

How to Prepare for a Directorship

By Marie C. Baca and Joanna Higgins
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What does it take to lead a public company through one of the toughest economic climates in decades? The answer to that question is evolving in boardrooms across the country right now, as regulators begin to respond to the aftershocks of the subprime mortgage mess and the resulting financial crisis. Anyone who's been approached to join a board recently could easily see the opportunity as more curse than blessing. But the truth is, directorships remain a vital function of business, and those who are successful at it are in great demand. Whether you're under consideration for a board seat or just want a look inside the changing corporate boardroom, read on to learn what it means to be a director today — and what it takes to succeed in turbulent times.

Things you will need:

- None — they pay *you*.
- Time commitment can range from one meeting per quarter up to 20 hours a week in some cases.
- **Training:** It's not imperative, but many directors find governance courses useful. Most major business schools offer [accredited programs in director education](#).
- **Knowledge of the Sarbanes-Oxley Act:** This law dramatically changed the roles and requirements for corporate board members. Become familiar with the aspects that apply to boards.
- **An independent mindset:** Yes men don't keep companies out of trouble. Independent thinking, and the gumption to voice it, are crucial traits in today's board environment.

A yellow sticky note with the text 'step 1' written in a handwritten style.

Understand How the Boardroom Has Changed

Goal: Identify the pressures facing a board director in the current economic climate.

Although the fundamental purpose of the board of directors — to govern, manage, and advise an organization — has changed little, board directorships today differ greatly from those of even a few years ago. First the [Enron](#) and [WorldCom scandals](#) at the turn of the millennium resulted in the [Sarbanes-Oxley Act of 2002](#), which forced boards to comply with stringent new ethical standards. Now this fall's market upheaval has created intense pressure for boards to become flawless assessors of corporate risk. The board of Lehman Brothers, for one, has taken some blame for the firm's bankruptcy. Its risk committee met only twice a year when the company was increasing its investments in high-risk real-estate mortgage assets and securities, according to *The Wall Street Journal's* "Deal Journal."

“Anytime a major meltdown takes place, board directors get a huge wake-up call,” says Beverly Behan, managing director of the board effectiveness practice of the Hay Group. “Suddenly everyone is asking, ‘Do we have a good understanding of our volatility?’ ‘Are there opportunities here, even in the midst of a downturn, which we can capitalize on?’”

In addition to the pressure to successfully manage risk (stay tuned as regulators heap on even more requirements within the next year), the modern director also assumes significant legal, financial, and personal exposure for his or her actions, courtesy of Sarbanes-Oxley. With the heightened scrutiny and regulatory burdens, why be a board director at all? Behan, who has worked with more than 100 boards over the course of her career, believes that today’s hands-on boardroom environment allows directors to manage companies in ways that would have been impossible in their more ceremonial role of the past. There is also the prestige inherent in the title, which can lead to other board appointments, and directors do earn a salary and/or stock options. The best perk, according to Behan? Directors get to work on intellectually stimulating challenges with interesting people, many of whom are legends within their respective industries.

Big Idea

Getting in Via Majority Voting

In most public companies, a nominating committee nominates directors to the board, but they secure their seats via a shareholder election. Through “plurality voting,” a candidate is elected to the position if he or she receives the most “for” votes, regardless of whether a portion of shareholders withhold their votes to express their disapproval (there are no “against” votes). Theoretically, this means that in an uncontested election, a single vote could elect an individual to the board even if every other shareholder withholds his vote.

Over the past few years, some activist stockholders have advocated for a nomination process known as “majority voting,” a policy that would require a candidate to secure the approval of the majority of votes in order to win the election. Such a proposal vastly increases the power of the shareholders in determining the composition of the board, and in some cases the number of withheld votes even determines the directors’ pay.

When evaluating the opportunity to sit on a particular board, it’s a good idea to know where the company stands on the issue of majority voting, if only to understand the relationship between a board appointment and the opinion (and relative strength) of the company’s shareholders.

Understand How the Job Description Has Changed

Goal: Determine how the board works and what you can expect by joining one.

