



# A Practical Guide to Board Member Searches

Best practices don't have to slow down the search for great board candidates. In fact, these practical guidelines can help accelerate the placement process.

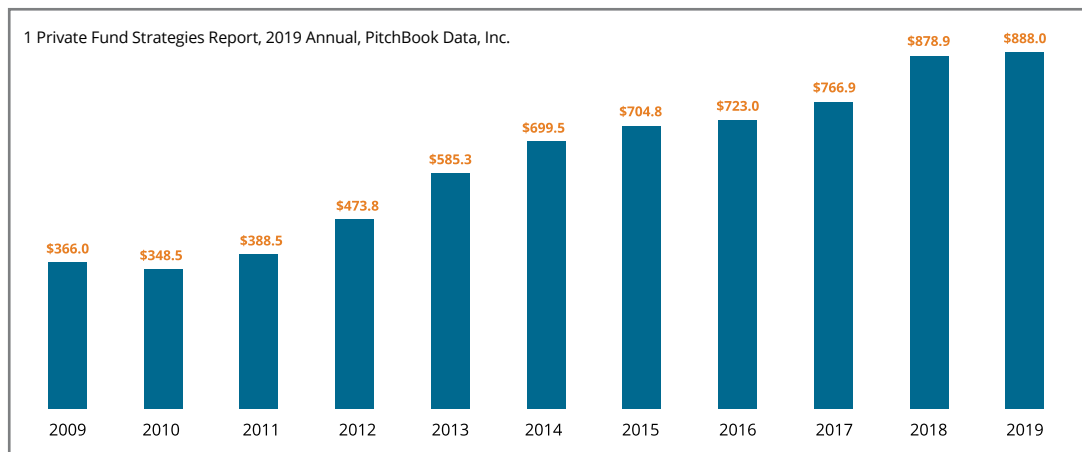


# Competitive Market



## Increasing Demand for Board Members

The pace of private capital fundraising continues to accelerate. According to PitchBook, **1,064 funds raised \$888 billion last year.**<sup>1</sup> One significant trend was the increased allocations to private markets by institutional investors. This trend is driving increased competition when it comes to identifying and placing high-performing board members, especially for private equity (PE) firms, venture funds, and other investors in the mid-market.



In light of increasing private capital activity and competition for board candidates, it's important for investors to be proactive. This white paper offers practical suggestions to help mid-market firms take the initiative, be more prepared, and enjoy greater success in board member searches. Read on to get started.



# Do-It-Yourself? Get Outside Help?



## Trust but Verify...and Start Early

Many investors are comfortable leveraging their circle of friends, family, colleagues, and experts for potential board members. However, while a personal network may be a good place to start, too often it restricts the field of candidates and shortchanges the process. Investors are likely to miss out on highly qualified candidates that could bring needed industry, technological, scientific, or other expertise to the newly acquired business or portfolio company. Enlisting outside expertise in the search invariably uncovers strong candidates who increase the quality of the candidate pool. In the long run, this pays rewards, no matter the final decision.

Just as importantly, investors can achieve better results by searching for board members **before** a potential acquisition or merger is completed. It's not uncommon for board candidates to bring industry insights to the deal process and help investors identify opportunities, become aware of potential issues, and even negotiate better terms.

Finally, even if a board finalist seems like a sure thing or is well known to investors, it's still essential to enlist an independent third party to vet the candidate. The cost to conduct background checks and probe potential issues confidentially is negligible compared to the financial, reputational and personal risk at stake.

The bottom line? Put the guidelines on the following pages to work as soon as feasible to enhance both candidate quality and deal outcomes.





# Plan for Success



## Establish Qualifications

First, make sure to establish **why** a board member is being recruited and that they're aligned with that purpose. For example, is it because they're best qualified to **execute an already defined strategy**? Or because they can help **develop a new strategy**? Next, work with the outside search firm and agree on a rubric that identifies the capabilities, experience, competencies, talents, relationships, knowledge, etc., that are critical to that board position contributing to the success of the business. Clearly define what capabilities are "must-haves" versus "nice-to-haves." Even if it seems like a person in your personal network is ideal for the position, having a rubric can help confirm your initial thoughts or expose unforeseen areas of weakness.



