



BUILDING A HIGH PERFORMANCE BOARD OF DIRECTORS

**YPO-WPO Global 1
Global Conference Call**
January 6, 2016
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IS BUILDING A BOARD WORTH IT?



IS A BOARD REALLY NECESSARY?



CHARACTERISTICS OF A FIDUCIARY BOARD



CHARACTERISTICS OF AN ADVISORY BOARD



WILL I LOSE CONTROL?



WHERE DO I FIND THEM?



HOW MUCH WILL IT COST?

WHY DO I NEED A BOARD OF DIRECTORS?

IS A BOARD REALLY NECESSARY?

- Do you have all the answers?
- Strategy, networking, accountability

DO YOU HAVE COMPETING INTERESTS IN YOUR BUSINESS?

- Family members, investors, partners

WHY DO I NEED A BOARD OF DIRECTORS?

BENEFITS OF A BOARD OF DIRECTORS

- ⌚ Help vet thinking: The “Emperor Has No Clothes” syndrome
- ⌚ Accountability and discipline
- ⌚ Forum-like advice & perspective
- ⌚ Network & connections
- ⌚ Sounding board
- ⌚ Assistance with strategy development
- ⌚ Untangling interpersonal challenges

EVERYONE HAS TO REPORT TO SOMEBODY

YOU WANT THE BOARD INVOLVED IN:

- ④ Major decisions – definition
- ④ Seeing the unseen
 - Ambitious reaches, unknown territory, risk assessment
- ④ Accountability & kicking my ass
- ④ Shareholder rights & protections
- ④ Corporate reach

FIDUCIARY VS. ADVISORY

The decision between **Fiduciary** and **Advisory** boards is often driven by the **level of complexity** and **maturity** of the business.

- ✓ Public vs. Private companies
- ✓ Benefits to the CEO!



APPLE BOARD STORY



Steve Jobs made many great decisions for Apple, but **he initially rejected one of its most well-known inventions:**

➤ APPS.

According to Walter Isaacson:

“Jobs at first quashed the discussion, partly because he felt his team did not have the bandwidth to figure out all the complexities that would be involved in policing third-party app developers.”

Apple board member Art Levinson called Jobs at least a dozen times asking him to change his mind. **He eventually did.**

WHO SHOULD BE ON MY BOARD?



IS THIS THE BOARD YOU WANT?



OR IS THIS THE RIGHT BOARD FOR YOU?



1.6.2016

LODESTONE GLOBAL

WHY A BOARD?

WHO TO CHOOSE?

WHERE TO FIND?

HOW MUCH COST?

THE RIGHT BOARD WILL HELP

BALANCING BUSINESS PLANS WITH SHAREHOLDER INTERESTS

- ④ Balancing inter-shareholder differences
- ④ Balancing management's interests and shareholder interests
- ④ Balancing your view of risk vs. the reality of risk



WHO SHOULD BE ON MY BOARD?



REMEMBER...

- ⌚ You're cooking up a stew – it takes a balance of ingredients to achieve the right flavor

WHERE DO I FIND THEM?

- ⌚ Some are right next door, others take a little more effort

HOW MUCH WILL IT COST?

- ⌚ How much responsibility will you ask of your Board?

WHO SHOULD BE ON MY BOARD?

PEOPLE WHO KNOW THINGS YOU DON'T

—Not your lawyer or accountant

PEOPLE WHO HAVE PERSPECTIVES DIFFERENT THAN YOURS

—Not your key managers, limit insiders

PEOPLE WHO WILL CHALLENGE YOUR ASSUMPTIONS

—Not your friends and family

PEOPLE WHO HAVE ALREADY BEEN THERE

—No Rookies!

PEOPLE WITH EXPERIENCE IN RELATED INDUSTRY

—If you're in warehousing, someone from transportation

WHO SHOULD BE ON MY BOARD?

