The Ten Commandments for Company Directors

For a long time, it has been widely understood that directorships - especially directorships of public companies - are not intended to be anything more than well-paid sinecures. Over 100 years ago, W.S. Gilbert summed it up through the lines given in *The Gondoliers* to the Duke of Plaza-Toro, who explains in verse his various money-making schemes designed to minimise effort and maximise return:

> I sit, by selection,
> Upon the direction
> Of several companies bubble;
> As soon as they're floated
> I'm freely bank-noted -
> I'm pretty well paid for my trouble!

Plainly, the original intention was that the presence of "high profile" business-people on a company's board would add to the company's credibility, and therefore enhance the value of its shares to the benefit of all shareholders; it was never intended that directors should actually do anything, let alone accept any personal responsibility or liability, in return for their remuneration.

A directorship is somewhat akin to "product endorsement" - it is quite as absurd to imagine that company directors are responsible for the financial well-being of a company, as it is to imagine that sports stars or television personalities are responsible for the quality of the products which they endorse. If company directors are to be blamed for the accuracy of the corporate accounts which they sign, it is but a small step to blaming Ronald McDonald for the nutritional quality of the products which he promotes.

However, this fanciful notion that directors are in some way accountable for issues of corporate governance means that the astute director must take prophylactic steps to protect himself (or, very occasionally, herself) from exposure to criticism. The effectiveness of following simple precautions has been proved through their constant use by directors of many of Australia's listed public companies.

1. Protect your relationship with the company's management.

The relationship between company directors and executives is symbiotic: neither of them can survive without the other. Directors exist so that executives can claim that they do not make decisions, but merely implement decisions coming from the board; executives exist so that directors can claim that their decisions are made entirely on the basis of information supplied by executives. So long as everyone understands some basic rules, it is possible to achieve an equilibrium in which the "buck" does not stop anywhere.

For their part, executives must remember two things. First, although everyone knows that the actual decisions are made by management, nobody can afford to admit this. Management proposals must be presented to the board as "recommendations", with just enough supporting information to ensure that the directors have no alternative but to do whatever management wants.

Secondly, executives need to be very careful in providing information to directors. Disclosure must be "full and frank", containing "all material facts", but these requirements should never be misconstrued as justifying (let alone necessitating) the provision of information which directors would feel more comfortable without.

If executives have no alternative but to communicate awkward information, obfuscation is the key. There is something of an art form to the presentation of information in a way which is entirely uninformative, yet with the benefit of hindsight appears to be disarmingly meaningful. Senior corporate managers share with senior public servants a handy supply of "boilerplate" provisions which can be applied to almost any recommendation, containing the clearest possible warning that the proposal contains some inherent risks, without in any way compromising the capacity of a director (or a minister) to claim that they were given no appreciation of the level of the risks involved. Thus, the adoption of new accounting policies designed to conceal a massive capital devaluation can be recommended to the board on the basis that:

> After consulting leading industry experts, management recommends the adoption of accounting policies which give appropriate emphasis to the company's long-term investment profile, whilst subsuming cyclical irregularities which are considered to have no significant impact beyond the short to medium term investment horizon.

In return, directors are expected to do their part. Other than supporting management in respect of issues of executive remuneration, the most important thing is for directors to resist the temptation to ask difficult questions. They should keep reminding themselves that executives are paid to ensure that directors are given the information which they need.

Asking questions merely involves the risk that directors will be given information which they do not need, and therefore do not want.

Of course, you do not want to get the reputation of being uninterested, or even lazy, at board meetings. So you have to ask a few questions. It is best to confine your questions to matters which border on the trivial: these will not be seen as trivial, but rather as a demonstration of your keen eye for even the smallest details. If you do not feel sufficiently confident to decide what is trivial and what isn’t, it might be a good idea to ring a few of the senior executives prior to the board meeting, and ascertain whether there are any "Dorothy Dix" questions which they would appreciate being asked.

In the last resort, if you cannot think of anything else to ask at a board meeting, the best question is one which allows management to respond with a "motherhood statement". A question like, "Are you able to assure the Board that this proposal complies entirely with our corporate Mission Statement?", will enable the executive to wax lyrical without providing any actual information whatsoever ("Mission Statements" are discussed, in more detail, below). But be warned - other directors, and especially the chairman, may not be grateful if you "steal their thunder" by asking the same platitudinous question that they were intending to ask.

2. Make it apparent that you have read the board papers.

Note the use of the word "apparent" in its literal sense, as distinguishing that which appears to be the case from that which is the case.

Generally, a company’s executives will prepare a bundle of documents for each board member to peruse prior to the board meeting. This is a specific feature of the symbiotic relationship between executives and directors, discussed above. It is a demonstrable rule of corporate governance - a rule as immutable as with Pythagoras’s theorem or Boyle’s law - that the extent of the board papers on any issue is inversely proportional to the degree of risk involved. Efficient and reliable executives will appreciate that it is their function to ensure that directors are only told what they want to know. If there are any "time bombs" within the company’s accounts, or its affairs generally, you can be certain that they will not appear in the board papers. So there isn’t really any point in reading them.

