
EXECUTIVE SUMMARY

What are the rewards for serving as an outside director?

Although there often is tangible compensation for an outside directorship, most outside directors will say that the greatest rewards for serving on a board are the intangible benefits from having the opportunity to work with the other directors of the company. The other directors are likely to be similarly situated senior people from industry who may be in a position to improve your current business or to facilitate professional growth. The camaraderie that develops through the board meeting process is very rewarding.

The other reward often mentioned is the opportunity to help another company improve based upon your guidance and experiences. There is great personal satisfaction in being able “to advise” instead of “to do” in helping a business prosper.

Then, of course, there often is compensation for a director’s time and effort. There also is reimbursement for travel to board meetings. There may be a fee paid for each meeting. There also may be payment in stock or in stock options for agreeing to be a director.

What are some of the risks for serving as an outside director?

As with anything that has significant rewards, there also are risks involved in serving as a director. If things go bad there is risk to reputation. There also is risk of personal liability for something involving the company and the director. As you will read below, a director may be named in a lawsuit against the company and others. Furthermore, recently enacted legislation and heightened government scrutiny have complicated the risk analysis for

certain companies. However, being sued and being held liable are two separate matters. Despite the picture painted by recent headlines, a director still rarely is held personally liable for anything involving the company unless he or she also was personally involved in the wrongful conduct.

Nevertheless, it is not a pleasant thing to be named in a lawsuit and, in light of the fact that the United States is a litigious society, a prospective director needs to know about the risks of such potential liability and about risk management tools used in the event of lawsuits, such as indemnification and insurance for directors and officers of the company.

What type of due diligence should you do before accepting a directorship?

It used to be the case that a senior executive asked to be on a board was so grateful for the honor that he or she would just say “yes.” Those days are probably over. Just as the company’s senior management and current board members go through a due diligence process to determine whether to extend an offer for a directorship to a particular board candidate, so, too, should the candidate ask some questions and do some of his or her own investigations to make sure there is a desirable match. This is so important because a directorship requires a very close and personal relationship amongst directors and with senior management with whom there will be a lot of interaction.

Once on the board, what will be expected from you?

Much of this book addresses the topic of what will be expected from you as a director of a company. There are certain duties and responsibilities. The bottom line is that if you decide to become a director and are given the opportunity to do so, then you must take this commitment seriously and fulfill the various fiduciary duties which are described briefly in this book.