SOMEONE WITH BETTER CONNECTIONS THAN YOU HAVE

—Networks

SOMEONE WHO HAS ALREADY SOLVED YOUR PROBLEMS

—Reduces the fear of unknown

SOMEONE WITH A STRATEGIC PERSPECTIVE THAT WILL ADD VALUE

—Nothing like a big set of binoculars to see what's coming up next!

A GREAT MANAGER

Vision without execution is just a dream;
execution without vision is a nightmare

WHO SHOULD BE ON MY BOARD?

OTHER PEOPLE TO CONSIDER



A DEAL EXPERT

—If growth is on your list...



INTERNATIONAL MARKET EXPERIENCE

—If your operations are not just domestic



“DRESS UP” — PROMINENT NAME

—Lends credibility

WHO SHOULD BE ON MY BOARD?



A TOKEN ACADEMIC

—Hey – I was one...

SOMEONE WHO WILL HAVE YOUR BACK

Your board members want to do a great job.
Make sure you select someone you can rely on!

WHERE DO I FIND THE RIGHT DIRECTORS?



WHERE DO I FIND THE RIGHT DIRECTORS?

RELATED INDUSTRY

- ④ Should be the easiest – trade shows, conferences, editors of trade publications are all good sources

WELL-CONNECTED

- ④ Retired execs in your business

EXPERIENCED

- ④ It's always better to have a guide – if your goal is \$500 million in sales, find another CEO who has grown through that level

WHERE DO I FIND THE RIGHT DIRECTORS?

STRATEGIC PERSPECTIVE

- ④ This is the “wise person” rule – who do you know who you think is really smart? Not experienced in your business, or even in business.

GREAT MANAGER

- ④ As long as they don’t think they are always right, this is a classic network outreach

WHERE DO I FIND THE RIGHT DIRECTORS?

DEALS 'R US

If you need to operate, find a surgeon – either an experienced executive or a professional
(beware the scorpion and the frog story)

FOREIGN SAVVY

Another great YPO resource that will limit your myopia

PROMINENT AND WELL-RECOGNIZED NAME

Its only money...

PET PROFESSOR

Business and Engineering schools are full of them

DEPENDS ON
WHAT YOU ARE
LOOKING FOR

WHERE DO I FIND THE RIGHT DIRECTORS?

BOARD CONSULTANTS

- ④ YPO Public and Private Directors Group
- ④ National Association of Corporate Directors
- ④ Korn Ferry
- ④ Heidrick & Struggles



HEIDRICK & STRUGGLES

HOW MUCH WILL IT COST?



HOW MUCH WILL IT COST?

IT DEPENDS ON:

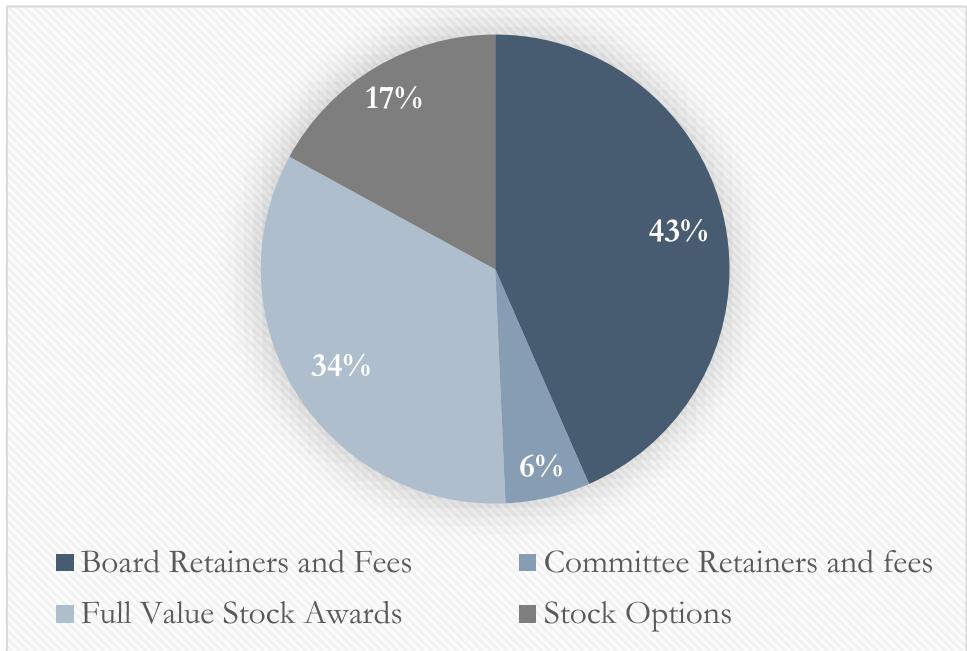
- ⌚ Quality of talent you're after
- ⌚ Risk/Reward
- ⌚ Where and how you meet
- ⌚ How often?
- ⌚ Travel and Committee costs
- ⌚ Plant or offsite visits

