

A young girl with dark hair in braids, wearing safety goggles and a light blue patterned shirt, is focused on a task in a science laboratory. She is holding a beaker containing a yellow liquid. In the background, a chalkboard shows the chemical formula H<sub>2</sub>O and a diagram of a water molecule. To the left, a microscope is visible. The overall scene is brightly lit, suggesting a classroom or lab environment.

**ikerentech**

**Creating Value Through Good  
Corporate Governance**

# Stabilization of PE portfolio value

- Considering current economic conditions, many private equity funds have been focusing on stabilizing the health and increasing the value of their existing portfolio investments.
- This focus has come in many forms:
  - Making small, add-on acquisitions to bolster the underlying business.
  - Spending more time on refining the underlying business operations
- Today's challenging economic environment and the generally limited ability of private equity firms to use financial strategies to increase value requires a different approach by these firms to manage their portfolio investments.
- This is an excellent opportunity for firms to
  - Review their corporate governance approach
  - Create value through board oversight.
- Making corporate governance a top priority will provide much-needed comfort to a firm's investors knowing that their current investments are being well-managed in these uneasy times.
- None of the suggested practices is likely to create value on its own right. As a whole, they will allow to influence the effectiveness of the company's governance and increase the likelihood of its success over the long run.



# Board agenda

- A well-planned agenda can make a big difference in the quality of a board meeting.
- Clearly articulate
  - Each topic
  - The expected length of time to be devoted for each topic
- There should be no surprises about what is to be discussed in the board meeting
  - Order the agenda so that the most important topics to discuss are addressed first, to ensure that are discussed in appropriate detail
  - Circulate a draft agenda to the board in advance
  - Ask for feedback on the topics to be covered
  - Confirm that the agenda covers areas that the board feels should be discussed



# Board composition

- Appropriate board size depends on several factors:
  - Company' stage of development
  - The complexity of its business operations
  - Company's shareholder mix
- Sponsor-backer boards tend to be very hands-on and significantly uninvolved with company operations, requiring a certain level of agility
- Limiting the board to a maximum of five to six members
  - Makes agility possible
  - Facilitates coordination of meetings
  - Facilitates overall communication
- Moreover, smaller boards tend to be more cohesive and work more effectively than larger boards.  
Type of directors to elect to the board:
- Seek out directors with relevant, hands-on operating and industry experience with a specific are of expertise in an upcoming company initiative
  - New product development or launch
  - Entering a new market
  - International expansion
- Consider limiting the company insiders to the CEO, and perhaps, the CFO.
- The CEO can act as a representative of the other insiders and serve their interests, without the burden of adding a whole cast of characters to the board.
- For a company considering a potential IPO: consider moving towards regulatory Compliance regarding board composition and governance, including adding directors to the board who satisfy the various definitions of "Independence".
- Review the company's governance structure on an annual basis
- Be willing and prepared to implement changes that reflect the needs and growth of the company



# Executive sessions

- If the CEO serves on the board, then, immediately before or following meetings of the entire board, consider holding executive sessions without the CEO and/or other members of senior management present.
- Executive sessions should be a regular agenda item
- The executive session enables the board to discuss sensitive issues and express their true feelings without jeopardizing the relationship with the CEO or senior management.
- Don't defer important discussions to the executive session, since full and open discussion is important for the proper functioning of the full board.
- Consider having the lead director meeting with the CEO following the executive session to de-brief the CEO what was discussed.



# Committees

- The use of committees generally depends on the size of the board and the overall strategy of the sponsor.
- If the board consists of only a handful of directors, it is difficult to effectively distribute work among the board.
- In the case of larger boards, committees can be a valuable tool in improving the overall efficiency of the board by delegating tasks to those directors who can most efficiently do the work.
- Some firms tend to run their portfolio companies entirely at the board level, others view the board as responsible for broad strategic objectives, policy guidance and legally required matters, utilizing committees for monitoring and oversight.
- If committees are utilized, a few guidelines should be considered
  - Directors should not serve on more than two committees
  - Committees should be made up of no more than four members, to maintain efficiency
  - Directors should be selected for committees based on their expertise and interests
  - The general advice concerning agendas, pre-read materials, meeting process and executive sessions set out above all apply equally to committee meetings.





# Chairman/CEO Split

- Institutional and activist shareholders have been increasingly advocating for separating the chairman and CEO roles of publicly held companies.
- Private equity firms have long maintained their independence from the CEO of their portfolio companies by reserving the chairman role to a representative of the private equity firm
- The success of such a split is dependent on the individuals who hold these roles and how they work together
- In order for the separation to be effective, it is important that the chair and the CEO roles be clearly defined, and that the responsibilities and limits of each role be respected.



# Identify Risks and Implement Oversight Procedures

- A private equity firm's due diligence on its portfolio companies should not end with the closing of its acquisition.
- Dues diligence should continue into its initial ownership phase.
- Managers and employees are more likely to speak freely about the business to their new owners once the keys have changed hands.
- Managers and other key employees should be interviewed and asked about specific risks they believe the company faces.
- Once those risks are identified, put in place proper oversight procedures to carefully monitor those risks,
  - For example, is there a risk of mismanaged expense in research, creating excessive costs? If so, implement a control system.
  - Is there a risk that accounts receivable days outstanding are being allowed to stretch customer's account becomes overextended, in an effort to minimize further exposure.
  - Or rather, is there an internal risk that employee withholding taxes are being diverted? If so, then require management to submit withholding and management reports.
  - Have an officer certify the accuracy of such reports. Whatever the particular risk is, be sure that it is a risk that can be monitored.
- Boards play a crucial role in providing oversight in the area of enterprise risk management (ERM).
- To improve the board's oversight of risk management, consider adding directors with a variety of expertise and proper risk management training.
- To increase director's ERM oversight, dedicate time at each board meeting to discuss various risk management relevant topics.
- Finally, identify those key executives who have the best perspective on the organization's risks and foster an ongoing dialogue among such individuals and the board.







The logo for Kerentech, featuring a small asterisk above the letter 'i' in 'Kerentech'.

Esther Moscatel Mendelsohn

+972542570243

[Esther.moscatel@kerentech.com](mailto:Esther.moscatel@kerentech.com)

[www.Kerentech.com](http://www.Kerentech.com)

Thank you