

How Onboarding Positions Small-Cap Boards For Success

By Adam J. Epstein



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I once heard a small-cap director lament that governing her diminutive, resource-constrained company was like running on a treadmill that keeps tilting upwards and incrementally speeding up to the point she's worried that she will be thrown off. For many small-cap companies, it's an apt metaphor. When those companies also fail to provide any orientation to new directors, it's akin to starting that run with no shoes and a heavy backpack.

Despite the austere challenges of governing small-cap companies, it's remarkable that most still don't have formal or even informal onboarding procedures. Instead, orientation is typically tantamount to baptism by fire: "The first board meeting is in two weeks, here's your board book—see you there." If you're wondering how that can possibly benefit shareholders, you're not alone; 75 percent of shareholder activism is directed at small caps.

Here are three reasons why small-cap boards in particular need to implement onboarding procedures—and why investors should demand the same.

Governance isn't intuitive. Unlike in the mid- and large-cap realms where board members are typically governance veterans, most directors who join small-cap boards are new to public

company oversight and possibly new to governance altogether. Unsurprisingly, exasperated small-cap institutional investors often share stories about the board member they met who didn't seem to grasp basic principles about the roles and responsibilities of directorship and any understanding of their company's key strategic imperatives, enterprise risks, target customers, accounting, or industry dynamics. In playground lexicon, an inordinate number of small-cap directors are winging it. In fairness to them though, most small-cap boards don't offer "Option B," and if you've never been on a high-quality board before you wouldn't know to ask for it.

It's not just directors who need it. Quick: Name a CEO in the Fortune 1000 who, until attaining their current role, had never operated a public company before. It's a very short list. Instructively, it's the exact opposite for 80 percent of public companies (i.e., small caps), where it's very common to find CEOs who have never previously operated or governed a public company. That's often true for other occupants of small-cap C-suites as well.

Accordingly, it's arguable that while formal onboarding should be mandatory for new, independent, small-cap board members, it would be similarly transforma-

tive for management to introduce and reinforce: the criticality of boardroom best practices; the art and science of agenda setting and board meeting preparations; and how management and boards communicate in high-performing companies.

It's (almost) free. While small caps need to relentlessly monitor expenses, cost is not a valid excuse for omitting onboarding. Consider a one-day program. Where appropriate, sessions can be web-based to minimize travel expenses. The agenda would look like this:

- **Morning:** Board members learn about governance best practices from counsel or a third party. Thereafter, each of the board committee chairs discusses the operation of their committees, key issues, and what's on tap for the next board meeting.

- **Afternoon:** Management makes presentations to the board regarding strategic initiatives, industry trends, financial statements, corporate culture, risk management, investor base, etc.

- **Dinner (optional):** Board members spend time with a pre-assigned board mentor for a private session to ask and answer questions.

There is a reason every high-performing company takes director onboarding seriously: A little preparation goes a long way.