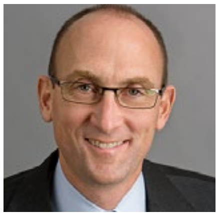
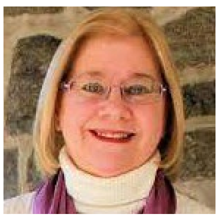
PRACTICAL FEEDBACK FROM ACTIVE DIRECTORS



BRUCE D. WERNER is the Managing Director of Kona Advisors LLC, which provides advisory services to owners and investors of private and family-owned companies. With exceptional experience in finance, strategy, M&A, governance, and succession planning, Kona Advisors creates practical solutions to the most challenging corporate problems. Mr. Werner is an experienced corporate director, leading businesses through periods of positive transitions as well as crises. He writes and speaks on boardroom issues of concern to private and family businesses. He is currently the chair of the Director Development and Referral Program for the Private Director Association. In this capacity, he has national responsibility for the coaches and students of this director training program. In addition to his advisory work, Bruce has acted as a principal or consultant to several investment firms, with experience in running venture, private equity, hedge and real estate funds, as well as futures and options firms. Mr. Werner spent 12 years at Werner Holding Co. in a variety of senior-line and staff positions. He held executive responsibilities in the climbing products, aluminum extrusion, and insurance businesses. During his tenure, the company grew from $180 million to over $500 million in revenues.



STEPHANIE OLEXA, PH.D, MBA, is an independent director and a governance professional with experience as a board chair and on audit and finance, strategy, compensation, risk management and nominating/governance committees. As a business advisor, she has helped family-owned businesses build stewardship for sustainability and evolve their governance from a burden to an asset. Stephanie is the founder and president of Lead to the Future, LLC. In addition to a Ph.D. in biochemistry and an MBA with a specialty in finance, she is certified as an executive coach from Georgetown University, certified in Lean and Six Sigma through Villanova University, and an accredited family business advisor through the Family Firm Institute. She is also a Leadership and Governance Fellow with the National Association of Corporate Directors, a founding member of Private Directors Association, and currently serves on three boards of directors.

There is an increasing supply of qualified candidates looking for their first board seat with a private company. Experienced directors understand how the process works, and what to expect. First-time candidates, however, are thirsty to learn how the process works, and how best to get into the game.

There are considerable resources for candidates to understand the preparation and selection processes: trade associations, executive education programs, consultants, conferences, books, and webinars. Knowing where to start is, in itself, a likely challenge.

Our experience working with candidates, and having run numerous search processes, is that potential candidates seek advice in these four categories:

1. Understanding the motivations and benefits of service;
2. Creating an individualized plan to prepare for the selection process;
3. Learning how the selection process works; and
4. Getting feedback from active directors on how compensation evolves over time.

MOTIVATION

Before thinking about competing for a board seat, it is important to understand what the position is, and isn't, and to be sure your motivations and interests align with the company's needs and expectations.

There are many reasons to seek a board seat. The distilled wisdom of experienced directors is consistent: don't do it for the money. While the compensation usually respects the director's time and contribution, for most candidates, it does not provide enough motivation to accept the risk and responsibilities. You need a more powerful motivation.

When asked why they serve, experienced directors consistently say they serve to: (i) have an impact on the business; (ii) to stay engaged in the business community, typically as they move towards retirement; or (iii) they have an affinity for the business.

Many directors seek seats as a means to network for other personal reasons. One director has said that one of the greatest benefits he has enjoyed are the friendships he has made with other directors. He cited that several of his fellow directors have become dear friends, even though their mutual board work ended years ago.

COMPENSATION

Candidates always wonder about compensation, so it is important to know the market. Public company, private equity, and venture capital companies are outside the data presented herein. These comments apply to private and family-owned businesses, typically in the $10 million to $100 million revenue range in the United States.

The rule of thumb has long been that companies in this range pay from $20,000 to $30,000, per year, using retainers, meeting fees and other forms of compensation. Some include equity, but less so with family-owned businesses. These figure trend higher as revenues exceed $250 million, but not significantly higher.

