

# LESSONS LEARNED

## UNDERSTANDING AND IMPLEMENTING BEST PRACTICES IN THE BOARD ROOM

GROWING A BUSINESS IS A DAUNTING CHALLENGE. BUSINESS OWNERS NEED ADVISERS WHO CAN HELP THEM NEGOTIATE HURDLES AND PROFIT FROM STRATEGIC OPPORTUNITIES. THE MILWAUKEE BUSINESS JOURNAL RECENTLY CONVENED A PANEL OF LEADERS TO DISCUSS WHY A BOARD IS IMPORTANT FOR ALL COMPANIES - LARGE AND SMALL - AND WHAT COMPANIES SHOULD KNOW WHEN SELECTING BOARD MEMBERS AND HOW THEY CAN OPTIMIZE THE BOARD'S EFFECTIVENESS.



**LOU  
GENTINE**  
**CHAIRMAN**

Sargento Foods Inc.

Lou is a second-generation family owner of Sargento Foods Inc. and continues his role as Chairman of the Board. Lou has served on various boards including VPI Inc., The Oldenburg Group, and Boys and Girls Clubs of Milwaukee. He also has served as Chairman of both the International Dairy Foods Association and National Cheese Institute in Washington, D.C.



**MICHAEL PEPKE**  
**SHAREHOLDER**

Reinhart  
Boerner Van Deuren

Mike provides legal counsel to a wide range of companies involved in various industries. His practice focus is serving as general counsel to middle-market, privately owned businesses.

Mike gives practical advice to clients regarding complex legal and business matters including banking and other financing relationships, customer relationships, manufacturing matters, employee and key executive relationships, owner relationships and succession planning.



**GINA PETER**  
**EXECUTIVE VICE  
PRESIDENT, DIVISION  
MANAGER**

Wells Fargo

Gina Peter is an Executive Vice President and Division Manager for Wells Fargo Bank covering businesses with over \$20 million in revenue in Wisconsin, Minnesota and upper Michigan. Gina currently serves on 5 non-profit Boards and 2 private company Boards. In 2017, Gina received the Swigart Board Leadership Award.



**SARA SPIERING**  
**PRINCIPAL, BOARD & CEO  
PRACTICE**

Heidrick & Struggles

Sara Spiering is a Principal in Heidrick & Struggles' Chicago office and a member of the Global Board of Directors and Chief Executive Officers practices. She focuses on searches for non-executive directors, non-executive and executive chairmen and CEOs, CEO and board succession planning, and corporate governance consulting engagements.



**MODERATOR**  
**TERRY WARD**  
**PARTNER, PwC'S GOVERNANCE  
INSIGHTS CENTER**

PricewaterhouseCoopers LLP

Terry Ward is a partner in PwC's Governance Insights Center which strives to strengthen the connection between directors, executive teams and investors by helping them navigate the evolving governance landscape. With more than 30 years of experience at PwC, Terry brings extensive knowledge in governance, technical accounting and SEC and financial reporting matters to organizations.

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**TERRY WARD (MODERATOR): HOW CAN CORPORATE BOARDS BENEFIT A PRIVATELY RUN COMPANY?**

**GINA PETER:** There are so many reasons why you want a board if you are a privately owned company. The first is that it is lonely at the top. A board gives you a chance to bounce ideas off of trusted advisers who are intimately involved with the operations of your company. You get diversity of thought or expertise in specific areas like social media, IT or acquisitions. As a bank, we really like to see companies have a board of directors because we value the objective outside advice and experience that a board brings to a company. A board is also good for helping companies do succession planning.

**MICHAEL PEPKE:** If you engage the right mix of board members and make it as effective and useful as possible, your board will be the most powerful and valuable tool that your business will have. A board can help the owner make decisions by asking provocative questions. It also provides some subtle benefits, including the connections that good board members can bring to you.

**SARA SPIERING:** I do not see a downside in having a board because, at its core, a board is a group of advisers that can help you along. Even the process of building a board sparks new thinking. All of a sudden you are wondering who do I want around the table, what kinds of skillsets do I need, what kind of network do I want? I think outside directors have the opportunity to be a buffer between the owners and management. They can help to soften those conversations when things get tense and they can sometimes handle things more diplomatically as a go-between for the owners and management.

