PRIVATE DIRECTORS ASSOCIATION®
Creating Value Through Board Excellence

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Board Director Focus: Board Composition

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Evolving your ESOP Board

By Tracy Till, Edited by Bets Lillo

Our author, Tracy Till, is well-known in ESOP board circles and devotes much of her time to consulting & supporting the E-Ownership mission. This article shares the story of the decade of transition for Tracy's former company – from founder-led to employee-owned – and the way in which the organization's board evolved at each step of the way. With decades as an advertising executive, Tracy knows that people grasp information best when it comes through as a story. With that in mind, we offer Tracy's voice as if you and she are talking over coffee...maybe about the transition ahead for your company.

In 2010, my business partner and I had a discussion about "retirement." I thought she was crazy. We were too young to talk about a ***succession plan***. As it became clear that she was serious, we began to have conversations about what we wanted for the future of our company. We agreed that it was important that our exit would have a positive outcome – for our employees, our clients and our community. We expanded our discussions and engaged our management team in talking about a vision for the future that didn't include two founders.

We considered all our options, including private sale, merger and ultimately a transition to employee ownership. We believed we had the right structure – the right people, process and products to succeed in the future. We also believed that the people who had helped us grow the business deserved the opportunity to continue to build on the success of the organization – and to own the organization in fact as they had always been owners in spirit.

If we left money on the table at transaction time, we believed that the team we had built could ultimately deliver growth and profitability if they were supported in the transition. In the end, an ESOP seemed to be the best choice by any measure.

We enlisted the help of talented ESOP lawyers, a terrific valuation firm and an independent trustee to ensure the Department of Labor (DOL) and ERISA laws were met, adhered to and explained, with great transparency, to our employees along the way. ***There are complexities to an ESOP that many privately held firms do not encounter, so it was imperative we had a group of consultants on retainer to assist along the way.***

We sold our "WBENC certified & B-Corporation", Butler/Till, in two transactions, one in 2011 and then the other in 2014, creating an ***100% employee owned S-Corporation***.

New Corporation, New Board

With the launch of our ESOP, we ***were required to have a Board of Directors***. So in 2011, my partner and I took on the role of Chair and Vice Chair and appointed our "succession team" of internal employees to our board – the CFO, the CSO and our President. We created a first generation of support materials and communications processes for the board -- organized our Board Charter and Committees; hosted quarterly meetings and made a thoughtful record; created a Board communication repository.

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We housed our ESOP Plan there, along with all paperwork for the transactions.

We also reached out to the employee body – now the company owners – in a very deliberate way. We hosted many employee events to talk about the change to an employee ownership model. We provided increased transparency to the strategy and the financials at monthly employee-wide meetings.

But the operational reality of our board wasn't much different than it had been before the ownership change. Our board was a new entity with an organizational chart, job descriptions and a strategic plan, but it was truly our "old" Executive Committee with a few EO (Employee Ownership)-specific tweaks and financial requirements attached.

Some companies add a lawyer or other business partner to their initial ESOP boards. Our first board included founders and some senior leaders. This traditional board model worked incredibly well for us in the company's early days of employee ownership. We focused on the new legal, financial and employee-specific requirements of becoming an EO firm. That focus helped us maintain our equilibrium in the new ownership model.

When an employee-owned company is first set up, it establishes the selling price of the firm from the founders to the employees as a reference point. There is a requirement to have an annual, independent valuation to update the share price for the trust in which employee interests are held. There is also a formal role – that of trustee – who reviews the valuation. The trustee is accountable to the owners, and must have 100% confidence in the process, the measures and share value which are established. Once the share price is confirmed, the employee owners & their ESOP accounts are updated. In that way, an EO company is like a public firm – a measure of success for an EO board is the annual share price.

An EO company will typically have other measures of success beyond share price appreciation. Ours included employee satisfaction and growth opportunities, client satisfaction, and other financial metrics to solidify the business. One of our first areas of focus as an EO board was ensuring all board members understood financial statements and could appropriately engage in review and advice concerning all our business measurements.

For three years the company was performing well. We were a financially conservative firm, and we asked our CFO to take on the role of trustee for the company, saving the "cost" of an outside trustee to the business. Other than that, we were typical in our EO Board structure.

The company was growing with leaps & bounds, reinforcing our confidence in the capability of our leadership team. By 2014, we had paid off the first loan three years earlier than planned and sold the second portion of our "founder" shares to the company.

Independent Directors

As was the plan, in 2014 my partner and I stepped away from the day-to-day and became completely focused on the board, as Board Chair & Vice Chair of the firm. We elected to bring on three outside board members and executed on our Nominating Committee charter – gathering names, referencing our strategic plan and HR needs, and evaluating candidates directly and through references. We hosted calls, performed assessments, had each candidate visit the firm and meet with a variety of employees to "test" the cultural fit.

At this juncture, we were looking to build our board's strategic capabilities to support our company. We chose board members whose skills could support the organization in its next chapter of strategic growth, and we ended up with board members who brought geographic and experiential diversity to our boardroom. We designed a compensation model for directors' involvement in 4 quarterly meetings, 1 offsite strategic session and one annual budget approval call. We paid travel expenses and provided D&O insurance in addition to the cash compensation for our board members. It was under $15k a year, an amount my highly conservative partner had deemed worthy after reading EO-specific research for board compensation at EO firms of our size.

