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VIEWPOINT

How Healthy Board Culture is Critical to the Success of Small-Cap Companies

by Barrett Stephens, Carter L. Burgess, and Gregory Lau | March 13, 2015

Small-cap companies, defined as having less than $500 million in market capitalization, represent the majority of public companies in the United States. They are often market innovators with lean staffs and the ability to turn on a dime. But without extensive in-house resources, such as legal departments or corporate finance experts, they often must look to outside directors to fill knowledge and experience gaps.

It's especially important for these companies to have a strong, comprehensive recruiting and nominating process to source top board talent coupled with excellent communications to create a boardroom culture that instills confidence. Creating an atmosphere where directors can seek the counsel of other directors who have significant prior experience and engage in tough conversations with fellow directors when things are not going well builds board muscle.

John Dinner, president of John T. Dinner Governance Services, says healthy board culture is key to keeping small-cap companies on track. "As much as board structure and governance processes play a critical role in the decision-making process," Dinner says, "it is really the boardroom culture that will determine the quality of those decisions, the health and effectiveness of the board, and an organization's success in achieving its vision."

So what creates a healthy boardroom culture? Distribution of well prepared, up-to-date strategic information before board meetings is an excellent place to start. This sets the stage for clear, open communication both inside and outside the boardroom. Board members who are fully informed of the company's strengths and its vulnerabilities are better prepared to make an impact.

To further promote valuable dialogue, small-cap companies should provide regular opportunities for board members to ask questions. This gives directors assurance that they have fulfilled their oversight obligations and that underlying issues have been addressed respectfully and fully.

According to Stuart Levine, chairman and chief executive officer of Stuart Levine & Associates LLC, "Small-cap companies should embrace the fundamentals of executive session at every meeting." This allows questions to be fully explored in an atmosphere of trust and privacy. "They should also conduct an assessment of the board every year," Levine says. "And, most importantly, these types of companies should not shy away from strategic planning, because that will define the long-term growth of the institution."

In addition, directors of small-cap companies can take on the heavy lifting when it comes to strategic planning. Small-cap executives are typically hands-on managers who easily get bogged down in day-to-day operational challenges. They are often entrepreneurs who are passionate about their product or service and zealots when it comes to growth. These factors can blur the big picture and focus energy only on what can be accomplished today. Corporate directors of small-cap companies have the time to step back and fulfill the vital function of strategic planning.

Outside directors, who may have transitioned from executive leadership roles in large-cap corporations, have the experience, perspective, and, perhaps most importantly, the time to reevaluate vision, strategy and tactics, and set a thoughtful course for growth. The strategic planning process itself—stepping back to ask where you we, what you have to work with, where you want to go, and how you get there—can also yield the added bonus of further building trust and strengthening board culture.

Supported by experienced, informed boards that communicate openly and evaluate thoroughly, small-cap companies are better positioned to overcome challenges and maximize opportunities.

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