## Define Compensation

It's important to define how board compensation will be structured **before you begin your search**. Typically, board compensation is a combination of payment per meeting and equity upon exit (dependent on the risk tolerances of all parties). Beyond standard compensation formats, some candidates bring special expertise to the table. Make sure there's agreement on how they'll be compensated if they're asked to undertake special projects outside their standard board responsibilities. Establishing these parameters with fellow investors—and executives of the portfolio company, if necessary—before contacting potential candidates will avoid wasted time and possibly damaged relationships.



# Be Prepared



## Know Roles & Authority

It's critical to understand which investors and who at the portfolio company will be decision-makers, influencers and/or vetoers. It's not uncommon to see candidate searches get down to the last hour, only to have a heavy hitter step in and shut down the process due to some factor unknown to the other parties. Also, it's helpful to agree on the system used to decide. For example, will the subject matter expert in the sector choose, with concurrence by investors? Or do those involved prefer weighted voting, ranked voting, majority voting, unanimous voting, secret ballots, or open caucus?



## Identify Existing Obligations

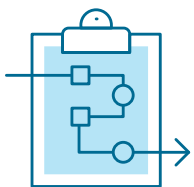
Once internal alignment is reached, it's time to start searching for candidates. Whether the candidates are from personal networks or found by third-party search, it's important early on to confirm their availability. Top candidates often sit on multiple boards. Verify upfront that the cadence of their existing board obligations doesn't compete with yours. Make sure their fiduciary obligations don't conflict with service on your board. Understand other obstacles, too. For example, if your board meetings are held overseas, confirm that they're able to fly. Identify any non-starters **before discussions turn to compensation or qualifications**. Otherwise, you'll waste time on the interview process only to discover insurmountable issues late in the game.

# Get Real



## Confirm Logistics

Related to the prior guideline, make sure the interview process won't be drawn out or delayed due to calendar conflicts between board candidates, PE firm members, and portfolio company evaluators. Initial phone interviews are standard practice and fairly easy to arrange. However, face-to-face meetings are essential when evaluating finalists and this is when travel schedules can create real challenges. Look far enough ahead to ensure there are no foreseeable schedule incompatibilities that may derail the process. One final note: logistics are especially germane when fast-moving deals pose large opportunity costs if a board member cannot be placed quickly.



## Align Expectations

The work done earlier regarding compensation, qualifications, roles and authority becomes even more valuable at this juncture. To ensure good relationships and long-term success, it's vital for investors, the portfolio company, and the candidate to agree on expectations. For example, is the board candidate attractive because they are expected to make introductions to their network of contacts? Or will they be tasked with developing partner relationships? Is the candidate there to succeed a current board member, replace an executive, or take over another position in the company? What is their role in a sale and exit strategy? Avoid misalignment on expectations before making decisions and avoid friction later on.





# Close the Loop



## Clarify Exit Strategy

Private capital frequently envisions some type of exit strategy. If a new board member is being brought for that purpose, what role will they be expected to play in the process? For example, are they being recruited for their industry relationships in order to attract buyers? How will their compensation be executed at exit? Beyond determining these long-term types of exit plans, what other mechanisms will be in place, such as term limits or leaves-of-absence? Keep in mind that remedies like ouster votes or impeachment can have painful and long-lasting damaging effects.



## Build Relationships

It's surprising how frequently candidates are left in limbo (or maybe not, due to the often hectic nature of placements). Usually, a successful board member recruitment process will result in a number of non-winning candidates who are nonetheless highly qualified individuals. Perhaps their expertise wasn't an ideal fit. Or their availability didn't match with the company's timeline. No matter the reason for declining a candidate, planning and executing a respectful and positive conclusion to the interview process is always beneficial. These runner-up finalists can often become valuable members of your extended network, serving as experts, consultants, advisors, and board candidates for other companies in your investment portfolio.



# Get Started



## Don't Wait for the Next Fire Drill

Be proactive. Start taking steps today and get ahead of the curve. Use these guidelines to get organized and establish a process. You'll improve immediate, short-term outcomes as well as longer-term performance.

## Need Help with a Board Member Search Today?

Apex Leaders finds and vets experienced operators and respected former executives for investors and their management teams seeking or evaluating board of director candidates. Our highly customized approach helps:

- ▶ Assist with business development and strategy design
- ▶ Facilitate growth into adjacent industry segments, or new geographic regions
- ▶ Improve infrastructure capabilities
- ▶ Navigate regulatory environments and approval processes
- ▶ Position the company for sale to a strategic buyer



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