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Private Directors Association Newsletter April 2017
How Board Evolution Has Impacted Private Company Boards

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April 26, 2017
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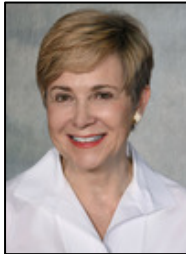
Gold



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The Private Company Governance Summit 2017
 MAY 10-12, 2017
 SWISSÔTEL CHICAGO, IL



Contributing Editors: *Karen Kane is a governance expert and senior strategist, providing counsel to executive management for 20 years. A seasoned business leader with key industry experience, she is a proven crisis manager who develops and executes successful crisis and corporate identity programs. Karen is an active member of the*

Private Directors Association and serves on the Program Committee. Email: Karen@KarenKaneConsulting.com Phone: 312.957.6195. Fred Steingraber is Chairman and CEO Emeritus of the AT Kearney consulting firm and a board advisor. He is a veteran of 15 corporate and private boards, 5 advisory boards and 18 not-for-profit boards. Email: fgs@board-advisors.com Phone: 312.735.2720

Just as public companies have seen changes in board governance, so, too, have private company boards.

What started as a gradual evolution in board governance more than 40 years ago dramatically accelerated when the government began asserting itself after the Enron and WorldCom bankruptcies in 2001 and 2002 and even more after the global financial crisis. While private companies are not subject to Sarbanes-Oxley or Dodd Frank regulations, the new rules for public company boards raised the importance of transparency and accountability for all boards.

“The best private companies govern themselves as if they were public companies,” said Rajan Sheth, Chairman of Mead & Hunt. “We hold ourselves accountable to our shareholders and maintain the transparency to give our shareowners confidence that we are acting in their best interest.”

Boards of both public and private companies are fiduciaries, which means that they are held to two primary duties—the duty of care and the duty of loyalty.

The Duty of Care means that a director must be informed, pay attention, have a transparent process for exercising judgments when making decisions on behalf of the company owners. The Duty of Loyalty means that the directors must put the interests of the company ahead of individual interests.

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Chicago Board of Directors

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Director	Claudia Allen
Director	Randy Bridgeman
Director	Cindy Burrell
Director	Kristi Daeda
Director	Don Delves
Director	Venita Fields
Director	Bruce Goldstein
Director	Bill Hass
Director	M. Jay Heilbrunn
Director	Dan McHugh
Director	Morris Saunders
Director	Rebecca Wing

Sarbanes Oxley created dramatic changes for public company boards. The audit committee was tasked with new responsibilities, including signing off on the company's financial reports. The trickle-down influence on private company boards was felt as well. For some private companies, it meant establishing an audit committee. And while there is no need for private companies to publicly report results with board attestations, members of private company audit committees take that step with a smaller but important group of its owners and stakeholders.

Governance itself has grown in importance for private companies. There is the growing establishment of committee work with the addition of committees, such as nominating and governance, compensation, and human resources, becoming important components of board work. Many public company directors serve on private company boards and have brought some practices into the private company boardroom including greater transparency and better communication with shareholders. All of this has meant more time being spent by directors on board work.

As a result of public company practices, stakeholders in private companies know more about the workings of the private company board—who is on the board, what competencies and expertise they bring to the board as well as the presence of any independent directors.

In short, board governance is the way a company is monitored and shareholders are protected by the directors who observe a set of rules including bylaws that board members adhere to in carrying out their duties of Care and Loyalty.

The growth of “best practices” in private company boards is increasingly influenced by standards and practices, which public companies observe. The Private Directors Association provides a body of knowledge as well as programs and forums where private company directors and executives can exchange views on subjects like best practices.

Editor's Note: This article was adapted from the 40th anniversary issue of Directors & Boards addressing governance for public companies.

Karen@KarenKaneConsulting.com | Phone: 312.957.6195
fgs@board-advisors.com | Phone: 312.735.2720

Body of Knowledge Category: Board Operations and Law