HOW MUCH WILL IT COST?

PUBLIC COMPANY DIRECTOR COMPENSATION SURVEY

\$25-\$325 million revenue size

PUBLIC DIRECTOR COMPENSATION	
Board Retainers and Fees	\$47,438
Committee Retainers and Fees	\$6,387
Full Value Stock Awards	\$36,704
Stock Options	\$18,561
Total	\$109,001



Source: BDO 600

HOW MUCH WILL IT COST?

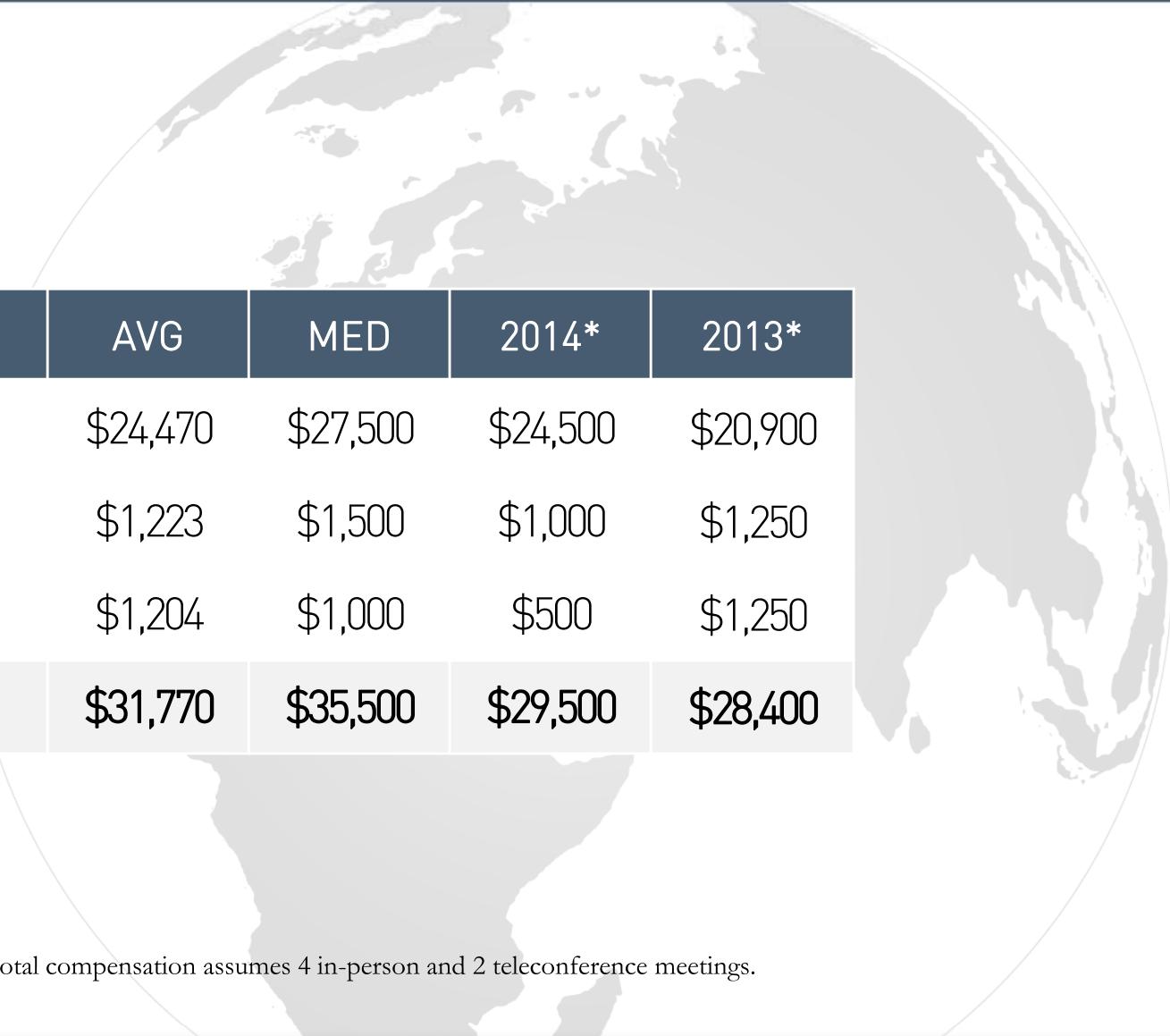
2015 PRIVATE COMPANY BOARD COMPENSATION SURVEY

Lodestone Global/YPO

	AVG	MED	2014*	2013*	2012*
Annual Retainer:	\$20,715	\$24,000	\$22,000	\$20,000	\$20,000
Per Meeting Fee:	\$1,621	\$2,000	\$2,000	\$2,000	\$2,500
Per Teleconference:	\$1,205	\$1,000	\$750	\$1,000	\$750
Total Compensation:	\$29,609	\$34,000	\$31,500	\$30,000	\$31,500

*Data is median from 2014, 2013 and 2012 surveys. Total compensation assumes 4 in-person and 2 teleconference meetings.

