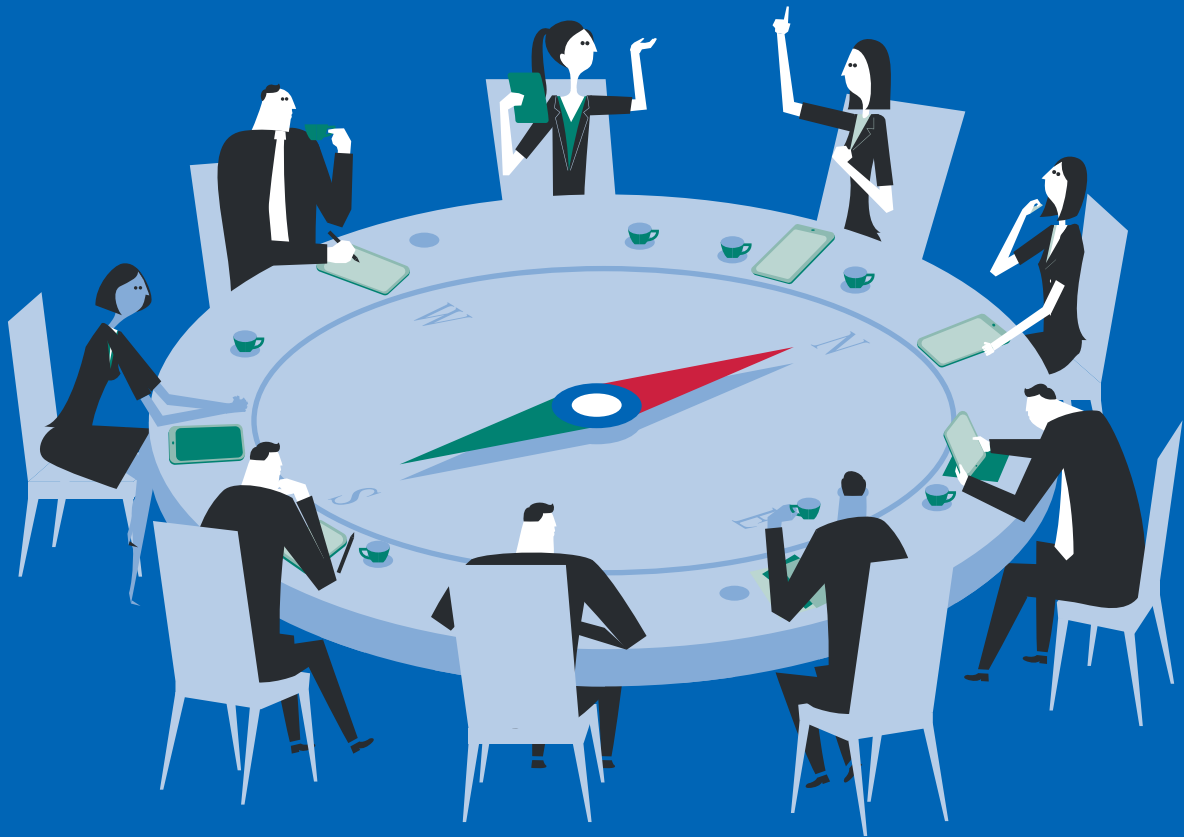


BOARD INTELLIGENCE

# The Role & Value of Board Meetings

In Private Equity-Backed Businesses



BOARD  
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“If you believe in the value-add of PE, then the board meeting should be a key vehicle for that”

*~ Calum Paterson, Managing Partner, SEP & Chairman, BVCA*

# Introduction

Years of highly successful private equity fundraising have created a buoyant but intensely competitive environment for investing. PE houses are under increasing pressure to work with boards and management teams to add value throughout the cycle.

Poorly managed portfolio company board meetings can be a drag on performance, draining valuable time. But with clear expectations and the right preparation, they can transform the value creation process.

Board Intelligence gathered data from 100 industry leaders to better understand the potential power of portfolio company board meetings – and assess how effective they are in practice.

This paper summarises the main findings of this research and identifies what PE houses and portfolio companies should do to ensure their board meetings add value.

# The Findings

## WHAT SHOULD YOU EXPECT FROM A BOARD MEETING?

Survey respondents were asked to identify the main purpose of board meetings in PE-backed companies:

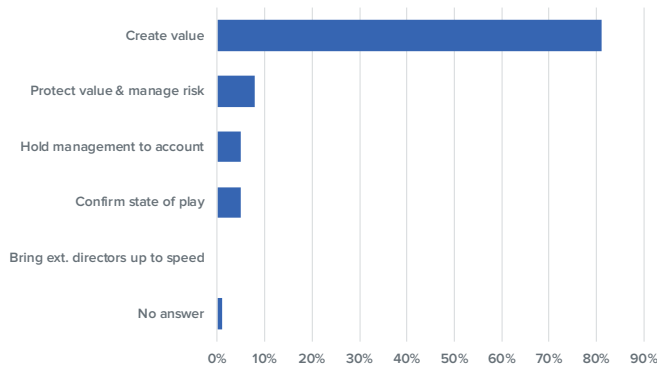


fig.1 What is the objective of board meetings?

