



What Does a Board of Directors Do?

Before you can assess whether or not you have the skills and experience to be an attractive candidate for a Board of Directors position, it is first important for you to understand the nature and function of a Board of Directors. This Worksheet will help you to understand boards of directors in public companies.

What is a Board of Directors?

The Board of Directors is the highest governing authority within the management structure at any public company. All public companies are required to have a Board of Directors. The role of the board is to monitor a corporation's managers -- acting as an advocate for stockholders (and in some jurisdictions employees). The board of directors tries to make sure that shareholders' interests are well served. In theory, management looks after the day-to-day operations, and the board ensures that shareholders' interests are adequately represented.

How is a Board of Directors Structured?

A Board of Directors is comprised of individual men and women who are elected by the shareholders usually for multiple-year terms. Board members can be divided into three basic categories: Chairman, Outside Directors and Inside Directors.

- The **Chairman** is elected from the Board of Directors and is the leader of the company. The Chairman is responsible for running the board smoothly.
- The **Inside Directors** are board members who are high level managers and/or shareholders. They provide an internal perspective on the company and its operations and management. Inside directors are also called Executive Directors.
- The **Outside Directors** are board members who are independent from the company and chosen from an external source. They are supposed to provide an unbiased and impartial perspective on the company and its operations and management. Outside directors are also called Non-Executive Directors.

What Are Board Committees?

Committees are formed by Board of Directors to carry out specific functions, programs or projects assigned by the board. Committees usually consist of members of the board who have skills that are relevant to the committee's function. At a minimum, most public company Boards of Directors have established audit and compensation committees. The audit committee is responsible for ensuring that the company's financial statements and reports are accurate and use fair and reasonable estimates. To accomplish this task, the audit committee is usually responsible for selecting, hiring, and working with an outside auditing firm. The firm is the entity that actually does the auditing. The compensation committee sets base compensation, stock option awards, and incentive bonuses for the company's executives, including the CEO. This committee is responsible for ensuring that executive compensation is not excessive. Other common committees include, but are not limited to, nominating committee, corporate governance committee, regulatory affairs committee, finance committee, technology committee, and any other committee deemed necessary for the board to carry out its duties.

What are the Duties and Responsibilities of a Board of Directors?

A Board of Directors approves high level corporate budgets and financial statements prepared by management, including hiring outside firms to conduct financial audits; implements and monitors application of business strategy; participates in establishing long term strategic planning; and approves core corporate initiatives and projects. Especially through the Chairman, the Board maintains close communications with the CEO and other high level company executives, and also



communicates with shareholders and the general public. The Board is responsible for overseeing and maintaining corporate integrity including its legal and ethical obligations. Boards also oversee the hiring/firing of executives and establishing dividend policies, options policies and executive compensation.¹ A Board should not micromanage the day to day operations of the business.

What Skills and Experience Are Needed to Become a Board Member?

Although network based appointments are still prevalent at the Board level, public companies are increasingly engaging in an objective skills based assessment when choosing new Board members. Industry experience and knowledge, strategy and planning, and C-level business and finance experience are always valuable when joining a Board, but are not the only valuable skills. Specialized skills such as an expertise in technology, international business experience, and HR talent and succession planning management are increasingly sought after skills.

There are many other “soft” skills that can be equally as important. Boards need people who are intellectually curious and can identify or recognize external changes in the market and/or world (e.g., technological, political, geographical, climate etc.) that might have profound effects on the company and its strategy. Boards also need people who are willing to challenge the status quo constructively and are not afraid to ask questions and raise issues. It is valuable to a Board for its members to be active in their industries and communities, and be politically and globally astute.

¹ Board duties can vary depending on jurisdiction and corporate legal entity. This is a link to a summary of duties by European jurisdiction. http://www.cms-dsb.com/Hubbard.FileSystem/files/Publication/9a0302e7-7e8d-4ca0-8130-018a1394fe69/Presentation/PublicationAttachment/70f09686-f174-4f35-89a5-053f95497d75/CMS_DR of Directors_low res.pdf