‘You’ve Become One of Them’ Fifteen Rules for Directors

(July 2016 by Jim McHugh)

“You’ve become one of them.” That’s what a fellow Director (“Money Guy”) said to me after one of XYZ Company’s regular board meetings. Money Guy was from XYZ’s lead investor group and the majority shareholder. The ’them’ Money Guy was speaking about was XYZ’s management team. From his tone, I knew Money Guy wasn’t giving me a compliment; I was being admonished because I ‘sided with management’ about a particular matter that was pivotal to the future of the company.

What had I done wrong? To find the answer, you’ll need to read the following fifteen “rules” on how to work with owners. These rules apply to any of the ownership structures of private companies. In general, the shareholders in private companies are either:

- Families
- Private equity/venture capital groups
- Management/founders
- Or a combination of these

The rules are indifferent to the stage of the company (early stage, mature, in decline, whatever). Hopefully you will see why these distinctions don’t alter how I work with owners.

Here are 15 Rules:

1. Remember your role as a fiduciary. Money Guy knew I had a fiduciary responsibility to the corporation, not just to him and his private equity firm. They put me on the Board to be ‘an outside, independent voice.’ Somehow that slipped his mind! This brings me to Rule No. 2.

2. Don’t be a rubber stamp. You can get rubber stamps at Staples. Money Guy or any other majority shareholder should realize that you are not on the Board just to be another automatic vote for them. Another Director friend

told me: “There is a fine line to walk as an independent director when those sitting around the table own the company and you are effectively their invited guest.” If management knows you are truly independent and not there to throw them under the bus, this will help build trust with all.

3. Understand the owner’s expectations and their personal and financial goals. One owner told me: “I believe the most important consideration for an outside Director is to ensure the shareholders’ goals and desires are fully understood. Private company owners are likely to have a complex mix of primary and secondary goals that often change based on circumstances impacting their lives. Multiple shareholders might present further complications which need to be blended into the stew.”

4. Understand the owners’ personalities. This is different than No. 3. The particular personality style of the individual majority shareholder exerts a significant influence on the board and management.

5. Get to know the management team. Is the CEO and senior team strong-willed, weak or balanced? How well does the CEO work with the company’s owners? Being aware of the strengths and weaknesses of the C-Suite will help you be a better coach to the owners.

6. Understand the culture of the company. Why? You and your other directors do have a role in shaping it and maintaining it by your actions.

7. Be consequential. Joe White used this term in his book Boards That Excel. One CEO/owner told me: “I want Directors that challenge me and bring perspective and skills I lack. I also want them to be well-grounded. The one thing my board has lacked is someone who is very knowledgeable about the specifics of my industry, but I think that has been outweighed by Directors with broad experience who see the big picture.”

8. Understand the business model and the industry. I had recently joined the Board of a company and we were discussing changes to the distribution

channels. One Director said: “That’s not how we go to market now, is it?” He had been on the Board for over ten years and did not know one of the basic aspects of the business model!

9. Be a colleague, not an adversary. You are on the Board to give your opinion and offer advice, suggestions and ideas, not to advance your own career or agenda. I disagreed with Money Guy, but I wasn’t being disagreeable. No grandstanding, no pontificating allowed.

10. Don’t be timid about personally coaching or mentoring the owners. Even though they own the company, they may need advice on areas they are unfamiliar with. See No. 7.

11. Trust your gut. It’s ok to be a nudge (…and be Columbo like). For those of you who are too young to know who Columbo was, Google him. Don’t allow the CEO and the team to stiff arm you or ignore your questions. Hopefully you have proved to the owners that your probing is done with good intentions.

12. Prepare for and attend the meetings. How obvious is this? Don’t be a no show or empty seat.

13. Participate. Be available to the owners not only at the Board meetings but also between the meetings. Encourage honest two-way communication and feedback.

14. Embrace and use technology. Just a pet peeve of mine…I’m tired of hearing about people being ‘too old’ to learn today’s communication technologies. The cloud is something more than moisture in the air.

15. Stay fresh. Owners don’t want ‘stale’, they deserve ‘fresh’.

None of this is complicated and these rules may seem pretty basic and just common sense to you. But if that’s the case, then why have I witnessed so many Directors who don’t follow these, who behave irrationally and/or who are ineffective with ownership?