Practical dos and don'ts for directors

By Doug Raymond

It isn't exactly a "Top 10 list," but for the Year in Review edition I thought a listing of practical advice might be welcome to readers. So, recognizing that no list is perfect or exhaustive:

• ***Understand the company and its business.*** Directors should take the time to learn about the company's business and the company's industry, including its significant competitors.

• ***Do your homework.*** Directors should read and understand the board packet before the meeting; call if you have questions about the materials. The meeting should be used to discuss and make decisions rather than to educate directors who did not do their homework.

• ***Keep the core strategy in mind.*** Once a strategic plan is formulated, further decisions should be evaluated by referring back to that plan. If the plan is broken or needs to be updated, be willing to suggest changing it.

• ***Directors plan and guide; management does.*** Directors should not confuse formulating and overseeing strategy with implementing it, which is done by management. Don't overly defer to management in strategic matters in the planning stages, but don't micromanage the tactics.

• ***Be constructive.*** Each director should be engaged at each meeting and participate in discussions without monopolizing them. Each member of the board has been chosen for his or her skills and potential to add value; for this to happen each director must be treated with courtesy, and board discussions must be open, thorough and deliberative.

• ***During board meetings, leave your iPhone in your briefcase.*** The board's time is limited; don't try to multitask during board meetings. Instead, directors should remain focused on the matters under discussion in order to appropriately discharge their duties.

• ***Don't disappear after meetings.*** The job of being a director doesn't end with the meeting. Feel free to contact your fellow directors, and, within reason, management, to stay involved with the company between meetings.

• ***Be social.*** Don't skip board and management dinners and other social functions; these events help to form board culture and help the board function more effectively, particularly during hard times.

• ***Avoid conflicts of interest.*** Company business should never be influenced, or appear to be influenced, by personal interests; directors should avoid any implication of creating a conflict of interest, taking a company opportunity, or improperly using company knowledge or assets.

• ***No surprises.*** Directors should be forthcoming; if any circumstance might appear to compromise a board member or create a conflict, directors should discuss the circumstances with the board; often a mechanism to resolve or cleanse the situation will be available. Directors should also share whatever they know about issues being considered by the board.

• ***Follow the "elevator rule."*** Much of the information that directors receive is non-public and belongs to the company or its business partners. Directors must carefully protect this information, discussing it only with people who need to know it and avoiding inappropriate discussions, including on mobile phones, and in public places such as airplanes, restaurants and elevators.

• ***No short-term trading.*** Directors should be long-term investors, not short-term traders. While directors are often required to own stock in the companies they serve, these holdings should be passive, absent extraordinary circumstances.

• ***Gifts.*** Gifts are a normal part of human interaction; however, no gift of meaningful value should ever be accepted or provided by a director, and no gift of any nature should be accepted if it might obligate, or appear to obligate, the company or any director.

• ***You are not the press secretary.*** Outside the boardroom, do not speak on behalf of the company unless specifically authorized to do so; directors should avoid making statements that might be perceived as company statements, even if not so intended.

The points discussed above are practical points that can contribute to being a more effective director. Of course, good directors must also have a working knowledge of the relevant legal rules, including applicable laws and company policies; standards for fiduciary duties, including those of care and loyalty; and insider trading rules, but regular readers of this magazine already know that.

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