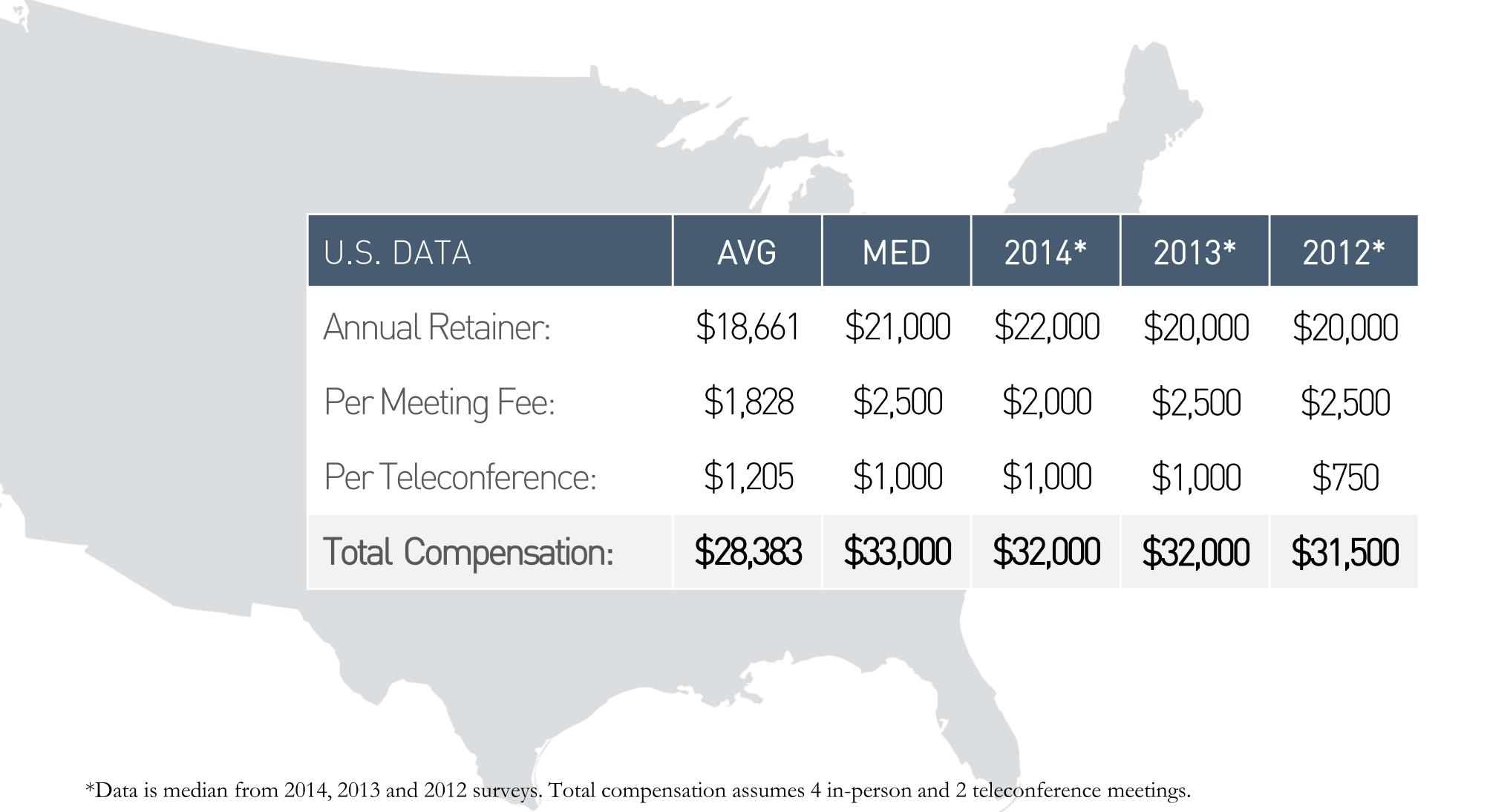
INTERNATIONAL COMPENSATION



INTERNATIONAL DATA	AVG	MED	2014*	2013*
Annual Retainer:	\$24,470	\$27,500	\$24,500	\$20,900
Per Meeting Fee:	\$1,223	\$1,500	\$1,000	\$1,250
Per Teleconference:	\$1,204	\$1,000	\$500	\$1,250
Total Compensation:	\$31,770	\$35,500	\$29,500	\$28,400

*Data is median from 2014 and 2013 surveys. Total compensation assumes 4 in-person and 2 teleconference meetings.

UNITED STATES COMPENSATION



U.S. DATA	AVG	MED	2014*	2013*	2012*
Annual Retainer:	\$18,661	\$21,000	\$22,000	\$20,000	\$20,000
Per Meeting Fee:	\$1,828	\$2,500	\$2,000	\$2,500	\$2,500
Per Teleconference:	\$1,205	\$1,000	\$1,000	\$1,000	\$750
Total Compensation:	\$28,383	\$33,000	\$32,000	\$32,000	\$31,500

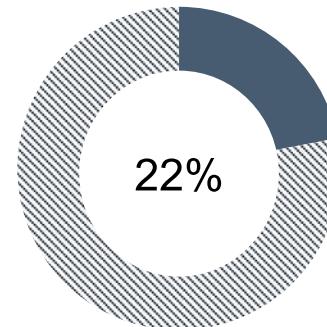
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SURVEY STATISTICS

