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Corporate Governance Update: Director Onboarding and the Foundations of Respect

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Increased demands on public company directors have created significant challenges for corporate boards. Qualified individuals are serving on fewer boards, as directors and corporate executives face increasing constraints on their public company board service. There is a need for new independent director candidates, and there is also a steep learning curve for incoming directors, particularly those who are not industry insiders and those who are new to public company board service. Accordingly, onboarding new directors is becoming a more extensive and significant undertaking than it has been in the past. At the same time, the onboarding process is increasingly important to the success of the board in fulfilling its oversight role.

As board service becomes a more complicated and demanding task, and as boards continue to improve their diversity, the director onboarding process should be reimaged. It is no longer sufficient for onboarding to consist solely of a traditional orientation session. Onboarding should be understood as the integration of incoming directors into a well-functioning board, and as a process that now takes place within the larger context of the unprecedented diversification of directors in background, expertise, and outlook. The work of a board today is so wide-ranging, and boards themselves so carefully composed, that a company cannot afford a long introductory period in which new directors are not productive and valued members of the team. The result of successful onboarding is that a new director becomes a meaningful contributor to the work of the board from the beginning of his or her term, even while learning about the company and its business. This is important not only to enable the company to benefit from the new director's efforts as soon as possible, but also to set the right tone in the boardroom. Effective onboarding will produce board members who merit, and receive, the immediate respect and attention of their new colleagues.

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## Areas of Focus

The onboarding process for newly elected directors should be tailored in a bespoke manner to address the needs of the board and the incoming directors. As a substantive matter, the primary areas of focus are generally the company, the industry, and the major shareholders, constituents, and other stakeholders and influencers. In today's boardroom, the obligation to effectively onboard and orient new directors falls primarily on the corporate secretary, general counsel, and chief compliance officer, with active participation by the CEO, the CFO and the non-executive chair or lead director.

Traditionally, onboarding new directors has consisted largely of an orientation to the company through document review, site visits, and meetings with key employees. For any public company, there will be a large number of documents for incoming directors to internalize. The corporate secretary should create a comprehensive package of key documents for new directors to review prior to the orientation session. These documents include not only the company's organizational documents, policies, governance guidelines, and codes of conduct, but also outside perspectives on the company (such as research and analyst reports) as well as strategic operating plans. If they did not do so as part of the recruitment process, new directors should review the company's director and officer insurance policies and indemnification arrangements. Orientation generally takes place on-site at one or more appropriate company locations: headquarters, a significant facility, or other venues that provide insight into the day-to-day workings of the enterprise. Incoming directors should meet with company leadership and key personnel and receive briefings on relevant topics. Incoming directors also need to be schooled in how to use the company's board portal software, as well as the company's policies on document retention and best practices regarding note-taking, emails, texting and confidentiality.

Incoming board members from outside the industry should be briefed by one or more fellow directors with industry expertise. An understanding of the industry is important for directors to effectively engage the CEO and senior management team, advise on corporate strategy, and look ahead in order to oversee risk management, compensation, and long-term planning. As an ongoing matter, the corporate secretary and perhaps the chair of the governance committee should identify opportunities for all directors to attend conferences, meet key players, and otherwise develop their familiarity with the industry.

Newly elected directors would benefit enormously from an orientation regarding the constituents and influencers whose interests they must understand in their new role. This is particularly true if they are new to public company board

service or if they are coming from outside the industry. New directors should receive a dedicated briefing from the appropriate people as to this important contextual information. For many companies, the potential influencers will include employee organizations, shareholder activists, large institutional investors, and issue-driven investors such as those focused on ESG issues. Directors should also be briefed on the role of proxy advisors, on any relevant legislative action or public statements, and on the regulatory environment the company faces. The discussion should include background as to the company's past interactions with these groups as well as a briefing as to what current directors and management regard as potential issues in the foreseeable future and over the long term.

Not to be overlooked, it is important that new directors have an adequate opportunity to spend time with their fellow directors to learn about their individual backgrounds, expertise and experiences. Social events, such as an informal board dinner, can provide new directors the chance to interface with their colleagues in an unstructured setting.

Director onboarding is the first step in director education, which should be ongoing during a director's term of service. Continuing professional development for directors is essential in today's rapidly changing world. Particularly in key areas such as cybersecurity and industry-specific developments, directors should have the opportunity to benefit from internal training or external seminars. Annual director evaluations that measure board and director effectiveness will help boards gauge the success of their continuing education programs. Individual directors as well as boards can continually improve.

### Respect in the Boardroom

In order that the onboarding process be handled in the way that the board intends, the board should appoint a director to oversee it. This may be the board chair, the lead director, the chair of the nominating committee, the chair of the governance committee, or another director who is well suited to the role and can serve in a mentoring capacity. This director should review the orientation materials and schedule to ensure that new directors are receiving all the information they need and establishing key contacts within the company and board. This director should be one who understands board dynamics and can thoughtfully arrange the personal aspects of the onboarding process in a way that will set the right tone from the outset. The assignment of individual board mentors can be very valuable to new directors during their first year of board service. A strong mentor-mentee relationship will help the new director get comfortable quickly in his or her new role on the committees and board. It is particularly helpful if new directors have mentors with whom they will have regular board interaction, such as the chair of a committee on which they serve.

Some boards invite new directors to sit in on all committee meetings during their first year of board service in order to get a full understanding of the range of issues facing the company. The audit committee can be an excellent introduction to the company and the risks it faces, even for directors who are not financial experts.

New directors are more likely than ever before to represent diversity on the board, and diversity today comes in many forms. It is important for all incoming directors, but particularly those who may feel like outsiders, to join the board in an atmosphere that promotes mutual respect. In an era in which social friendships and interlocking professional relationships are no longer the primary reasons that directors are selected for nomination, the notion of collegiality is no longer the appropriate basis for board dynamics. Instead, it is crucial that each director be respected for his or her expertise and substantive contributions. There is no substitute for establishing a foundation of earned respect from the very outset of a director's board service. A board whose members genuinely respect each other will challenge each other, have healthy disagreements and productive discussions in which differing viewpoints are heard and evaluated by the group. This kind of interaction—which is one of the primary benefits of a diverse board—can only occur when directors have a high regard for each other as professionals, as individuals, and as contributors to their shared mission. Thoughtful onboarding is an essential element in creating a productive environment for new directors to add their voices to those already in the boardroom.