There was a high level of agreement here: two-thirds of portfolio company executives and over 80% of non-executives and PE professionals stated that the main purpose of board meetings should be value creation. And 90% of respondents said the board should focus primarily on strategy, not performance.

*“Board meetings are about setting and monitoring strategy, gaining insight and challenging performance”*

~ Praful Nargund (CEO, CREATE Fertility)

It was also clear that board meetings mattered to survey respondents: 90% of PE professionals, 90% of NEDs and 74% of portfolio company executives agreed that returns would be materially lower without them.

*“The board meeting sets the tempo and provides a forum for decision-making at pace”*

~ Christian Hamilton (Managing Partner, Tenzing Private Equity)

## WHAT ACTUALLY HAPPENS AT BOARD MEETINGS?

This came through clearly in the survey results. PE investors, portfolio company executives and NEDs agree there is a mismatch between what they *should* be doing and what they *actually* are doing. Only 30% of each group felt that the board meetings they currently attend are focused on creating value, compared to the 65% to 85% who consider that to be the main purpose.

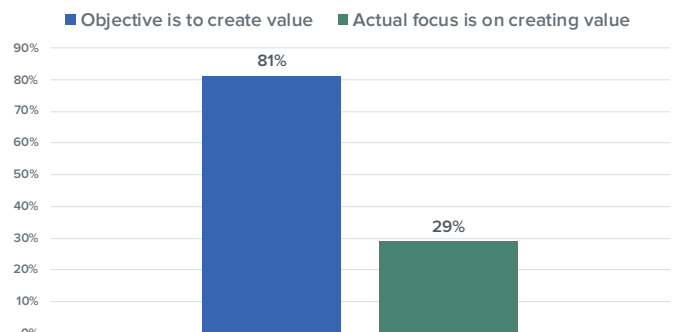


fig.2 Objective vs. actual focus of board meetings

So how are boards spending their time? The most common answer from both PE investors and portfolio company executives was that they’re confirming the state of play. 41% of PE investors said this was the main focus of board meetings, compared to only 5% who felt it should be; the comparative figures for management were 29% and 7% respectively. All three groups agreed that, in many instances, most of the board’s time was spent looking backwards not forwards.

*“Too often you are just imparting information about what has happened in the last month”*

~ Portfolio company CEO

HOW CAN BOARD MEETINGS BE MORE EFFECTIVE?

Survey respondents were asked what factors, in addition to the quality of the people on the board, had the biggest influence on whether board meetings were effective. The four top answers (of 10) were alignment around a common goal (78%), the quality of board information (72%), board dynamics and good relationships (64%) and time spent preparing by management (33%).

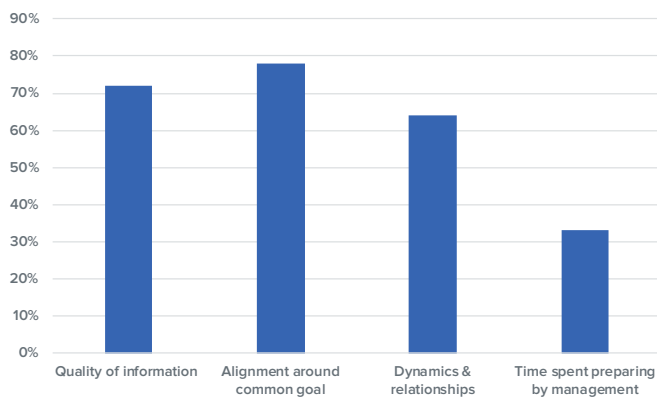


fig.3 What are the drivers of an effective board?

The same themes also came through strongly in the interviews, as did the crucial role of the chairman in ensuring that interests are aligned and discussions are open and constructive.

*“Seeking alignment is the single biggest issue you as chairman are trying to address with the board”*

~ John Handley (PE-backed Chairman & former Partner, LDC)

These factors are critical to the effectiveness of any board. However, with their owners around the board table, PE-backed companies should find it easier to achieve this alignment, giving them a distinct advantage.

*“The best thing about PE is that you have the people who can make decisions there and then around the table; it gives a sense of immediacy to decision making”*

~ Bill Priestley (Chief Investment Partner, Epiris)

In practice, the effectiveness of the board can be limited by the fact that some or all board members are shareholders with highly analytical finance backgrounds. There is an inherent inclination to focus the board’s time on understanding relatively short-term performance at the expense of discussing longer-term or more expansive topics.

Managing this, and ultimately ensuring your board can add value, requires good chairmanship and careful agenda planning. Crucially, it also requires insightful and relevant board information.

WHAT DOES A GOOD PE BOARD PACK LOOK LIKE?

Interviewees consistently highlighted that a board pack can fuel an effective board meeting that helps to move the company forward providing it’s of high quality.

