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How to Become a Board Member

Field Guide preview

Chapter One: The Call

Explore the opening chapter, worksheets and completed examples.

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Chapter 1

The Call

Chapter 1 of the book. A private-equity board is there to make an investment pay back by a deadline, so before you accept a seat you learn who sits at the table, which work is the board's and what the fund has promised its own investors. Instruments: worksheets 1, 2 and 3.

Most first seats are accepted on the phone, in the warm minute after someone you respect says your name came up. I understand why. It's flattering to be asked, and the person asking usually makes the job sound lighter than it is. But that call is the cheapest moment you'll ever have to find out what the seat really is, and the three pages in this chapter are there so you spend it well.

One is a map of the table: every chair, whether it votes, who the person in it works for and what they chair. One is a habit, sorting whatever reaches you into the board's work and management's before you touch it. And one is a set of five questions you put to the sponsor before you agree to anything, with the answers written down where you can find them in your second year. None of them takes more than an evening.

Skip them and the cost shows up slowly. You find out at your first meeting that the founder is still a large owner and sits along the wall. You spend a quarter fixing what the chief executive was hired to fix. And when the bad year arrives, you learn that you signed up for the normal month.

WHAT IT LOOKS LIKE WHEN IT IS MISSING

- A month after the close, the new independent can recite the company's history but not the multiple of the money the fund needs back, or the year it needs it by.
- At the first meeting a director learns who chairs, and that the founder, still one of the largest owners, sits along the wall without a vote.
- In the first quarter a director rings a branch manager or a vice president to help, and the CEO hears about it from the vice president.
- The first set of minutes records a director's questions on the price of one quote, a truck order and the software, and none on the debt.
- Nobody can say what the new seat owns. There's no committee, no risk and no relationship with that director's name beside it.
- The director's calendar holds the four quarterly meetings and nothing more, so when the covenant gets tight the work goes to whoever has the days.
- In the search, the candidate said yes on the first call and asked to see the credit agreement afterward.

The tell is a new director who, asked what the board is for, describes the company instead of the return.

IN THE BOOK

Chapter 1 argues that a private-equity board is a third kind of board. It isn't the public company's watch on behalf of owners who can't see in, and it isn't the family company's circle of advisers. It's a small room of large owners with a target and a deadline, and its rule is that a director has one job: own the figure that defines the return, and see the company run toward it without running it yourself. Three instruments get you ready for that job. The seat card puts every person at the table on one page, with their vote or their observer's chair, their employer and their committee. The one-job test sorts each thing that reaches you into the board's five pieces of work (the Number, the chief executive, what the directors get to see, the few risks that could finish the company, and capital and the sale) and everything else, which is management's. The five questions before yes ask what the fund needs back and by when, who sits and who chairs, what you would own, the hours an ordinary month and a hard one will ask of you, and the reason the sponsor picked you. At Hovland, Leah Sutter wrote the fund's answer on a legal pad in Week −8, drew the seat card the next night and asked for the documents before she said yes. Its Do This list, as a checklist:

Before you take any seat, put the fund's promise in one sentence: the multiple of the money and the year it falls due.

Map every chair at the table on one page: vote or observer, employer, committee and who holds the gavel.

List what you would fix if you ran the company, mark each line board or management, and cross out management's lines.

Put the five questions to the sponsor and keep the replies on paper.

Accept only a seat where you can name something you bring that no other director does.

Find out why the sponsor picked you, and file the reason where you will reread it.

WORKED EXAMPLE

Graham Pettit called on a Tuesday evening in Week −8, a little after seven, and Leah Sutter wrote each of his answers under its question on a legal pad. The one answer that explained the board's purpose came last: the fund needed two and a half times what it put in, within about five years. Graham's two pages the next morning gave her the starting point. Hovland's last year: revenue of $186.0 million, EBITDA of $24.0 million, so a 12.9 percent margin. Kingpost was paying 11.0 times, and $24.0 million × 11.0 = $264.0 million. At that multiple, a buyer pays $11.00 for each added dollar of EBITDA. How many added dollars Kingpost needed turned on the debt and the costs, and the pages gave neither, so the question went onto the back of the second page, where Chapter 4 picks it up. A fund with a clock, a founder who kept part of the company and managers who bought in: on the book's table of three kinds of board, Hovland sat squarely in the middle column.