**LOU GENTINE:** My father started the company in 1953, and I came on full time in 1973. At that time there were 12 or 13 people on our board – three or four management people and the rest family members. Nothing ever really got done at the meetings. A banker suggested we consider having outside directors, which we did. After we made that change, we found ourselves preparing for the board meetings. We knew the directors had the skill sets and the experience to ask pointed questions and we needed

to be prepared. That, in turn, helped us internally to think about what it is that we wanted to do. It worked out well. And Mom was thrilled she did not have to go to any more meetings.

**PEPKE:** There is nothing new under the sun. And if you sit on enough boards and attend enough board meetings you will see that is true, which is why it is important to have outside people with experience.

**GENTINE:** Our outside board has been useful in helping with issues of succession. My father asked the outside board members to select his successor. And when it was time for me to retire, the outside board members again took on that role and made a recommendation to the rest of the board.

**MODERATOR: WHAT ARE SOME OF THE COMMON MISCONCEPTIONS AND MYTHS PRIVATELY RUN COMPANIES HAVE ABOUT CORPORATE BOARDS AND HOW WOULD YOU RESPOND TO THEM?**

**PEPKE:** There are quite a few: “I see no benefit,” “they take up too much time,” “my time would be better spent running the business,” “outsiders won’t understand my business,” and “who worth a crap would want to sit on my board?” The myth that gets to the heart of owners’ concerns is that they will lose control if they have a board. That is the biggest myth of all because the owner is king and will always be king.

**PETER:** The concern I hear is that board members are going to second-guess the owner’s decisions. But isn’t that what you want? Defending your thought process by answering questions is going to help you affirm that you are making the right decision.

It’s still going to be your company and you can always replace the board members if you want. I have also heard people say they cannot afford outside directors. And if you select board members who are just in it for a check, you are probably right. If you are leery about a board, you can put your toe into the water by setting up an advisory board before you go to a more formal board.

**MODERATOR: WHAT ARE THE BIGGEST CHALLENGES IN SETTING UP AND UTILIZING A CORPORATE BOARD?**

**SPIERING:** Two things. The process itself forces you to take a really good look at the skillsets you need in order to make your company move forward. The other thing is a longer-term view on succession. At some point members with tremendous institutional knowledge will be leaving the board. What you don’t want to do is lose 40 percent of them in one sweep. It is not something you think about at the front end but it is something to forecast – what should this board look like five or 10 years out?

**MODERATOR: WHAT KIND OF ADVICE WOULD YOU GIVE TO A PRIVATE COMPANY IN REGARD TO USING A SKILLS MATRIX TO IDENTIFY BOARD MEMBERS? ARE COMPANIES DOING THAT?**

**SPIERING:** The things that we always remind them about are the breadth. You don’t want someone who is just really good at one thing. You want a utility player, someone who has sat in a CEO or general manager seat or has a lot of business experience. If you don’t have someone who

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can contribute to a whole lot of conversations, that can be a challenge. You also have to look at specific skill sets like auditing.

**MODERATOR: WHAT ARE SOME ISSUES IN TERMS OF BOARD COMPOSITION?**

**PETER:** It goes back to what Lou said earlier. A lot of private boards are made up of families. They may not be giving you what you really need if you have a bunch of “yes” people on the board or if family dynamics are impacting their decisions. What is most important when thinking about the composition of your board is making sure that you have diversity of thought and that you have people who are willing to ask those provocative questions and challenge assumptions.

**GENTINE:** And I would recommend that you don’t find board members from among your good friends. That puts you in a difficult position from the get-go and creates a different dynamic on the board.

