



HARCOURT BOARDROOM RESOURCES

# WHY BECOME A DIRECTOR?



With corporate governance and boards receiving increased attention and renewed interest since the financial crisis, more and more people are thinking of directorships as a career option, or an addition to an already active business life. Is this the right thing to do and why?

It actually is important to know why you would want to serve on a board!

Board assignments have now become time-consuming, and very hard work. They carry visible responsibilities and risks, both reputational and financial. Boards are also frustrating in that you cannot order colleagues and management to do what you want, but have to influence, convince and motivate them into taking your views into account.

In addition, governance rules, whether “best-practices”, investor voting rules or formal regulation (e.g. in the banking sector), now limit the number of boards you can sit on quite drastically, particularly if you have operating responsibilities in another company. So you have to be able to choose what board you really want to be on. Finally, an increasing number of boards will want to pre-clear the new boards its members want to sit on, for conflict or work-load reasons. This does not mean you will have to justify yourself every time the question comes up, but you should be prepared.

It is clear that the mix of reasons will depend in part on what stage of your career you are at. For an operating executive, an outside board (and generally, it is only one) is a form of “executive education”, more interesting and meaningful than a few days or weeks on a business school campus. For a senior executive at the end of his/her operational career, directorships are a “second” (or “third” or “fourth”) career. For retired executives, being on a few boards is a way to stay active, involved and contributing to companies and society, but on a part-time basis.

Whatever the mix, always highly personal, there are generally five main reasons for accepting an offer to serve on a board. The first three are perfectly fine, the last two are not – if you are considering a board mainly for one of these two, you would be well advised to think again!

First, most people are interested in being on a board because they want to contribute to a business project they are interested in. The motivation can be to protect an investment in the company, to be part of a winning team they like working with, or because they want to leave a mark on the company or the sector. A director's influence, particularly that of the chairperson or the lead director, can be considerable if he/she is respected by colleagues, the management team and third parties. It is one of the most rewarding aspect of being a director.

Second, some directors feel they are “giving back to society”. These directors are often more than generous with their time, for example as chairpersons, committee chairs, or mentors of the top management team. They will be prepared to step up at difficult times, take responsibility, talk to shareholders and other third-parties at the request of the rest of the board, assist in search processes (which are vey time consuming), etc. These people are invaluable to a board and a management team.

Third, being chosen for a board position (increasingly nowadays, after a competitive and demanding selection process) is a form of recognition of the director's capabilities. One always joins a board for a particular reason, from functional or sector expertise to influence and network. Whatever the reason, obtaining a new board position is always seen as a success – a little bit like succeeding at an exam and receiving a diploma. Actually, like in academia, the hard work really starts once the diploma or board position is obtained.

The fourth reason to join a board, money, is not a very good one. This is not because there is anything intrinsically wrong with being paid to do a job, but because it is very likely that you will be disappointed. There are wide variations in director compensation between regions and even companies within a region (by factors of up to 50!). But, whatever the level, on a per-hour basis, the compensation is unlikely to be very exciting. In addition, there is no correlation between the interest of the position, the influence you have, the contribution to the company, the sector or society, and the level of director fees. Most directors try to balance these elements in the management of their portfolio of boards, something, which is increasingly difficult to do as the rules on number of boards one have become stricter.

Finally, the fifth reason, status or career advancement is a really bad reason. Directors, who sit a board because they think that the position will make them more visible in their business environment and will advance their career, are making a mistake. But more importantly they are dangerous to have on a board and a potential liability to the company. They will lack the courage to take difficult decisions, and the independence to go against whatever the dominant outside view might be, particularly markets, analysts and the press. In the boardroom they will find it difficult to confront a CEO or assertive colleagues, and will easily fall willing victims of “group-think”. They will be afraid that their reputation will be tarnished if they do not do what is “politically correct”. In short, these directors will fail at discharging their duty with independence and courage. Unfortunately, this reason is all too often present, if not often acknowledged.

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