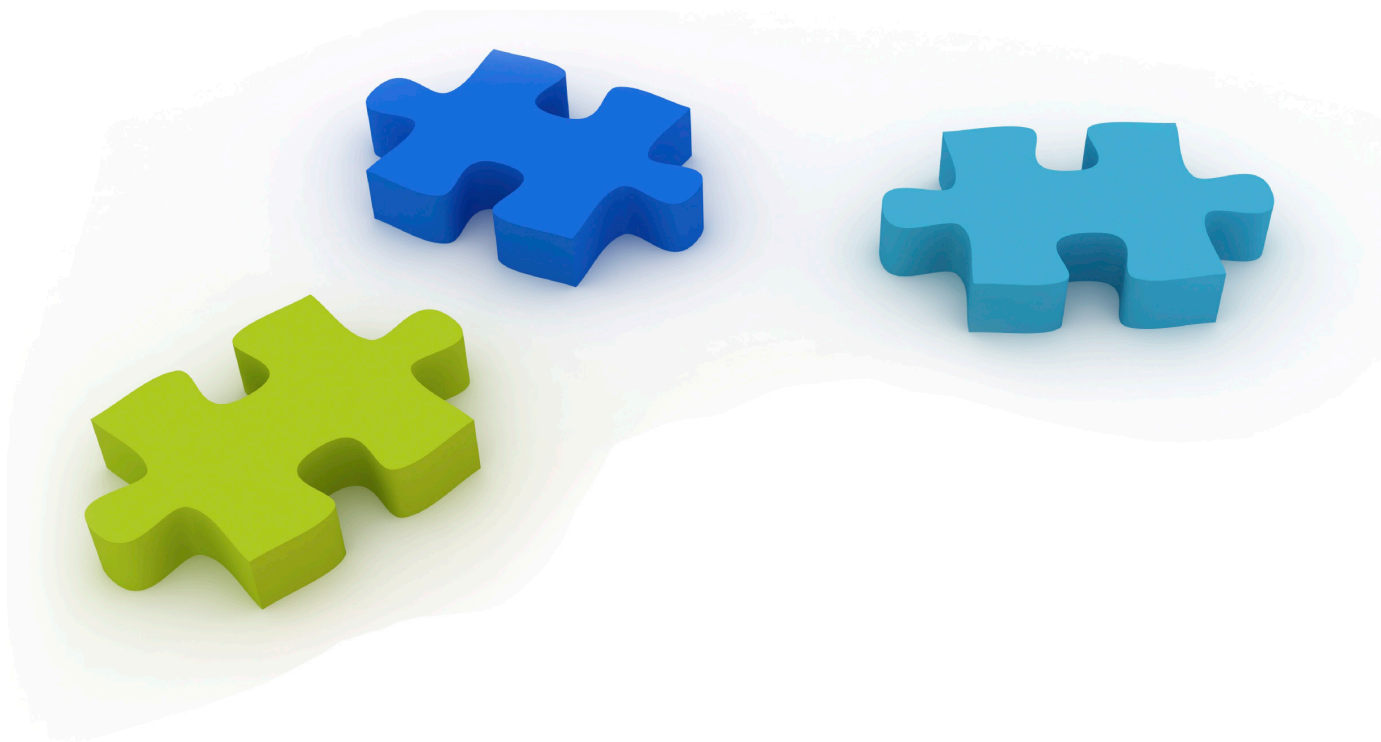


Mid-market perspectives
Optimizing private company
competitiveness through
effective board composition



Getting the right mix of board members can add depth and perspective that sharpens your edge in the marketplace

The confluence of demands impacting a company's ability to compete today is daunting: optimizing operations in a recovering economy; expanding to gain a foothold in developing markets; identifying and managing enterprise risk; meeting capital and financing needs; and striving to continuously grow and innovate. Each of these is challenging enough when viewed independently, but, when viewed collectively, they can seem overwhelming.

In such instances, it is a given that the strategic and operational components of the business must align with company objectives. Getting its "governance house" in order can enhance a private company's success and ability to compete. In particular, a strong, viable board of directors can add value through input and oversight that draws on diverse perspectives, relationships, and experiences.

