

*Five R's
of
Board Service
A Framework for All Board Members*

R*esponsibilities* These are the reasons a member is called to service. Such duties must remain uppermost to benefit both the organization and the director.

Accountability	<ul style="list-style-type: none"> • Individual • Collective
Committee Service	(Illustrative) <ul style="list-style-type: none"> • Executive • Audit • Compensation • Finance • Governance • Nominating
Development	<ul style="list-style-type: none"> • Long-range organizational strategies • Succession planning
Disclosure	<ul style="list-style-type: none"> • Material changes to <ul style="list-style-type: none"> ○ Operations ○ Financial condition (publicly-traded) • In plain English, in plain sight (The Conference Board)
Fundraising	(Non-profits only) <ul style="list-style-type: none"> • Member contribution • Public donations
Governance	<ul style="list-style-type: none"> • Provide oversight and guidance • Fulfill legal and ethical obligations • Adopt long-term orientation
Independence	<ul style="list-style-type: none"> • Board member independence of <ul style="list-style-type: none"> ○ Thought ○ Interests (all organizations) • Board independence <ul style="list-style-type: none"> ○ Audit committee <ul style="list-style-type: none"> ▪ Accountants' reports ▪ Financial expert inclusion ○ Compensation committee consultants (for-profits)
Knowledge	<ul style="list-style-type: none"> • Business of organization served

Participation	<ul style="list-style-type: none"> • Board meetings and deliberations • Committee meetings and assignments
Recruiting	<ul style="list-style-type: none"> • Executives • New directors
Review	<ul style="list-style-type: none"> • Executive performance • Executive compensation • Organizational performance and budget

R*ights* Members' duties are supplemented by their rights. This is a frequently overlooked topic.

Inspection	<p>Organizational</p> <ul style="list-style-type: none"> • Books • Records • Physical assets
Procedural	<ul style="list-style-type: none"> • Hiring and removal of officers and directors • Notification of events and matters of interest • Voting

R*ewards* People accept board positions for a variety of reasons, not all of them pecuniary.

Financial	<p>Non-employee directors (for-profits)</p> <ul style="list-style-type: none"> • Retainer <ul style="list-style-type: none"> ○ Initial and/or annual ○ Cash and/or stock • Committee chair fees • Meeting fees <ul style="list-style-type: none"> ○ In-person attendance ○ Telephonic attendance • Long-term compensation <ul style="list-style-type: none"> ○ Deferred compensation ○ Stock plan
Intangibles	<ul style="list-style-type: none"> • Business and social networking • Prestige and visibility • Public service

Risks In the wake of recent accounting and governance scandals, the potential downside of directorship has risen. Non-profits had their turn in the early 1990's.

Individual	<ul style="list-style-type: none"> • Civil liability and financial exposure • Criminal liability • Damage to reputation • Removal from board
Organizational	<ul style="list-style-type: none"> • Shareholder derivative claims (for-profits, usually) • Employment practices claims (non-profits, usually) • Loss of tax-exempt status (non-profits)

Remedies As with medical wellness plans, these are more effective if honored in advance of problems. After the fact may be too late.

Communication	<ul style="list-style-type: none"> • Board with CEO or executive director
Consultation	<ul style="list-style-type: none"> • Accountants • Compensation experts
Counsel	<ul style="list-style-type: none"> • Legal advice and defense
Compliance	<ul style="list-style-type: none"> • Statutory <ul style="list-style-type: none"> ○ Sarbanes-Oxley Act of 2002 (publicly-traded) ○ Internal Revenue Code intermediate sanctions and private inurement regulations (non-profits) ○ Specialized federal regulations (e.g., banking) ○ State laws (all organizations) • Self-governing regulatory <ul style="list-style-type: none"> ○ NYSE and NASDAQ listing requirements (publicly-traded) • Voluntary <ul style="list-style-type: none"> ○ The Conference Board recommendations (for-profits)
Coverage	<ul style="list-style-type: none"> • Director's and officer's liability insurance • Separate indemnification contract with organization

