

Voices of Experience

Updated: October 28, 2021

This document contains paragraph-sized pieces of wisdom from people with long experience serving on the boards of ESOP companies. They are designed to provoke your thinking and to start productive conversations among the members of your board of directors.

Defining the characteristics of the candidates you need

I believe that companies without outside directors on their boards should consider adding up to three types independent directors over time. Just like with public company director definitions, first add a “financial director.” This is someone with finance experience who can work with the audit firm and help oversee the CFO. The second is an “industry director”; maybe not in the exact industry as the client, but with more experience in larger companies who can relate to and help guide the CEO with operations. And the third is a “strategic director”, someone with hands-on experience with larger companies going through transitions and transactions, who can help the company with growth and change.

-- Kevin Long, Employee Benefits Law Group; member of the NCEO board

Many CEOs from ESOP companies that I’ve talked to, when they reflect on what they would do differently, one thing many of them wish they had done differently with regard to their boards is that they had made their first independent director someone from an ESOP company or someone who has lived through a CEO succession.

-- Victor Aspengren, director of several ESOP companies; vice chair of the NCEO board

Having a board member of an ESOP company who knows the history of ESOPs and knows what has made ESOP companies overwhelmingly successful is very positive because that board member can help the board make decisions that improve company performance and avoid problems with government regulators.

-- J. Michael Keeling, JMK-WAY, former chief staff officer of The ESOP Association

While boards will often look at defining a board composition that is well-rounded and addresses important business knowledge and experience, we have placed another lens on building/recruiting the board we “want/need.” That is the strategic lens; what specific skills and experience should we be seeking for where we are going? It’s the Wayne Gretsky principle of going to where the puck is going to be. Who can we find to complement our board who has already been or done where we are going? That might entail experience in specific markets or even international business experience, for example.

-- Anonymous (former chief executive, current director of an ESOP company)

Evaluating and onboarding candidates

I recommend that boards put potential independent directors through the same process that they would when they hire an employee: directors should not only submit a resume, they should provide references and have a background check. Directors make more consequential decisions than most employees do, so why should companies give less scrutiny to them? If a potential director resists, are you sure that is someone you want in your governing body?

-- Victor Aspengren, director of several ESOP companies; vice chair of the NCEO board

When recruiting new board members, our company consciously seeks chemistry and culture/values fit. We believe it is so important for the board to delve into leadership style, collaboration ability, and motivation to build and share enterprise value for the people who work building the business.

-- Anonymous (former chief executive, current director of an ESOP company)

ESOP companies looking for independent directors should find ways to ensure that potential board candidates can express their philosophy of the role of the board as part of the candidate evaluation process. There are wildly different approaches to board governance, even among the well-informed. Companies might consider adding an open-ended question to their interview list for prospective board members along the lines of "an open-ended question: "What is your view of your role as an independent director?"

-- Jennifer Briggs, Beyster Institute at UC San Diego's Rady School of Management

When I run a CEO roundtable, I often ask participants how long they believe it takes a board member to get up to speed and start being an effective director. Without fail, their answers hover around 2 years. You wouldn't tolerate an employee who took two years to become effective, so why should you tolerate that in a director? You need the right directors and the right onboarding process to shorten the learning curve.

-- Victor Aspengren, director of several ESOP companies; vice chair of the NCEO board

Board operations

Board members should assess their conflict style. When intractable issues rise to the board level, there often isn't a "right" answer. The board's role can be to ask provocative and challenging questions to the management team and, when necessary, resolve the matter as a board topic. Defining these lines can be challenging, and all board members must be able to lean into healthy conflict to find answers that are in the best interest of the business.

-- Jennifer Briggs, Beyster Institute at UC San Diego's Rady School of Management

With input solicited from the full board, an annual "master schedule" of agenda topics is framed for each of our four regular quarterly meetings. A "top 5" list of risks to manage is also incorporated as well as separate "governance sessions" to improve how our board is performing.

-- Anonymous (former chief executive, current director of an ESOP company)

The NCEO is continually seeking new voices of experience to add to this document. If you would like to suggest an addition, please email your proposal to Ramona Rodriguez-Brooks (RRodriguezBrooks@nceo.org). The NCEO invites you to make use of these paragraphs in presentations or articles, subject to two conditions:

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