The talent, experience and commitment of the board enabled the company to meet its strategic objectives in a way that management and consultants alone could not have done. However, in building our board we limited ourselves to those who already knew us. This reduced the cost of building out our board – and allowed us to take on the additional risks of onboarding and board operations in a more incremental approach.

Throughout the 2014-2017 timeframe, we experienced stronger strategic growth and reaped great benefit in the talent we had hired. ***Yet, by mid 2017, we were experiencing three issues as a board – 1) senior leaders were presenting to us – not engaging our minds, experience or visionary ideas … and we'd become complacent; 2) two of the board members were retired and too far removed from the trends and day-to-day challenges our industry faced and 3) we were ready to look at the strategic financial considerations of our EO business, looking at the future through the lens of strategic choices and repurchase obligations.*** It was time for us to revitalize the Board and tweak our focus.

Evolving the Board

Evolving your board can be difficult and awkward. Some boards step back from evaluating their own contributions, and from asking themselves whether their skills are what the organization needs to realize its potential. I'm grateful we decided to push beyond our comfort zone and ask two of our board members to resign. We immediately brought on what the board needed most to realize the company's 3-5 year strategic vision – an EO specialist who would understand the financial and operational requirements of our ownership model. We also decided to hire an outside Institutional Trustee whose mission was to take care of the EO Trust and our annual Valuation. A great outside trustee brings intelligence, experience and wise counsel – their role is not to be an adversary of the company's leadership or board.

We complemented our stronger board by retaining an outside Strategic Business Planning firm to challenge and create the company's vision for the next 5-10 years of the company. Visualizing the future and developing mission-critical succession plans and M&A plans became our board's focus. The board didn't develop the plans or ride shotgun on the tactics, but we clarified the strategic objectives and agreed on the financials attached to the talent development and M&A initiatives. We were truly governing, vs. managing the evolution of the firm. Hands out, nose in, as they say.

Focus on Growth

In 2019, we ***reassessed our board compensation*** structure and elected to invest in attracting the talent we desired. This led us to update our compensation structure for current and future board members.

Each quarter, our Nominating Committee stayed in step with the future plans for the firm. We reviewed and reassessed our talent list of board prospects often and ensured our board matrix had several names for each key skill. We ultimately offered a seat to an exiting COO, whose role was to execute heavily on her CEO's visionary style. We recognized that if our firm truly wanted growth, we needed to add proven talent with different experiences and wider vision to the board.

Refreshing the board also meant executing the next step in that succession plan that I'd resisted almost a decade earlier. My partner, our Chair, retired completely, and I stepped into a transitional Chair role, supporting our President's segue into her role as the new CEO. We were entering what I call our ***"Transformational" board*** term.

The board took steps to ensure the new board members and new operational leaders had the right on-boarding and mentoring to see our company into its next chapter. This helped our newly-appointed CEO to win the respect of the restructured board. It helped us appreciate the talents of our newest board member as a beloved co-founder moved on to retirement.

These steps by the board to support our new board and operational leadership were key to the company's success in the challenges to come We hosted the first board meeting in January 2020. By early March, as COVID changed lives and workplaces around the world, our reconstituted board and new CEO were ready to rally. By the middle of the month, every employee was working virtually with a laptop, materials for their home office and a network/phone system that rivaled multi-national firms.

We continued to meet frequently and put our Agency Wide Crisis Management Plan into place, we reviewed our Cyber Security Plan and monitored our employee health status on each call.

We performed "financial" triage with our CEO and Executive Leadership team – cutting costs and building out plans that would take effect at any critical point. We stayed ahead of any client issues and stayed focused.

Our Board functioned beautifully. One of our board members had a client-focused perspective to help the senior team understand environments in the industries we serviced, providing news and insights that only he could have shared. Our new COO board member delved into operation team meetings and mentored our CTO/COO and project team members. Our ESOP guru was on top of the government PPP loans and financials alongside our CEO and CFO. Our other senior team leaders ensured the CEO and I were in step when it came to employee safety and client needs. Our board was made up of primarily outside directors and each one of them offered their absolute best to the company and our leaders.

Leading a company into a Strategic or Transformation shift, REQUIRES the use of outside independent board members – their experience and insights are game-changers for the pace and path of a company's growth.

A strategic board requires ongoing rigor to assess the skills and experiences of the board to support the objectives of the company. If a company is growing and changing, a board needs to grow and change, too. Finding, attracting and retaining the right board members for each stage of a company is as critical to a company's success as having the right talent in senior management.

It's important for any company. For an employee-owned firm, a board's accountability to the company's owners is not as abstract as it can seem when compared to a public company's many shareholders.

Having a strong and strategic board can be an absolute game changer for an EO firm. Because EO firms typically involve founders, internal leaders, and perhaps business associates or family members, it requires discipline and candor to ask whether those people can best represent all the owners and can best support the success of the company. Focusing on the future of the business, and ensuring we had the right board to help the company get there, changed my firm – for the better.

Our current share value is 300% more than our first valuation in 2011 – our size and revenues more than doubled. And today, I'm fully retired from the company and supporting other EO boards with their strategic missions.

My partner and I left the business – with a solid succession plan, a well-oiled Board focus and outside Directors who continue to prove their value – without a ripple. Just like we'd planned.

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