	Public company	Private-equity-backed	Family or founder-owned
Who owns it	Many shareholders who don't know each other	A fund with a clock, plus the founder and management	A family or a founder
What the board is for	Protect dispersed owners, and hire, watch and change the CEO	Turn an investment into a return by a date	Advise the owner, or decide with the owner
Who sits	Mostly independent directors	Sponsor partners, the CEO, one or two independents	Family members, the CEO, sometimes outsiders
The number that matters	Earnings, every quarter	Trailing EBITDA at the sale	Whatever the owner wants: cash, legacy, jobs
A director's time	About 19 days a year (UK, 2009)	About 54 days a year (UK, 2009)	Varies widely

Days: interviews with 20 British directors who had sat on both kinds of board, published in 2009.

Fig. 01-01: Three kinds of boards: the same title on the door and a different job behind it.

That night she drew the card. Five seats carried a vote and two didn't. Of the five, Graham Pettit and Glenn Keating worked for Kingpost, Mike Strand ran the company, and Elliot Talbot and Leah were independent. Two votes out of five isn't control, but Kingpost's 80.1 percent meant it chose all five directors, and the chairman sat on two other Kingpost boards. Len Hovland's 17.8 percent came with a chair set back from the table and no vote, and management and the directors held the last 2.1 percent (80.1 + 17.8 + 2.1 = 100). Asha Kurian, the principal who had built the model, had the other observer's chair.

Under the card she wrote an operator's first moves: a day in a truck with a technician, targets for the fourteen branch managers, a read of the installation bids, a look at the fleet. The one-job test struck most of it. The day in the truck stayed as written, so she could see what the numbers counted, and the bids stayed with a note that she'd read them only to see whether anybody checked them. Then the five questions. What she would own arrived on Thursday: the audit committee, meaning the auditors, the monthly close, the controls across all fourteen branches and the route by which bad news reaches the board, plus the branches themselves. The time came to a quarterly meeting

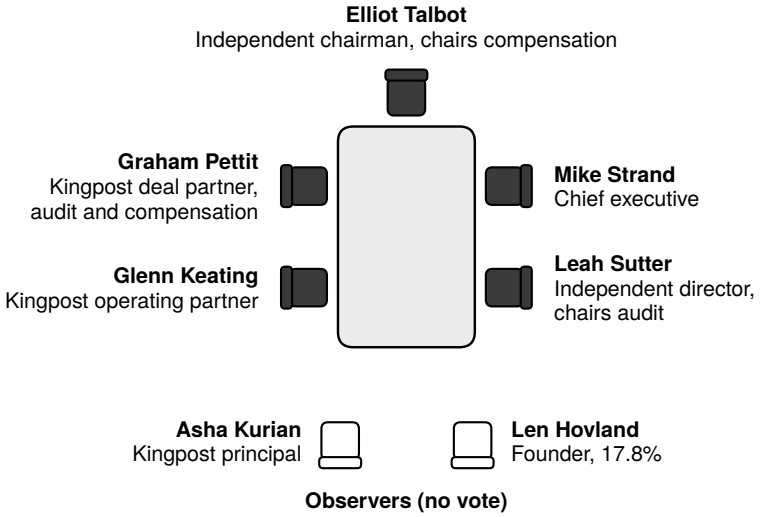


Fig. 01-02: The board at Hovland: five seats with a vote and two without one.

in Des Moines and a monthly call between, so 4 meetings and $12 - 4 = 8$ calls a year, plus the audit committee's meetings and extra in a bad year. Her log would later read 51 days for Year 1 and 60 for Year 2, when the Number slipped. Glenn Keating had answered the last question twice. By Friday the second page of the pad held all five answers, and she asked for the documents instead of saying yes.

WORKSHEETS

Three pages, each filled in before you give the sponsor an answer: the card, the sort and the five replies.

The seat card

Hovland's version
Leah Sutter drew the card on her legal pad in Week −8 from what Graham Pettit and Glenn Keating had told her, and the written consent on Day 0 confirmed the committee seats.

Chair at the table	Hovland
Elliot Talbot	Vote. Independent chairman, chairs compensation
Graham Pettit	Vote. Kingpost's deal partner, on audit and compensation
Glenn Keating	Vote. Kingpost's operating partner
Mike Strand	Vote. Chief executive
Leah Sutter	Vote. Independent director, chairs audit
Asha Kurian	Observer for Kingpost, the principal who built the model
Len Hovland	Observer for his own 17.8 percent, the founder
Who elects the board	Kingpost, with 80.1 percent

Your blank is on the facing page.

Worksheet 1

The seat card

Who votes, who observes, who chairs: every chair at the table on one page, with the employer behind it and the committee seats. You draw it from the deal partner's answers before you say yes, the chair checks it, and you sign it.

Company, sponsor and fund

Who elects the board, and with what stake

One row for every chair, the observers' included. Mark each seat that answers to someone besides the company.

