



Stybel Peabody/Board Options, Inc. Seat at the Table

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Do's and Don'ts of CEO-Board Relationship Management: Laying the Groundwork for an Independent Director in a Family Business

Background

Steve Stentman is CEO of Stentman International Foods, a \$275 million food manufacturer located in Milwaukee, Wisconsin. The company manufactures and packages proteins, nutritional products and powder blends for both brands and private label. The company has six manufacturing facilities -- four in the U.S. and two in Mexico. The company was originally started in 1937 by Steve's grandfather and now has four generations involved in the family business. In terms of senior management, Steve's brother Rick is the President of the company and their sister Collin is the Senior Vice President of Research and Development. Historically, the Board of Directors consisted of 7 members -- Steve, Rick, Collin and four independent Board members. These four independent Board members were friends of the family. The backgrounds were as follows: John Styman, retired CEO and owner, Styman's Auto Mile; Dale Miller, retired Partner, LTW Accounting; Jim Munsen, retired partner of Richards, Munsen and Bellow; Jack Silton, retired CEO of Silton's Dairy. All of these Board members were local, and all had relationships with the company and the family.

Steve, Rick and Collin in their weekly Monday Executive committee meeting decided that it was time to professionalize the board. The discussion centered around taking the company to the next level of growth, which they had defined as a \$500 million food manufacturer with a \$25 million E.B.I.T.D.A. Having identified the skillsets needed to do this, Steve suggested that they "thank all of the existing directors for their years of service" and replace the directors with, as Steve described it, "the best players irrespective of the location". Rick and Collin agreed that

this should be the long term goal but recommended for now to “start with one outside director, not locally based and expand from there”. The three agreed that this was the most effective approach. Steve would ask John Styman to retire as he had served on the board the longest (32 years).

Issue

In reviewing their skillset chart, the three concurred that the priority would be to recruit a director who had “deep experience in their industry, knew how to take a company to the next level, and preferably came from a strong manufacturing background”. “Why not start with the industry organizations,” suggested Collin. Stentman International Foods had been an active member in both industry organizations with Collin serving on the board of the Dairy Export Council and Steve on the board of the American Dairy Products Institute. Phone calls to both organizations proved fruitful with a list of potential board candidates. After interviews (first phone, then in person) it was decided that Matt Richards, who was recommended by the American Dairy Products Institute Executive Director and who was based out of Philadelphia, would be the ideal first truly independent board member.

Matt Richards has recently retired as the President and CEO of WTS Food Manufacturing Company Ltd, a \$1.2 Billion family owned business. WTS was a manufacturer of primarily milk products, ranging from dry buttermilk products to evaporated milks to whey products. WTS had 16 family members actively involved in the business. That said, when Matt retired, the company hired its first non-family CEO to run the business. Matt had spent 45 years at WTS and was well known in the industry for transforming the company from a reactive to a proactive culture of cross-functional leadership, data-driven solutions, and transformative hands-on style. Matt expanded the company into 4 countries and 18 factories and has been an active board member of the American Dairy Products Institute. Additionally, Matt was a NACD governing fellow and had served on the Board of Directors of RMS Systems, a manufacturer of RFID hardware.

Matt Richards was elected to the Board of Directors unanimously. In joining the Board, Matt went through a typical day of orientation which included reviewing the bylaws, annual reports and meeting minutes, a list of committees and their roles and responsibilities, as well as in person meetings with Steve, Rick, Collin, Elisa (CFO) and the current outside board members-- Dale, Jim, and Jack. All the meetings were extremely productive and informative, but Matt left the day with concerns. In his one-on-one meetings with Dale, Jim and Jack, he asked what the board could do better and heard the following comments:

Dale: “None of the family members really share what is going on at the company. The board meetings tend to be more of a dog and pony show where mostly Steve and other senior management present and we listen.”

Jim: “Steve tends to dwell on the mistakes of the past. He needs to learn how to move on and focus on the future. Big challenge getting from \$275 to \$500 million.”

Jack: “ I joined because of my relationship with the family. I knew their grandfather and father. I really believe that the business has a big opportunity, but Steve needs to provide us much better materials in advance. When I first joined, they wouldn’t even give us financials. Steve put the financials up on a screen and took them down.”

Having heard these issues, Matt realizes that there is a major disconnect between the CEO and the Board of Directors. The relationship between the two is not what he envisioned. Matt wanted to be the first true independent board member but needs to address this relationship head on. Matt views his board role as a “growth creator” helping to get the company to the \$500 million mark but is unsure that he will be allowed to do this. His reaction: “I am certainly not going to fly in from Philly to spend two days of my time and not accomplish anything worthwhile.”

Options

Matt decides a sit down with CEO is necessary. His options are as follows:

- Not to join the Board of Directors: “not what I was told”, “ not a good use of my time”
- Join the board but first observe a board meeting and provide feedback afterwards
- Approach Steve now with his expectations of the role and responsibilities of the board: “if Steve and his family don’t want this, I won’t join”
- Have Steve commit to 3rd party to educate the board and the CEO on the roles and responsibilities (i.e. NACD national conference or an outside advisor).

Questions

- How would you handle the situation?
- Would you join or not? Under what conditions?
- What questions would you pose?
- Should Matt have completed more due diligence before he walked in the door?
- How could the board have engaged in a more robust process for identifying new directors?
- In what ways would you approach “professionalizing” a board?