

Private Company Corporate Governance

A. Tips for Transitioning from a Founder-Driven Culture to a Board-Driven Culture

1. Understand the existing culture of the company.

A board can evaluate the role company culture plays in board performance and reflect on whether there are elements of the culture that need to change. How your board communicates, works as a team, and makes decisions all define the culture of your board.

2. Have the right people in the room.

Have a clear set agenda and follow a similar format for each meeting. If appropriate, leave time in each meeting to discuss key officers' performance, without those parties present.

3. Set expectations.

In the early stages, founders have typically been accountable only to themselves. A successful founder accepts guidance from directors and experts. Whether in private equity or venture capital, communicating plans and challenges to the founder upfront will ease the transition.

4. Establish clear roles.

To avoid confusion and keep the company's growth on track, founders need to know how they should communicate with the board—not just in meetings, but in general. Boards have to add value to the company, but they are not there to manage the company at an operating level.

5. Strike a balance.

A founder's expertise is often a large part of the value of the company and the investor's equity. The key is to strike a balance to maintain the founder's vision and involvement, but transition it into a more clearly defined structure. Delegating duties to the board as a way to grow the company can make the founder feel more comfortable about moving the company forward.

B. Don't Overlook Succession Planning

6. It's never too early to plan.

Managing succession presents one of the biggest risks for private companies. It is extremely important for private companies to set aside time to craft short-term and long-term plans for both board and management succession.

7. Invest in leadership development, and use succession planning to advance other strategic initiatives.

Identify key goals, milestones, and measures for evaluating internal and external talent to create your succession plans (for both directors and management). Ask what vision a potential successor has for the company. Developing homegrown talent is also important; identify those individuals early and do not let them go.

8. Ask the hard questions.

Have a formal succession plan or at a minimum memo that has been carefully considered and blessed by the board. Discuss various scenarios including planned and unplanned vacancies from board and management spots. Establish from the outset if a replacement position will be permanent or temporary.

C. Diversity is Key

9. Investors expect board diversity.

Investors (including proxy firms and large investment funds) and other stakeholders are increasingly demanding that companies increase their diversity in terms of gender, race, and other metrics. Increasing the diversity of your board will ensure that you attract the greatest number of investors, employees, and business partners. Does your board reflect the voice of the Company's stakeholders?

10. Diversifying experience.

Private company boards should attain diversity in backgrounds when it comes to board members. Multiple studies show that board members with diverse experiences and backgrounds generate a higher level of performance and long term value creation. Identify gaps in the board's knowledge and fill those gaps.