“Independence” is not just a boardroom catchphrase — it’s a necessity that is now built into a board’s structure. Some companies are embracing this idea by splitting up the once co-joined roles of chairman and CEO. H&R Block did just that in 2008, a trend that experts agree other companies are likely to follow as directorships carry more and more responsibilities.

Most boards have at least three committees:

- **Audit:** The directors who oversee financial reporting.
- **Compensation:** The directors who set pay for the management team.
- **Nomination:** The directors who seek out and nominate other directors and the CEO.

Stock exchange rules vary, but the NYSE, for example, demands that all directors on the compensation and nomination committees be chosen from outside the company. The exchange also requires that directors meet regularly without management present, so that they can maintain their independence.

Experts agree that the biggest change in the job function of a board director over the past few years has been the amount of time the position demands. “Directorships used to be less regulated and less cumbersome jobs with minimal time commitment,” says Mark Reiff, a partner at recruiting firm Lonergan Partners. “These days, boards are meeting at least once every few months, and in some cases directors are being asked to spend full days in the office.”

Because director orientation programs can be brief and perfunctory, Behan suggests that new directors sit down with the management team, as well as with both internal and external auditors, to educate themselves about the business. Ideally, this learning session would also include visits to sites where the actual work is being done. “When it comes to board meeting time, you don’t want to sit there like a Pet Rock,” Behan says. “You’ve got to take it upon yourself to keep abreast of the business.”

What Not to Do

The Risks of Micromanagement

There’s a world of difference between monitoring and micromanaging, and successful board directors will make every effort to ensure that their advising efforts consistently fall into the former category. Reiff says that the difference between the two can be based simply on the perspective of the CEO or the fact that boards must become more involved in times of economic uncertainty. As Reiff notes, veteran CEOs will often push back when they feel they are being micromanaged by boards, while less experienced CEOs will allow

the board to manage them, all the while growing increasingly more dissatisfied. Effective boards balance these dynamics by picking a manageable number of important issues and ensuring that there's substance and process behind management claims, while otherwise allowing management the freedom to do its job.

step 3

Ask Yourself If You're Right for the Job

Goal: Evaluate whether your skills and personal qualities match the stringent demands of today's director role.

If approached for a board appointment, it's essential to complete extensive due diligence of the company to understand the business model and the challenges that management is currently facing. An equally important (and often overlooked) task is analyzing one's own skills and personal qualities, to determine whether a board seat will be a good fit.

In most director-recruitment efforts for public companies, the description of an appropriate candidate is so specific that there may be only a few who fit the bill. For example, one director search that Reiff recently led required a candidate who had been the president or CEO of a public company *and* of a wireless company. Granted not every board seat demands such extensive executive experience — and if the board of a major company (or one of their search firm agents) has approached you, you're probably qualified for the job on paper. But that doesn't mean that you should automatically accept. It's also important to evaluate these questions when reviewing the offer:

- Do I have the time to devote myself to this position?
- Am I willing to assume the inevitable legal and personal exposure that comes with a board seat?
- Am I OK with working behind the scenes as opposed to working in a more public position?
- Am I confident enough to ask tough questions and play an active role in board meetings?
- Do I know how to build good relationships with management, offering constructive criticism when necessary?

Reiff notes that many companies today are looking for directors who successfully led a company through the last economic downturn, someone who is "battle-tested." So if you weren't in a leadership role 10 years ago, you may want to ask yourself if you have the skill set necessary to guide a major corporation through treacherous waters. "This is not the job for someone who wants to show up once a year and then disappear," Reiff says. "Everyone is on the hook."

Danger! Danger! Danger!

Antagonism Will Get You Nowhere

Providing constructive criticism is part of the board director's job description, but that never equates to using the management team as a punching bag. In fact, doing so can be counterproductive. "Boards tend to function best in an environment of mutual respect," Behan says. "Hostility destroys that environment and makes it much more difficult for management to be open and transparent." Keeping this in mind from day one can save you massive headaches down the road. Behan also suggests that board leaders carefully supervise antagonistic directors, taking them aside to explain that their behavior isn't welcome and possibly reevaluating the appropriateness of their presence on the board.

*Marie C. Baca is a San Francisco Bay Area-based freelance writer and editor. Joanna Higgins is senior editor of **BNET UK**.*