

NACD New England Chapter Event Highlights

Breakfast Event – February 9, 2016

Board Governance of Larger Private Companies

Event Overview

How are larger private companies governed? How do the boards of such companies organize themselves? What standards are borrowed from public company practice? What standards are common or unique to this cohort of companies? The governance of private companies is tricky. A closer relationship to controlling private shareholders is common. Long-standing personal relationships between ownership and directorship are not unusual. But the fiduciary obligations of private company directors are identical, legally, to fiduciary obligations of public directors. What public company practices and procedures are common to large private companies? How do you deal with the question of "independence" of key committees? Are there differences in board composition, board succession, the contents of board packages, the ability to conduct open discussions and raise appropriate "challenges" to management? What is the experience with dealing with directors who are "representative" of third party investment interests? What is the relationship with inside counsel, if any, and how does that differ from public practice?

The panel of experienced directors of large, privately held companies explored these issues and answered questions from the audience. Attendees included directors of both private and public companies.

About the Panel

Ken Dreyer serves as Executive Vice Chairman and Assistant Secretary of Eliassen Group, LLC. He served as the Chief Executive Officer of Eliassen from 2007 to 2010, where he was responsible for facilitating Eliassen Group's strategic planning and team building; coaching the leadership team on critical issues relating to personnel, performance, business development and account planning and also assisting in orientation and education for new and existing employees. He has over two decades of senior executive-level experience. Prior to joining Eliassen, he consulted the company on matters ranging from strategic planning and account planning to team building. He held positions of Chairman of the Board, Chief Executive Officer and President at a number of highly successful organizations across a variety of industries. He has diverse and real world business experience. Mr. Dreyer has been Executive Vice Chairman at Eliassen Group, LLC since August 2010. He serves on the Board of Directors of Eliassen Group, King Arthur Flour and Merida Meridian. He is a former director of Garber Travel, World Sleep Products, Wild Apple Graphics and the National Foundation for Teaching Entrepreneurship (NFTE).

Ralph Crowley is the President and CEO of Polar Beverages and Treasurer of the Wachusett Mountain Ski Area, which are family owned businesses. In 1992, Crowley became the fourth generation to run privately held Polar, which was founded by his great-grandfather. Under Crowley's leadership, it has made numerous acquisitions for the rights to manufacture and distribute national brands, such as 7Up, A&W, Sunkist, Seagram's, Royal Crown and Diet Rite. The National Association of Corporate Directors New England Chapter honored Polar Beverages as its Private Company Board of the Year in 2013. Crowley also serves on the board of directors and as Treasurer of the American Beverage Association, an organization for which he is a former Chair; The Seven-Up Bottlers' Association; the board of the Massachusetts Food Association; the advisory board of Automotive Management, Inc.; the board of the UMASS Memorial Hospital Foundation; the Legal Sea Foods Board of Managers; and he serves on the

Visiting Committee for the Graduate School of Management for Clark University. He received his B.A. from Bowdoin College in 1973 and his MBA from Clark University in 1978.

Deborah C. Jackson became the fourth President of Cambridge College in May 2011. She has more than 30 years of leadership expertise across a number of Boston's leading institutions. Prior to joining Cambridge College, Jackson served for nearly a decade as CEO of the American Red Cross of Eastern Massachusetts. She previously served as Vice President of the Boston Foundation, where she managed its \$50 million grant and initiatives program. She also has served as Senior Vice President at Boston Children's Hospital and President and CEO of Morgan Memorial Goodwill Industries, Inc. Throughout her career, she has served on numerous commissions, task forces and boards, including the Boston Green Ribbon Commission; the Mayor's Task Force to Eliminate Racial and Ethnic Disparities in Health Care; the American Red Cross National Diversity Advisory Council; Eastern Bank and the Eastern Bank Charitable Foundation. In May 2014 she received an Honorary Doctor of Humane Letters degree from Curry College. Jackson has been the recipient of numerous awards, including the Greater Boston Chamber of Commerce Pinnacle Award for Achievement in Management, Boston Magazine's "100 Most Influential Women in Boston," El Planeta Newspaper's "100 Most Influential People for Latinos," and induction into the Women's Business Hall of Fame.