These figures are in the middle of the market, and there are numerous exceptions. One company sets director compensation by determining the CEO's hourly rate, and applying that to the number of hours per year expected from directors.

A number of credible board compensation studies have been performed over the years, with the two well-known sources being the Private Company Board Compensation and Governance studies, from 2019 and 2020, in addition to eight years of data from Lodestone Global. The compensation should respect the required time and commitment, but should not be viewed as a primary means of financial security.

EDUCATION AND TRAINING

Success in the C-suite is not enough to be successful in the boardroom. Boardroom dynamics require a collegial style of intellectual engagement and rigor. Directors are bound by both a duty of care and a duty of loyalty. Directors have grave responsibilities, but should not be making operating decisions, or directing staff, other than interacting with direct reports to the board. The common phrase is "noses in, fingers out."

Candidates with strong executive styles tend to be very directive in their behaviors—a command and control approach to interaction. Successful directors need to be active listeners and highly collaborative. Demonstrating this style shift from the former to the latter is a critical part of the interview process, and candidates often fail to advance if they cannot quickly demonstrate their ability to behave as a good director should.

There is a cottage industry of established firms, consultants, conferences, and academic programs to prepare people to become directors. They vary in quality, geographic reach, market focus and expense.

Having worked with, or had conversations with many of them, the good news is that candidates have many options. It is also a situation where "caveat emptor" needs to be employed. Candidates looking for help to prepare their written materials (board resume, bio, LinkedIn) can expect to pay $750 to $2,000 depending on whom they choose to work with. Academic programs vary from $1500 to $10,000, proportionate to their duration (one day to one week) and brand identification; conferences typically cost up to $2500 for a two- or three-day event. The National Association of Corporate Directors (NACD) runs a number of programs, but these tend to target public companies and may not be the right fit for candidates only looking at private company seats. The Private Directors Association offers a Director Development Program, which offers education and training for candidates.

The individual consultants in this market typically charge $5,000 to $10,000 for a suite of services which is likely to include resume-writing, interview preparation, coaching and some degree of search support. The online databases, where candidates pay a fee to receive opportunities, also tend to provide resume writing and coaching services as a complement to their primary offerings. There are several firms in the UK and Europe which focus on those geographies, offering similar services to their U.S. counterparts.

FEEDBACK FROM EXPERIENCED DIRECTORS

Once the work starts, the journey begins. But one comment we hear from experienced directors is that once compensation is set, it does not change much over time. The data supports this observation. We found these comments to be instructive:

- "Supply significantly outstrips demand. For example, in a recent search for a family business, they were looking for three directors for a new board and we received almost 800 applications!"
- "Inertia is a huge force to contend with, once compensation is set, owners don't like to adjust it."
- "Owners question the value the board produces. The benefits are difficult to measure, but the expenses and time commitment is material."
- "They are not creating the value that we had hoped so why should I pay them more?"
- "There are 10 people in line for the slot, so why increase the pay?"
- "I know that they are using our board as a steppingstone to get on a public board so why should I pay a lot?"

What tends to come as a surprise, but is consistent, is that the most overwhelmingly common value perceived by owners, was some variation of this: "The board forced our management team to review their data every quarter and be prepared to give a presentation, so it increased our accountability."

If a private company has positive cash flow, pays its taxes, and services its debts, then there are no external pressures forcing change. This is why good outside directors can have a substantial impact. It is often difficult for entrepreneurs and owners to hold themselves accountable and they may need independent outsiders to help enforce accountability.

CONCLUSION

Accountability is a baseline value of a board. Directors should aim to understand the needs and wants of the shareholders and create additional value. This ties back directly to the discussions of motivations. Overwhelmingly, experienced directors say, "Don't do it for the money, do it because you want to have an impact."

53 director positions in companies ranging in size from $40 million to $300 million. (Data provided by a board recruiter for privately held companies (2017 to 2020).)