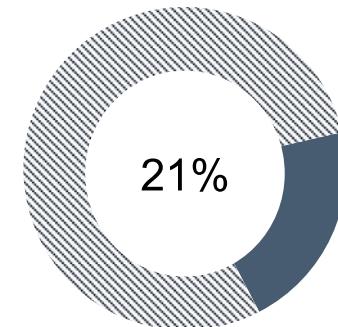
SURVEY STATISTICS	AVG	MED
Total Respondents:	272	272
Revenue:	\$279m	\$61m
Employees:	1401	233
Yearly Meetings:	4.5	4.0
Annual Retainer (cash):	\$20,715	\$23,500
Per Meeting Fee:	\$1,621	\$2,000
Board Members:	6.4	6.0
Independent Board Members	2.8	3.0
Female Board Members	1.0	1.0

INDUSTRY REPRESENTATION

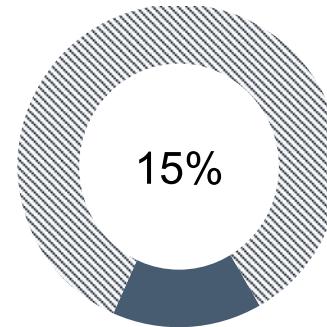
Retail



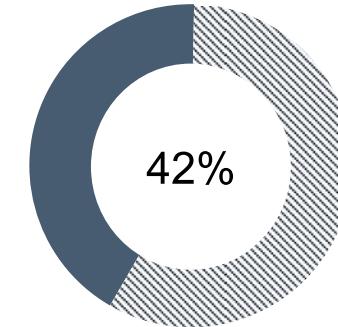
Manufacturing



Professional Services



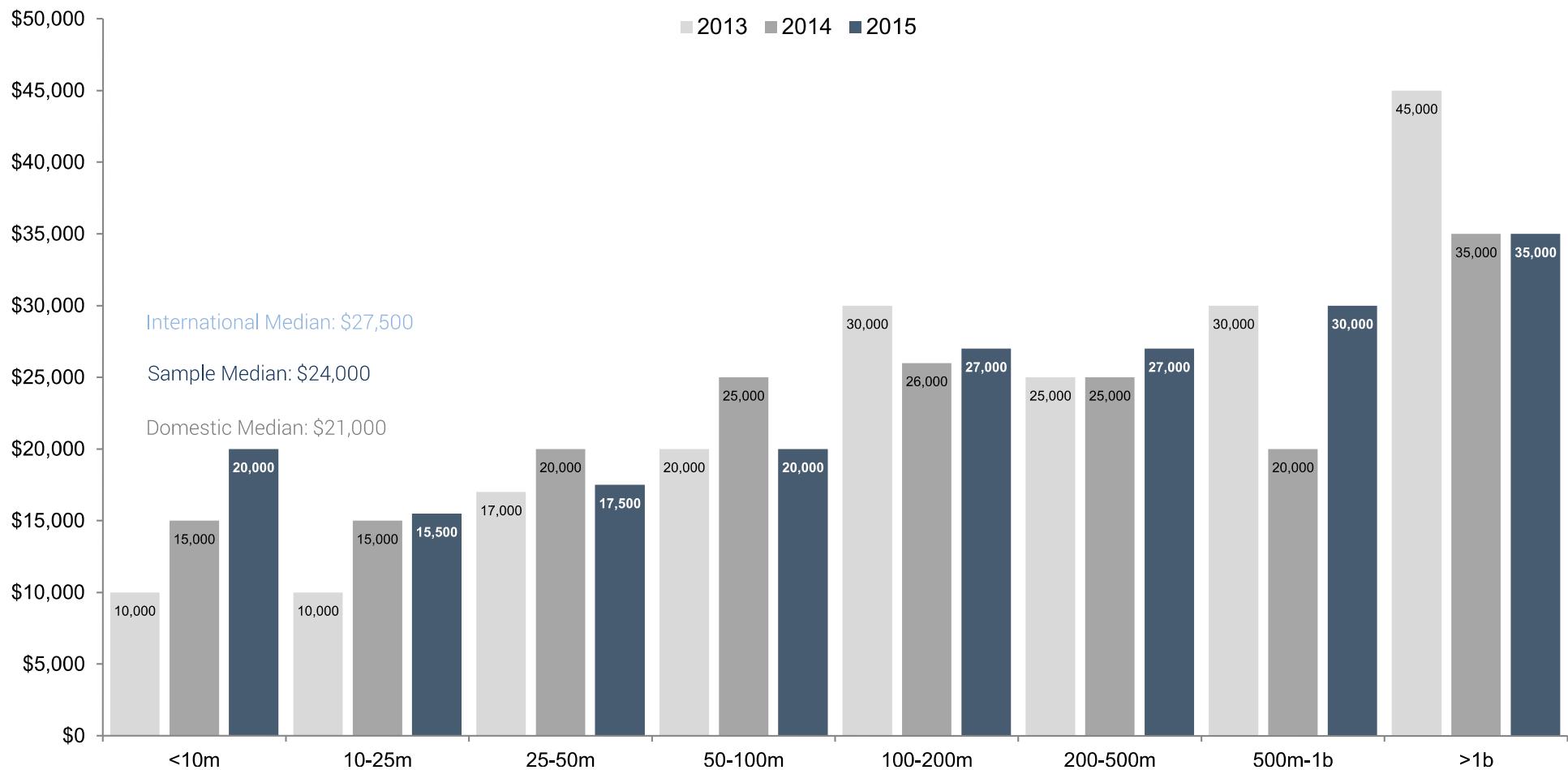
Other



COMPENSATION BY REVENUE