*“If you have a good, accessible board pack you are onto the issues a lot quicker, focusing on the right things to drive change for the good”*

~ Adam Holloway (Partner, Livingbridge)

However, as with the board meetings themselves, board packs are often not fit for purpose. 48% of survey respondents felt their board packs were too backward-looking and 46% too operational, while 51% said the information did not enable them to identify emerging issues early enough.

The sheer volume of information shared with directors exacerbates the situation: 86% of PE investors and 70% of NEDs surveyed said that board packs contained too much information.

But how can this be the case when, in our experience, PE board packs are considerably shorter than those produced by listed companies\*?

The issue is that PE board packs and board papers tend to be particularly heavy on data - relative to narrative - and light on interpretation, requiring board members to work out for themselves what is relevant. A common cry in interviews with PE executives and NEDs was for “less information, more insight”.

\*50 pages in PE vs. 215 for listed companies - from Board Intelligence research with ICASA

*“Management teams are very good at telling you facts, but the really good teams will tell you what matters”*

*~ Richard Green (Chairman, Technology Venture Partners, former Chairman, BVCA & former Managing Partner, August Equity)*

Board members look to management to draw out the key priorities within the value creation plan and summarise how the business is performing against them using a handful of KPIs. They then want a succinct narrative, supported by well thought-through and relevant data, around drivers and implications. This gives them comfort that management understand the business and plan.

*“Narrative is absolutely critical; any data might tell a story but it should be supportive of the narrative or decision at hand”*

*~ Julian Mash (Managing Partner, Vision Capital)*

*“The board pack initially was just data and it came to a point where the board couldn’t see the wood for the trees. We changed the content – trying to get away from numbers towards summaries and better graphs – and it made it easier for the board to see what was going on”*

*~ John Treharne (Founder Director & former CEO, The Gym Group)*

Board members expect the CEO to set the example, and provide a high impact ‘view from the bridge’.

*“You want to get inside the CEO’s head and see the world from their angle... that’s where you start off from”*

*~ Patrick Reeve (Managing Partner, Albion Capital)*

The implications of not getting this right can be significant. Boards that spend their time looking in the rear-view mirror and drowning in detail rarely add a lot of value and, at worst, can be value-destructive.

#### ADVISOR’S VIEW

*“Private equity’s key value add is to keep the management team focused on the end prize – how are we making this business more valuable, which is not necessarily the same as more profitable. Too many board meetings focus on past performance; that is gone, and the agenda should be at least 75% focused on the future, having learnt the lessons of the past.”*

*~ Andy Currie, Managing Partner, Alantra*

## How can you deliver an effective board pack & a value-enhancing board meeting?

1. Balance the agenda so that no more than 25% of the board meeting is spent discussing past performance; the rest of the discussion should focus on 2 or 3 key value creation topics such as investment decisions, value creation initiatives, external developments and strategy.
2. Consider conducting operating reviews separately from the board to ensure strategic, forward-looking topics and big decisions get enough airtime – why not schedule a monthly update call in addition to quarterly board meetings?
3. Ask the CEO to prepare a short, sharp report that tells the board what is on their mind, while also focusing the board’s attention on the key topics and the decisions it needs to make.
4. Provide report writers with a thorough brief; think about providing them with templates and training to ensure they cover the questions that are on board members’ minds, and write clearly and concisely.
5. Encourage report writers to keep it simple when it comes to presenting data, and challenge yourselves – is such granular data necessary?

# Conclusion

This research reveals an alarming mismatch between what PE investors, portfolio company executives and NEDs expect to get from board meetings and what they actually achieve.

By focusing on understanding performance – which naturally requires looking backwards rather than forwards – many PE-backed boards are missing an opportunity to drive additional value more quickly, by focusing the energy and expertise of the board on the company’s strategic priorities and challenges.

Paying more attention to the board’s agenda and the board pack will ensure the board’s time is being used to best effect. And this needn’t only benefit the board; we know from our own experience, and 9 out of 10 interviewees, that a good board pack gives the board confidence in the management team. It also enables the board to take faster, smarter decisions that propel the business in the right direction.

*“There is a high correlation between businesses with strong board packs and strong outcomes. If the rigour has gone into the meeting, the chances are there is rigour at the operational level as well”*

*~ Paul Franks, MD, Beech Tree Private Equity*

*“A good board pack is an indicator of a well-run business”*

*~ Michael Cauter, COO, Blackrock Expert Services*

The PE sector is renowned for its commitment to extracting maximum value and competitive advantage from all aspects of its operations. Yet board meetings and information appear to be a blind spot. If PE houses and portfolio companies were to apply the same degree of rigour to them as they do to all their other activities, they would be capable of adding far greater value.

If you would like to learn more about how Board Intelligence can help your business to achieve effective board reporting in 100 days, or explore these themes at one of our forthcoming events, visit:

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Make it easy for management to write reports that are half the size with twice the impact, and put these papers securely at the fingertips of your board. Over 13,000 executives and non-executives rely on Board Intelligence across companies large and small, public and private, commercial and not-for-profit.

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