Getting the right mix of people

Where does the move to good governance begin? Perhaps chief among the actions that need to be taken is board of director composition and selection. Having the right people and the right "mix" of people on the board is the essential stage-setter for sound governance. If board composition isn't right, then all other policies, procedures, and structuring activities will be more difficult to execute and likely not as effective. Moreover, sound governance can pay major dividends in other areas. For instance:

- Lenders recognize the competitive advantage of a highly functioning, credible, and respected board of directors. This may have a positive impact on access to capital.
- Investors respond positively to evidence of formal and sophisticated processes, such as strategic and succession plans, that ensure smooth transitions, and
- Stakeholders take confidence when there is evidence of a governance structure in place to capitalize on the expertise of a well-qualified board that provides advice, counsel and oversight to the management team.





Key drivers for aligning board composition with enterprise strategy

The following are a few examples of situations — all subject to competitive advantage or disadvantage — that drive a need for enhanced governance and that can help define qualities and characteristics of board members:

Need for specialized knowledge — Marketplace issues often demand a level of specialized knowledge, such as in risk management, compliance, and strategy, in order to keep a company on course or take it to the next level. More specifically, expansion of operations to international locations could benefit from the market understanding of a director with global business experience. As competition intensifies, it also broadens, coming both from other private, mid-market companies, and also public companies trying to take market share or tap into market niches. Smaller companies often have limited budgets for outside assistance with such matters, so it may be useful and efficient to have these types of competencies on the board. Management may benefit from the insights of objective resources, specifically outside directors, who bring a different perspective and the ability to help management “look around corners” for the next big trend.

Capital demands — Access to capital is a huge issue for all companies in today’s financial environment, but it’s particularly critical for private companies who want or need to grow and don’t have access to capital markets. The sources of capital have high expectations regarding sound and complete information about companies in which they invest. A good board can help put the processes, procedures, and information in place that will help the company from a due diligence perspective.

Change in structure (e.g., IPO, sale, other major transaction) — In particular, this is a reality for companies going public. Adopting a few fundamental structural elements that reflect the realities of public company governance can allow for a smoother transition to your organization’s new life as a public entity. The better the governance system in place, the more likely the company will practice required levels of transparency regarding availability of audited financials. Having an audit committee in place, introducing a document retention policy, and providing Directors & Officers insurance are just a few important steps a private company can take to help speed up IPO procedures or the sale process. Similarly, decision making around other options for monetizing assets will benefit from directors’ in-depth business understanding and experience, while also providing objectivity around issues such as increased debt burdens placed on future generations.

Generational turnover; leadership transition — Succession planning is a highly complex and sometimes difficult issue for private companies. Current and new board members can add value to a search for new leaders by accessing their contacts and other resources.



Development of current members

A forward-looking approach to board composition is not about criticizing the skills and experiences of any existing director or rooting out owners or managers. It is about positioning the company for the future. Some gaps in desired competencies for your board may best be “recruited” over time in the normal course of the board lifecycle. But others may need to be filled in by a concerted effort at providing effective development opportunities for existing members.

Individual board member development — One-on-one coaching and mentoring, designed to focus on individual directors’ areas of needed development is an often-overlooked element of the development process. This type of development support, imparted on a personal level, can focus on leadership and communication skills, and meeting preparation and participation habits.

Full-board development — Focused, in-the-boardroom development that incorporates deep-dive group sessions will enhance the collective board’s competencies in key areas such as strategy, risk, and the company’s business. This type of initiative usually requires outside support to be most effective.

Succession planning — The challenge is to have a plan that is adaptable to the organization’s ongoing assessment process while also addressing the shifting demands of the company’s current operations and future direction. The succession plan should focus on the tactical: First by identifying gaps prior to their occurrence and then identifying board and leadership candidates from various sources to fill those gaps in an efficient and timely manner when they do occur.

This paper is written for private company boards, owners and senior management who want to optimize their board as a strategic differentiator to strengthen the organization’s competitive position as well as stakeholder confidence. Here, we discuss a strategic way of thinking about and approaching board composition that is fair but realistic, and, with the help of a few resources, can help set the company on a journey to improved governance that also leads to enhanced competitiveness and greater opportunities for profitability and overall success.

Review current board status for composition needs

So, how does a private company go about getting board composition right, specifically in light of where the company is today and where it wants to go?

First, in order to get the right mix of people onboard, determine what you already have. We recommend a review of the current state, overseen by both the board and senior management. The starting point for the assessment is company strategy and how well board composition aligns with that strategy and plans for achieving it. But even if the company is on the right track toward meeting its objectives today, it’s helpful also to consider what the future may bring and how forward-thinking directors can help spot opportunities—and risks—that may lie ahead.