MEDIAN ANNUAL RETAINER BY REVENUE

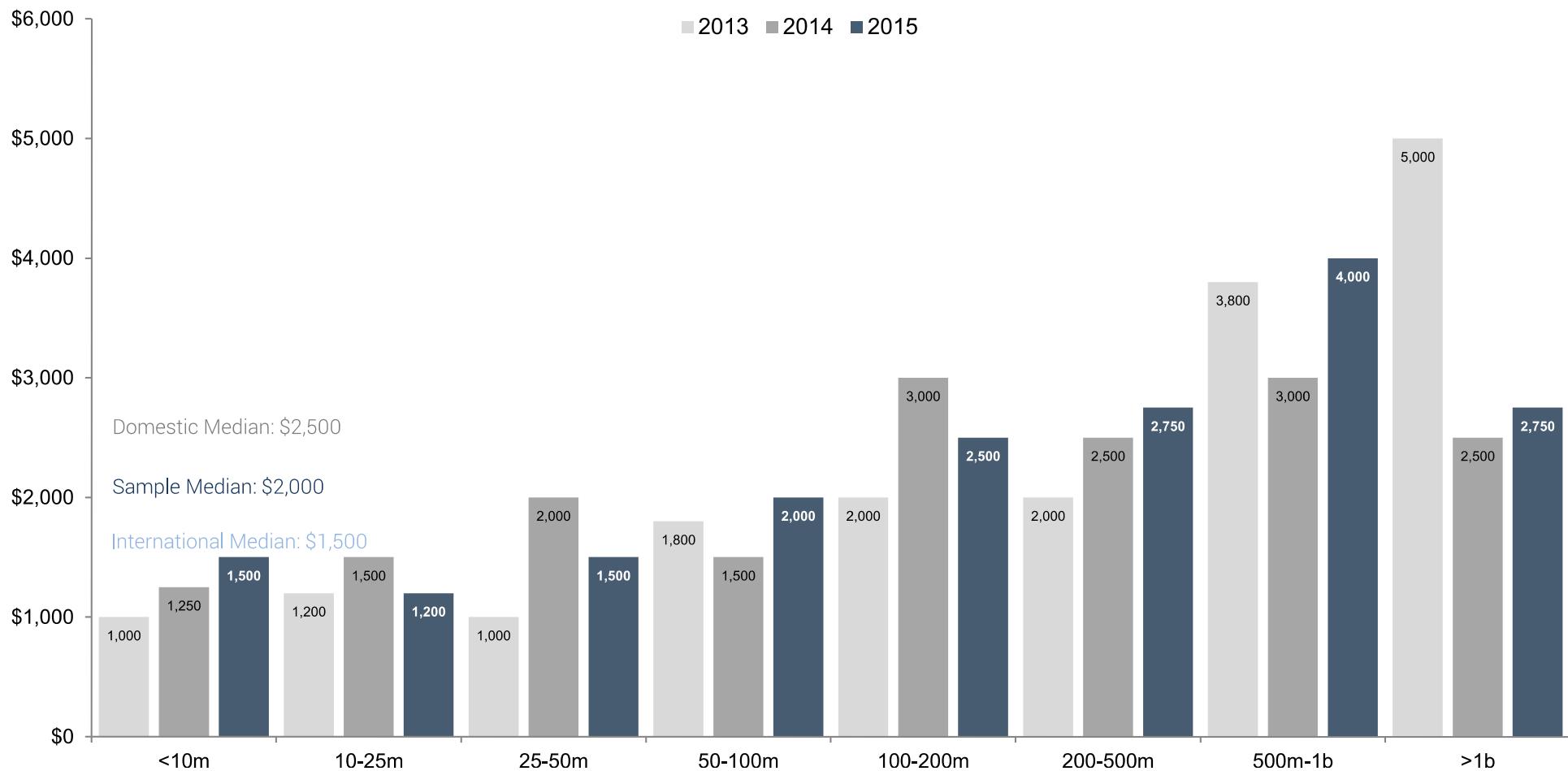
USD



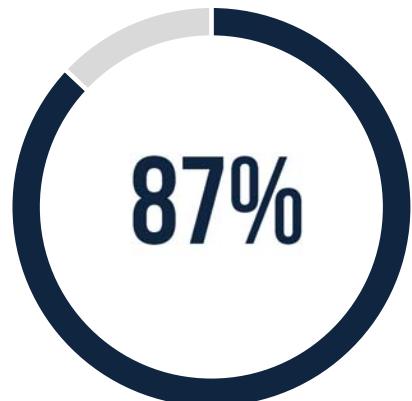
COMPENSATION BY REVENUE

MEDIAN PER MEETING FEES BY REVENUE

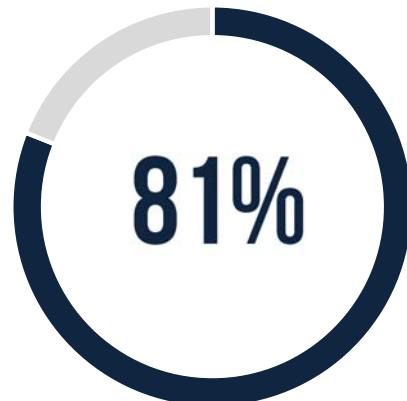
USD



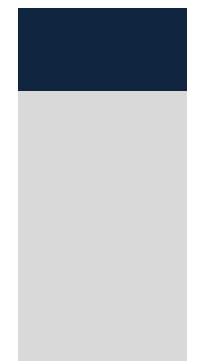
BOARDS DRIVE PERFORMANCE



Companies reported
INCREASED REVENUES
since implementing a
Board of Directors



Companies reported
INCREASED EBITDA
since implementing a
Board of Directors



Companies reported
average revenue growth
of ~35% since respondent
joined the Board



REASONS FOR JOINING A BOARD

1= most important, 5= least important (HBS study)

Quality of Top Management	1.78
Opportunity to Learn	1.93
Challenge as Director	2.08
Prestige of Firm	2.22
Potential Growth of Firm	2.41
Opportunity to work with other Directors	2.66
Personal Prestige	2.98
Compensation	3.61
Major Stock Ownership	4.37

SUMMARY

WHEN THINKING OF ASSEMBLING A BOARD, REMEMBER:

- Get Directors That Complement Your Skills
- Use Industry Networks
- Don't Be Cheap



THANK YOU

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