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# QUESTIONS TO ASK BEFORE JOINING A BOARD



You are called by a search firm, or by a business acquaintance, about joining the board of company ABC. Apart from thanking your caller for the call and asking for some time to think about the proposal (you probably shouldn't turn it down immediately), what should you do? What questions should you ask yourself and in a follow-up call or meeting? How do you conduct your own due diligence?

It is assumed that you have given serious thought as to why you wanted a directorship. There are many reasons why you may want to join a board, and most of them are perfectly legitimate (if you have not already asked yourself that question, please see "Why Become a Director" - Harcourt IGN, January 2016). It is also assumed that you have determined that you have the time and energy to devote to what can become quite a demanding and time-consuming activity. Being a director is not just another "hobby".

Finally, it is assumed that you can determine immediately that you do not have a conflict of interest, or do not have to clear a potential conflict before going any further. If not, make sure you clarify the absence of conflict first.

The questions you should ask yourself revolve around whether (1) being on the board of ABC corresponds to the reasons why you are interested in a directorship, and (2) there are no overwhelming obstacles to your joining the board of ABC.

## **"DOES THE BOARD POSITION CORRESPOND TO WHAT I WANT?"**

ABC may be your dream company, but generally a degree of additional research is useful – on the company itself, its current situation, the issues it is facing, the opportunities it has, the people on the board and in management. Your caller, or the chairman of ABC, can provide additional insights and it is perfectly appropriate to ask for a (or a couple of) meeting(s) to discuss the company. As the process develops you can also ask to meet certain third-parties, like the external auditors.

It is important that you meet a large section of ABC's board. Companies and cultures differ as to how many you will be able to see, but asking to meet the Chairman and the Nomination Committee members should be a minimum. Many boards want the candidate to

meet all the board members, and when on offer, you should immediately accept. If not on offer, you can certainly ask to meet a large cross-section of the board. Apart from the fact that the way in which your questions are answered by different people will give a lot of insights on the functioning and culture of the board, you will be spending a lot of time with your colleagues, and you might as well feel that you will get along with them.

It is also important that you meet ABC's CEO. His or her perspective on the board and the company will be important for you to know, even though he or she is likely to be guarded in answering your questions. And again, you will be spending a lot of time with the CEO at board meetings. It would not be inappropriate to ask to meet the CFO, who almost always attends a large part of the board meetings, and is the guardian of the traditional language of business, the financial results. The CFO should also have a lot to say about internal controls and internal audit. In specific industries, you may ask to see an important member of the top management team (e.g. the risk officer in the banking sector).

ABC may have a significant shareholder. Normally, this shareholder will have been consulted on the initial call made to you, and will have agreed it. But in certain circumstances, you may want to meet the shareholder or one of its representatives.

When all this is done, it is useful for you to reflect on the offer and ask yourself if you think you can contribute effectively to ABC, its board and its management team. If you add value, you will quickly enter into a "virtuous circle" that will make management more willing to open up and seek your views, your colleagues more confident that they can trust your judgement, and your position will become all the more interesting, influential and rewarding. Conversely, if you determine that you will not be able to add much value to ABC, for whatever reason, it is not clear that you should accept the position.

This first phase of your due diligence, which is really about the substance of what is on offer, is by far the most important. You have determined that ABC and its sector are of interest, that you will get along with your colleagues on the board and "fit in" well, and that you can add value. In other words, you are interested to proceed.

All this can take very little time if you know ABC well. Or it can take a number of meetings with board members and top management, and additional research. But at one point you have to make up your mind – and you are unlikely to be the only candidate the board is interviewing! However, before you accept to join, you need to ask a few more questions in order to make sure that there are no overwhelming obstacles.

## **“ARE THERE ANY MAJOR REASONS WHY I SHOULD NOT JOIN THIS BOARD?”**

If you did not like the interviews with a large number of the board members, or with the CEO and the CFO and maybe other management members, you should seriously consider not going ahead. If you are uncomfortable about some of the interviews, you may want to see the chairman and discuss the situation. It is quite possible that the chairman wants new members in order to change the culture of the board – he or she will generally be upfront about it. If the chairperson is the problem, you have more of an issue.

During the interviews you may come to the conclusion that the reasons the board wants you to join them and the reason why you are interested are completely different. This is not in itself a reason to turn the offer down, but it is a “red flag” and you should dig deeper. But if the reasons are indeed irreconcilable, and there is a misunderstanding of some sort, then you should probably step back and think about whether it is a good idea to join under these circumstances. You really should not join a board that expects you to do one thing, and you another. Whilst this may seem theoretical, it does happen unfortunately.

Practical questions about number of board and committee meetings, location of meetings and board schedules (often available one or two years in advance) will allow you to know if ABC’s board is one that is compatible with your other commitments. You may have to make choices between your various activities if this board position is of real interest. Most search firms will give you the board schedule at the beginning of the process so as not to waste time if you simply cannot fit this board in.

As important are questions around your legal responsibilities, particularly if you are asked to join the board of a foreign company, and the protection or insurance offered by the company (called “D&O” insurance). These vary enormously depending on the country, the activity and the company. You are perfectly entitled to discuss these in detail. This might be met with some resistance, but you could be the first director to be asking these questions and actually be doing everybody a favor.

However, like in any business activity, there is risk involved in being a director, which cannot be entirely eliminated. If you end up being very worried by the amount of risk you might be taking, for whatever reason, you might have to turn the position down. You will not be a good director if you look only at risks and downsides, and spend your time worrying about what they can mean for you.

## “I MADE A MISTAKE. WHAT CAN I DO?”

You have done your due diligence, and think you have covered all the important points. You have determined that ABC’s board is for you, and that there are no overwhelming obstacles. You are formally offered the position, and you join the board.

After a few meetings, you come to the horrifying conclusion that you made a mistake. You probably overlooked one aspect of the due diligence, and you now realize that you should asked a few more questions. Maybe you were lured into accepting by a very convincing CEO or Chairman. Whatever the reason, the problem remains. What do you do?

Resigning from a board is no small matter. A lot of people will be upset, including yourself, and you will give the impression that you are letting them down. Your mistake will be known to a larger circle than just the company. In the case of a public company, it will become public knowledge and might even be in the press. The board itself is put in an embarrassing situation, and is likely to want to put a “spin” on your “in-out” that you will not necessarily like.

If you are in that situation, you have no other options than to talk to the chairman openly. If your circumstances have changed, or if the circumstances of the company or of its shareholders have changed, the discussion should go well and a solution will quickly be

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found. The Chairman might actually convince you to “stick it out” for a while and remain on the board. Otherwise, there will be a negotiation where both parties must save face. Even though it is in neither party’s interest to prolong this uncomfortable period, it may be necessary to wait until the year-end for you to leave the board.

Let’s hope that nothing has been overlooked, and that you are excited to be part of the board of ABC. Good luck!

Harcourt IGN, January 2016

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