Michael D. Jeans is an experienced CEO and board director. He has held general management, marketing and sales roles in professional services, consumer packaged goods, consumer electronics and photographic services industries. He has strong boardroom experience in the insurance, startup technology and non-profit sectors. Jeans is a director of AMICA Mutual Insurance Company, where he chairs the Audit Committee, serves on the Investment Committee and is past Chair of the Compensation Committee. He is a former Director of Roxy.com, Inc. Until mid-2015, Jeans served as President of the Board of Directors of the Boston Minuteman Council of the Boy Scouts. He is currently a member of the board and the Executive Committee of the Spirit of Adventure Council and a Director of the Northeast Region of the Boy Scouts of America. He also is a Trustee of the Boys & Girls Club of Greater Nashua (N.H.) Foundation and a Director of Maine Media College in Rockport, Maine. In 2014, he received the Distinguished Director of the Year Award from the American College of Corporate Directors. He earned a B.A. from The College of the Holy Cross, magna cum laude and an MBA from the Tuck School of Business at Dartmouth College.

Panel Presentation Highlights

Mike Jeans began the formal program with a discussion of the director search process. When beginning a director search, the AMICA board begins by looking at what it wants the company to look like in the future. The board meets six times per year, either in person or telephonically, and the meeting preparation process incorporates considerable discipline. The board has an open relationship with its CEO, which makes for a smoother, more effective governance process. Board compensation is reviewed each year and is aligned with company performance. Board evaluations are conducted on both a collective and individual basis, and Jeans believes the result is a high-performing board of directors.

Ken Dreyer described his experience at King Arthur Flour, an entirely employee-owned, 200-year-old private company. King Arthur is a B Corp, a for-profit company certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. Given its pursuit of these values, the company believes it is responsible to its shareholders, who are its employees, and the greater community around it. In upholding this responsibility, the company provides employees with a premium salary and makes available additional services, including a cafeteria and various education programs. The board considers its job to “question the answers” brought to it by the management team. The company is led by three co-CEOs and governed by a board of directors and board of trustees. The board of directors has six independent directors, equally divided between men and women.

King Arthur conducts three, two-day board meetings per year and a fourth one-day meeting. The board does not review financial results at these meetings, as this is done online on a monthly basis. Instead, the board uses these meetings for strategic planning and goal-setting. This is extreme long-term planning, as the board sets its strategy according to a 200-year vision for King Arthur. The board also considers director succession planning at the quarterly meetings. This is done by predicting the board’s needs five years in advance of a potential opening.

Deborah Jackson discussed her experience on the board of Eastern Bank, another very old institution, describing it as one of the most-well-run institutions she has observed. Eastern serves three groups of stakeholders: customers, employees and the surrounding community. It strives to be a progressive organization and is widely viewed as being gender inclusive. Jackson serves on Eastern’s executive committee, which has 12 members, including four minorities and two women. The committee values diversity in a broad sense, as well, seeking diversity of location and background for the committee’s members, in addition to racial and gender diversity. The committee meets five times per year, with each meeting spanning 2-1/2 days. Members also gather for four quarterly working dinners. The committee strives to follow public company best practices, despite Eastern Bank being privately held.

Ralph Crowley described the history of Polar Beverages, a family owned business. Polar was founded as a distributor of Irish whiskey but began making carbonated drinks and bottled water with the onset of Prohibition. Now 130 years since its founding, Polar generates annual revenues of \$500 million and owns numerous national brand franchises. It distributes store-branded beverages to Stop and Shop, Shaw’s and Market Basket supermarket chains, among others.

Crowley believes the company would not have achieved its current level of success without the contributions of its independent board members. The board has nine members, consisting of three family members and six independent directors. In his view, Polar needs its board to be focused on strategy rather than operational tactics. Polar also follows public company best practices and believes these practices help drive its performance. Crowley uses quarterly board meetings to help develop managers’ presentation skills and knowledge of their business, choosing to have managers present rather than himself.

Q&A Session Highlights

The meeting transitioned to a series of relevant questions from the moderator, Mike Jeans. Highlights are below:

Q: How do you conduct succession planning?

A: Deborah Jackson said Eastern Bank’s executive committee has very open discussions, which enables deliberate but honest discussion on matters of succession. For example, the committee spent 10 years planning a recent appointment to Eastern’s board of directors.

Q: We talked earlier about trust. Talk a little bit about how open those discussions are and how the board goes about challenging the CEO?