**PEPKE:** Let me tell the tale of one company that had two boards. The first board was basically me and two of the owner’s buddies. We would meet at the country club with no written agenda and no materials in advance. We would look at the financials and go to lunch. It was the worst board I sat on. That board was disbanded, and a few years later the owner started a new board. The company is now partially ESOP-owned, which in itself brought a new dynamic to the company. The board includes a woman who is CEO of an ESOP-owned company, the owner of an ESOP consulting firm who also has lots of board experience, and

myself. We meet four times per year. The owner sends out a well-thought-out agenda and manager reports beforehand. We meet at the corporate headquarters and management participates in the meeting. There is also a lot of communication in between board meetings. It is one of the best boards I serve on, and the owner believes it is the most important thing he has done in 35 years of business.

**MODERATOR: WHEN SETTING UP A BOARD, HOW MANY MEMBERS SHOULD YOU HAVE?**

**GENTINE:** Our current board has eight members, with four family members and four outside directors.

**PEPKE:** Even-numbered boards can be great when things are going well, but aren’t good when there are significant disagreements.

**GENTINE:** I can see where that could be an issue. Fortunately, we have never had any close votes. We take a lot of time to reach a consensus.

**MODERATOR: HOW DO YOU GO ABOUT SELECTING BOARD MEMBERS? WHAT ARE THE THINGS YOU SHOULD BE THINKING ABOUT?**

**PEPKE:** Having board experience and good business acumen is great, but you want to have someone who is 100-percent committed to your business without any other outside agenda.

**PETER:** It is important that you understand your strengths if you are thinking about serving on a board. The fact that you run a business or run a P&L is great in terms of your resume, but what made you successful? Was it sales, was it marketing? Was it finance or some

combination? What was it that you did in your own business that can be applied to other businesses? Once you know that, you can add value to the board.

**MODERATOR: WHAT DO YOU THINK ABOUT TERM LIMITS?**

**SPIERING:** I love them. One of the big reasons we still don’t see a lot of women on boards is because we don’t have term limits and the seats are not turning over.

**PEPKE:** I feel the exact opposite. When board members leave after nine or 10 years, you lose a lot of institutional knowledge.

**GENTINE:** We don’t have term limits. I agree that you lose institutional knowledge when a board member leaves, but there are also so many benefits when you bring on someone new. And if you don’t have term limits, it can be difficult to rotate your board.

**MODERATOR: HOW DO YOU GET THINGS DONE FROM A BOARD STANDPOINT? DO YOU HAVE COMMITTEES THAT HANDLE TASKS OR IS EVERYTHING DONE BY THE FULL BOARD?**

**GENTINE:** We do have an audit committee, which consists of outside board members. Other than that and the succession issues, we do not have committees. The board works as a team unless we have special situations. When we were looking to put in a greenfield facility, for example, two directors worked with our management team because that was their skillset. We have had a couple of situations like that.

**MODERATOR: HOW ARE MILLENNIALS, SOCIAL MEDIA AND TECHNOLOGY IMPACTING THE ROLE AND STRUCTURE OF CORPORATE BOARDS, AS WELL AS THE SELECTION OF DIRECTORS?**

**SPIERING:** Skillsets are important, but at the same time you have to find someone who will have the gravitas we talked about. You don’t want someone who can only contribute to 10 percent of the discussions the board will have. It is important to recruit millennials because they are the next generation of leaders. They need to be cultivated over a period of years. If you identify potential in someone, I would recommend developing a partnership or

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A large crowd listened in during the panel discussion on board room best practices held at the Milwaukee Yacht Club.

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mentorship with one of your seasoned managers or directors to prepare them for a potential management or director position down the road.

#### **MODERATOR: WHAT ARE THE TWO OR THREE BIGGEST CHALLENGES IN SERVING ON A BOARD?**

**PETER:** Directors have to invest time to get to know and understand the business. That can be difficult, especially if you only have quarterly board meetings. You can learn about the company over time, but people want to contribute sooner than later. A related challenge that new board members have is that they may think they do not know enough to ask a question. But they probably should

ask it, because it could be a question that has not been asked before, based on an insight that the existing board members did not have.

**GENTINE:** When we have added new board members, we immerse them in the company. They are going to spend a couple of days working with every member of the executive team and their individual staffs so they understand their issues and primary projects. It's a pretty good immersion and I think it is critical to have that exposure.