In addition, the board, like other aspects of the business, has a lifecycle in which members change due to both planned and unplanned developments. It’s better to have a plan in place to address needed changes rather than being surprised and ill-prepared to deal with them.

The answers to a few, critical questions will get you started:

- Are the right people leading governance efforts, and are they asking the right questions?
- Do they possess the right technical and professional skills, experiences, and leadership qualities?
- Do these qualities fortify the strategic objectives of the organization?

Reach out for multiple perspectives as these questions are addressed. Be sure to involve other important stakeholders of the company to get their assessment of strengths and needs. Management should also consider how other admired companies have responded to similar questions in appointing their directors.

Then, as the desired mix of experiences and perspectives that are best for your organization's business strategy, future direction, and risk profile takes shape, consider the following:

Characteristics of board members

An effective "composition balance" certainly will need to track with the essential skills, personal competencies, and experiential attributes needed to fulfill the board's mission. These might include qualifications as specific as technical and industry knowledge or a professional skill set, such as human resources, business operations, accounting, or law. Or, it might be well-defined but less prescriptive, such as possession of global and local market experience, appreciation for customer focus, or a history of association with innovative ideas. There is also the growing importance of gender and ethnic diversity, which helps ensure not only variety of perspectives but which also may better relate company decisions to customer or stakeholder experiences and preferences.

Characteristics of the company

The composition of the board should be in part a function of the company's size, stage of growth, and other specific characteristics, such as addressing particular change taking place now. Resolve to reexamine the needs of the board in the context of the company's current and future direction on an annual basis, so the board and the company evolve together.

This is an area in which diverse directors can play an important role by bringing broader market and consumer perspectives, sharing knowledge of fresh strategies that will help seize advantage in new geographies or expanded product lines, and passing along insights about emerging trends.

Characteristics of board effectiveness linked to performance

Board composition should reflect in-depth understanding of the company, including its strategies, operations and financial condition. After all, assembling the best team of people in the world that possesses the best intentions in the world is useless if that group doesn't have visibility into the company's goals and inner workings and/or if that group isn't capable of processing and acting on its responsibility to maximize performance in concert with those criteria.



Similar challenges, contrasting requirements

Public and private companies of all sizes, industries, and histories share the market challenges outlined in this paper and should also share a commitment to sound governance. But there are stark contrasts between public and private enterprises when it comes to governance and oversight requirements and how those roles and responsibilities intersect with management.

Private companies aiming to enhance viability and competitiveness may have much to gain by embracing a few key features of the governance model normally prescribed for public entities. The compelling question becomes, could voluntary adoption of some of them inspire important developments for our organization in today's competitive environment?

Public companies, of course, must meet a number of board composition and organization standards based on ownership structure and stock exchange listing standards. We have written about these considerations in an earlier whitepaper, *Creating the board your company deserves: The art and science to choosing directors*.

While public company requirements at times seem onerous, they may provide key advantages for private companies who adopt them based on the organizational and disciplinary preparation inherent in implementing them.

Outside guidance can facilitate the process

A summary of findings from a review of board composition will drive a proactive plan for addressing board selection and development opportunities within an agreed timeframe. When undertaking a review, owners and managers can benefit from the use of a few targeted resources, including:

- A set of relevant leadership, technical, and professional attributes as described above
- Assessment tools, such as surveys and interview guides
- Templates for board development plans
- Succession planning models

In many cases, an outside perspective is critical to the change management aspects of this process. In fact, many boards have a reasonably strong sense of their strengths and development needs on the front-end of the process. An external advisor can help to bring those issues to the fore in a way that an insider cannot. In addition, an outside advisor can help the board tailor the available resources to provide the most value, manage the process, and help develop a comprehensive set of tactics for improvement.

Conclusion

In an increasingly complex and competitive business world, private companies need to be strategic about board composition and practices. Private company boards can offer solid competitive advantage, acting as strategic advisors and knowledgeable sounding boards with members providing crucial business connections and supplementing management skills in ways that help catapult the company to the next level. Just as companies grow, evolve, and become more sophisticated, so do their boards. Assessing board composition should be treated as a significant strategic activity for the company, capable of bearing long-term implications for financial and operational outcomes.

Therefore, board composition will always be an evolving story—not a once-and-done proposition. A strong, contributing board can provide value to a private company focused on market agility, innovation, and growth, but it is up to owners and managers to optimize board member selection, educate them about company strategy and activities, and engage them in helping the company be a more viable competitor.



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