Name	Seat	Votes or observes	Works for	Chairs or sits on

Votes needed to carry a decision

The chair, and whom the chair works for

Seats with a second loyalty, and what it is

What nobody at this table brings yet

Drawn by, and date

The one-job test

Hovland's version

Leah Sutter wrote an operator's list under the seat card in Week −8 and ran the test down it before she had a name for it. Most of it was struck.

Line on her list	Whose work	What survived
Ride with a technician	The board's, to see what the numbers count	Kept as written
Set targets for the fourteen branch managers	Management's	Struck
Read the installation bids	Management's, with one question for the board	Kept, only to learn whether anyone watched them
Look at the trucks	Management's	Struck

Your blank is on the facing page.

Worksheet 2

The one-job test

Sorts everything you'd have fixed as an operator into the board's work and management's, before your first meeting and again whenever you feel the pull to help. You fill it in alone, the chair reads it, and you sign it.

The board's five. The Number. The chief executive. What the board sees, and on which day. The risks that could end the company. Capital and the sale. Everything else is management's, and gets a single question, asked through the CEO or the pack.

What I would fix	Board or management	Decide, or the one question and through whom

Lines kept as board work

Questions to send through the CEO or the pack

Lines struck

Read by the chair, on

Signed, and date

The five questions before yes

Hovland's version
By the Friday of Week −8 Leah Sutter had all five answers on the second page of her legal pad, and she still answered with a request, not a yes.

Question	Hovland, Week −8
1. What the fund needs back	2.5 times the money in about five years (Graham Pettit, Tuesday)
2. Who sits, who chairs	Five votes and two observers, Elliot Talbot in the chair
3. What she would own	The audit committee, and the branches (Graham, Thursday)
4. The time	A quarterly meeting in Des Moines, a monthly call, the committee's work, and more in a bad year
5. Why her	She'd chair audit and mean it, and she knew fourteen branches from the inside (Glenn Keating)
Her answer	The memo, the model, the credit agreement and the stockholders agreement first (Friday)

Your blank is on the facing page.

Worksheet 3

The five questions before yes

Five questions for the sponsor before you accept, each answer written in the words it came in, with who gave it and when. You ask them, the deal partner answers, and you sign the page and keep it for the bad day in Year 2.

1. What the fund must get back, and by when

2. Who else sits, and who chairs

3. What I would own: a committee, a risk, a relationship

4. The time, in a normal month and in a bad one

5. Why me, in the sponsor's words

What I bring that no other director does

Each answer written down, with who gave it and when

My answer: yes, no, or send the documents

Signed, and date

RUNNING IT WITH OTHERS

Most of this chapter's work is done by one person with a legal pad, but it's done in conversation with three others: the deal partner who makes the call, whoever put your name forward (often the operating partner) and the chair. If you chair a board that is recruiting an independent, run the chapter from your side of the table. Send the candidate a seat card before the first coffee, and answer the five questions in writing, with the time answered for a bad year as well as a normal one.

Keep the first call to half an hour and the order fixed: the return, then the seats, then what the seat would own, then the time, then why this person. Whoever calls opens with the fund's target in one sentence, the multiple and the year. Before the call ends the candidate reads the answers back and the caller confirms or corrects each one. A second call a few days later settles what the first left open, which is usually what the seat owns.

The one-job test is the instrument you run alone first. Sort your list the night you draw the card, then show it to the chair before your first meeting. A chair who has done this before will strike a line or two you kept and tell you which questions should travel through the CEO. Let the chair do it. It's cheaper to lose that argument with the chair before the close than with the chief executive after it.

Ask the person who recommended you the fifth question too, and ask for specifics. A good answer names something you did and what it changed. If what comes back is a compliment, ask again.

What goes wrong the first time: the time question gets answered for the normal month, and nobody prices the bad one. The fifth question gets a compliment, and the candidate writes it down as a reason. The founder's observer chair never comes up until the first meeting. And the candidate says yes on the first call, because asking for the documents feels rude. It isn't. At Hovland the deal partner answered that request with one word of approval, and it told Leah more about him than anything else he'd said that week.

THREE QUESTIONS FOR MONDAY

1. If a deal partner called you tonight, could you say what the fund needs back, as a multiple and a year, before the call ended?

2. Which three of the things you'd most want to fix as an operator would fail the one-job test, and what single question would you send through the CEO instead?

3. When a sponsor asks why you, what will you say that no director already on its board could say?

BEFORE YOU MOVE ON

You should now have, on paper:

- Worksheet 1 — the seat card: every vote, every observer, the chair and the committee seats
- The fund's return in one sentence, with the multiple and the year
- Worksheet 2 — your operator's list sorted, and the questions you'll send through the CEO
- Worksheet 3 — the five answers, each with who gave it and when
- One line on what you bring that the rest of the table doesn't