A: Ken Dreyer discussed the differences between open and closed organizations, saying that the more an organization is open to giving and receiving feedback, the better the results for that organization will be. At King Arthur, every board meeting includes a trust exercise, and Dreyer believes trust is absolutely critical between a board and executives. All attendees debrief after each quarterly meeting to discuss what went well and what did not. In his view, if anything is discussed after the meeting that should have been mentioned during the meeting, then the board meeting was a failure.

Q: How does a board get involved in strategy?

A: Ralph Crowley said that at Polar, the senior team works very hard to build its strategic plan from the ground up. After two days of strategic planning, management delivers the plan to the board. The board then challenges the plan, which forces management to move beyond its comfort zone. To Crowley, that is the greatest value the board provides.

Q: How do you go about finding the next director?

A: Dreyer responded first, saying King Arthur's board begins the selection process five years in advance. In conducting its search, the board focuses on the strategic results the next director will help the company to achieve. Jackson followed, saying Eastern Bank knows in advance which industries or business spaces it wants represented on its board. The reason for this is that different industries conduct business very differently, and these perspectives can be quite helpful in continually improving Eastern's performance. The bank does use executive search firms in the director selection process, but it also relies on current directors to make recommendations. Crowley said Polar recruits potential board members who can provide strategic insights or enhance the business in a tactical way.

Moderator Jeans then opened the Q&A session to questions from the audience. Highlights follow:

Q: How is your board compensated, and how is that determined?

A: Jackson said the bank uses outside consultants to determine the compensation plan. It is a fairly simple model, and the bank does not make changes very often. Directors are reviewed annually against the plan, which is designed to be competitive but reasonable. Crowley joked that Polar compensates directors with bottled water. He then said the company has a basic compensation plan for directors but usually decides to add to that. Directors are paid with a quarterly retainer, and in return, Crowley relies on their expertise between formal quarterly meetings.

Q: How do you make co-CEOs work?

A: Dreyer said King Arthur's transition to co-CEOs began 2-1/2 years ago. The board spent considerable time searching for a new CEO and considered the then-CFO, head of marketing and head of business development. The board had determined having one executive running the entire enterprise was not preferable and eventually decided to promote all three heads. In doing so, the board required the co-CEOs to have a coach to provide guidance. Now 2-1/2 years later, he believes the results have been phenomenal.

Q: I believe two of you mentioned that you use executive sessions after meetings as part of the board process. I wonder if you all do, and typically, how do you use those as part of board governance?

A: Dreyer said King Arthur's primary purpose for executive sessions is to discuss the performance of the co-CEOs or managerial leaders. Jackson said Eastern Bank has a similar intent for its executive sessions. Because the bank's board meetings are generally open, anyway, it is rare that a topic is discussed in

executive session that is a surprise. Rather, the sessions are used for debriefing after the regular meetings. Polar does not use executive sessions.

Q: Each of your companies faces distinct challenges. One is a family company with family interests. Another makes donations to charities; do they have to align with employees' individual values? A third is an employee-owned company – do you need to consider employees' long-term incentive plans, their 401Ks, or can you deal simply with your fiduciary duties?

A: Crowley said Polar focuses on its performance first. In addition, the company makes it possible for family members to sell shares as financial needs arise, such as to pay for a child's college education. Jackson said the bank holds many meetings to discuss its community involvement. Some of the causes it supports can be controversial, but Eastern believes in supporting its local community. Open discourse within the bank enables it to provide that support. Dreyer followed by saying King Arthur's board of trustees has a strong fiduciary duty to the employee-owners. On top of that, the company has an obligation to be socially responsible, but the primary duty is to the employee-owners.

Q: Do you allow telephonic participation in your board meetings?

A: Both Crowley and Dreyer said their companies require in-person participation in board meetings. Jackson could not recall a board member participating remotely in 15 years of meetings. Jeans said his board allows telephonic participation, but it is rare, occurring perhaps once per year.

Meeting Wrap-Up

NACD New England Chapter Chairman R. Robert Popeo closed the February 9th session by thanking everyone for their participation. He reminded them about the chapter's next breakfast event: *Responding to the Increasing Governance, Strategic and Financial Challenges of Nonprofit Boards*, scheduled for March 8, 2016 at the Boston Harbor Hotel, Wharf Room, 70 Rowes Wharf, Boston.