#### **MODERATOR: WHAT SHOULD PEOPLE WHO ARE THINKING ABOUT BEING ON A BOARD CONSIDER?**

**PEPKE:** Don't do it if you are not passionate about that business. Don't do it if the chemistry is not right. You have to wear a lot of hats. Sometimes you are a statesman, sometimes a teacher, sometimes a critic and sometimes a confidant. Make sure you will be comfortable with the robustness of the role. It is not about just showing up at meetings.

**SPIERING:** You have to look around the table to make sure that there is going to be a cultural fit. And you should think about what it is you can learn from the company and the people you will be sitting around the table with. I get a lot of folks who come to me because they are contemplating retirement in a year

or two, and they are looking to do a portfolio of boards. I tell them it is important to understand what it means to say "yes" to a board opportunity in terms of personal commitment.

**GENTINE:** We have brought people onto our board that were released much sooner from our board than we thought they would be. And that had something to do with the fit. Maybe it was because they did not think about what they were going to have to do. We have a full agenda, so if you are going to serve on our board, you're going to need to have time. ■

## TRANSITIONING TO A BOARD

### **JAMES BEDORE**

Reinhart Boerner Van Deuren s.c.



When a senior manager of a large company decided it was time to go out on his own, he was determined to be his own boss. He had significant operational experience and the capital he needed to purchase a \$15 million manufacturing firm. Although his new company was profitable, its growth was being limited by challenges in its financial and customer service areas.

Based on the firm's experience working with companies, as well as empirical studies showing that companies with independent outside directors perform better over the long-term than companies that don't have outside directors, Reinhart recommended the owner create a board. Like the owners of many small- and middle-market companies, the owner initially resisted, concerned that a board would "not be worth the trouble." The company's slow growth continued and the owner eventually agreed to establish an advisory board with three or four outside directors. Advisory boards bring in outside expertise, but do not have the restrictions, fiduciary responsibilities and liabilities that a formal, elected board does. They give the owner more flexibility and a feeling of greater control.

#### **Through its Corporate Law Practice, Reinhart assisted the entrepreneur in:**

- structuring the board
- defining the scope of director activities
- creating a skills matrix to identify areas of need
- helping to identify board members who fulfill the skills matrix and are a fit the company's culture
- preparing agreements between board members and the company
- onboarding the new directors

The advisory board has proven to be a valuable resource for the owner, providing strengths and experience outside the owner's experience, especially in the areas of marketing and finance. It has also provided strategic advice, functioned as a sounding board for issues and ideas, and provided additional contacts and leads for the company from the directors' personal and professional networks, which has helped the company to grow.

## HOW DIRECTORS SEE THINGS

### **TERRY WARD**

PwC



There's good news and bad news about boards of directors. The bad news is that almost half of directors think that at least one of their fellow board members needs to be replaced. The good news is that most companies are implementing board assessments designed to improve the effectiveness of boards and individual directors. Those are the findings of the most recent Annual Corporate Director Survey released in late October by PricewaterhouseCoopers (PwC). The survey included responses from 900 directors of public companies, 75 percent of whom were from companies with \$1 billion or more in revenue.

Forty-six percent of respondents said they thought at least one of their fellow board members needed to be replaced, which is an all-time high, and 21 percent said at least two directors needed to be replaced. Why? The responses were mixed: overstepping boundaries, not challenging management enough, and age.

The survey also indicated that more companies are using board self-assessments to help directors be more effective in their role, as well as to identify directors who may need to be removed. Sixty-eight percent of directors said their boards took action based on their last self-assessment. Gender diversity was another hot topic. Not surprisingly, responses varied considerably by gender. Eighty percent of female respondents said the pace of gender diversity is too slow on their board, which is more than 2.5 times greater than the 33 percent of males who said the same. Females were also far more likely than males to say that diversity enhances company performance (82 percent vs. 54 percent). Fifty nine percent of respondents thought their boards were sufficiently diverse.

#### **Other findings from the survey:**

- The number of female directors increased 1 percent – to 22 percent – between 2016 and 2017.
- 40 percent of directors don't think climate change should be a factor in their strategic direction for the foreseeable future.
- Comprehensive survey results are available at [www.pwc.com](http://www.pwc.com)