Nonetheless, it is important to give the *appearance* of having read the board papers. Two simple devices are very helpful in this regard: the post-it note and the highlighter pen. Each should be liberally applied throughout the board papers, to give the appearance that they have been closely perused and carefully studied. If you are too busy to do this yourself, you should remember that one of the most important qualities of any business-person is the ability to delegate. This is the kind of task which can safely be delegated to a small child.

Yet there are some circumstances where you cannot avoid personally undertaking this time-consuming responsibility. It may be, for example, that the directors’ meeting is scheduled to take place at an exotic and expensive resort, and the board papers are provided to directors only as they board the chartered jet. The other directors may feel compelled to at least *pretend* to read the board papers during the flight, and it would be churlish not to join in the charade. In this event, two basic rules will assist you in the appropriate application of yellow stickers and fluorescent markings.

Stickers should be reserved for "big ticket" items - new projects, potential closures, auditors’ notes, and especially anything that looks like an account. To the uninitiated, a yellow sticker says, "I have taken particular note of what is on this page". They are therefore especially useful for pages which you haven’t read, and which you would not understand even if you had.

Your highlighter pen should be used more sparingly. If you highlight everything, this may give the impression that you do not have a sufficient understanding to sort the wheat from the chaff. As a general guide, no more than 10 words or figures on each page should be highlighted. Scan each page for words that suggest a level of uncertainty - words like "could", "might", "possibly", "perhaps" and "maybe". These words are the directors’ friends. In due course, if there is a favourable outcome, the directors can congratulate themselves for taking a "courageous" decision. If (as is more often the case) the outcome is unfavourable, the board papers will demonstrate that the directors were conscious that they were taking a calculated risk - which, after all, is their job.

When highlighting accounts, resist the temptation to focus on the big numbers - this merely suggests that you are only concerned with the "big picture", and not interested in the "detail". By highlighting a figure of only a few dollars, you will demonstrate that, when it comes to protecting shareholders’ funds, nothing is too small to miss your careful scrutiny.

Most importantly, when the board meeting is at an end, arrange to leave your board papers with the company secretary. The advantages of this are self-evident. You don’t have to bother carrying them home after the meeting, and you don’t have to bother storing them or maintaining their security. Nobody can suggest that you should have been alert to an obvious inconsistency in the board papers at a subsequent meeting. And if uncomfortable questions are asked at a later date, the secretary will be able to produce the board papers, which (hopefully) will clearly demonstrate your careful consideration of the issue in contention, by the irrefutable evidence of your contemporaneous markings. On the other hand, if you are later accused of having a conflict of interest, you can assure the relevant regulatory authority that you do not hold any papers in respect of the matter in issue. Best of all, you can justify the strategy of leaving board papers with the company secretary as a manifestation of your zealous commitment to information security.

3. Travel broadens the mind.

In these days of increasing scrutiny of remuneration paid both to directors and to executives, corporate travel remains one of the few "perks" which defies any attempt to evaluate its worth to shareholders. It has the unique advantage that, whilst enjoying a first class holiday at the company's expense, you can point to the amount of time which you have devoted to the company's affairs, and make good-humoured complaints about the sacrifice involved in having to "live out of a suitcase" for weeks on end.

There must, of course, be some plausible excuse for the trip - a meeting, a trade fair, or a conference. Try to avoid vague expressions like "fact-finding mission", because over-use by politicians has created some (entirely unreasonable) cynicism when the traveler is unable to identify any specific purpose for a trip.

The symbiotic relationship between directors and executives requires that, for each free trip enjoyed by a director, management is also entitled to a free trip. Indeed, the expenditure is often easier to justify if both management and the board are being represented at the same foreign destination. Even the most recalcitrant manager can hardly deny the validity of a director's travel expenses when he (or one of his management colleagues) got a free trip to the same destination.

This can be uncomfortable, though, because the last person you want to meet when you are on a paid holiday at the company's expense is someone else who is also enjoying a paid holiday at the company's expense. Unless each of you possesses a quite extraordinary strength of character, you will both feel compelled to at least pretend to be focusing on company business for so long as you are within sight of each other. This is where "corporate travel policy" becomes very important.

The basic assumption underlying "corporate travel policy" is that the company's senior executives and directors are very valuable people, and the company could not possibly afford to lose two of them at the same time: hence, although headed for the same ultimate destination, they must travel separately. To reach a trade fair in Frankfurt, for instance, one of them should travel via Singapore, Rome and Paris; the other via Los Angeles, New York and London. And, needless to say, the company's investment in transporting directors and senior executives to such a trade fair will only be fully realised if they are in peak condition when they arrive, so each of them must travel First Class, be accommodated at luxury hotels, and have an opportunity for rest and recreation *en route* to their destination.

And don't forget, when you return from your paid holiday, to provide a report to the Chairman. It doesn't have to be very long or detailed, since the Chairman will not bother reading it anyway. A good trick is to include business cards of the important commercial contacts which you have made during the trip, and brochures about their companies and products. One of the main reasons for first class lounges at international airports is to give business-people returning from junkets the opportunity to exchange business cards and brochures to include in their post-holiday reports.

4. Corporate entertainment.

Apart from corporate travel, the concept of corporate entertainment offers directors one of the best opportunities to enjoy a "perk" at the shareholders' expense, whilst claiming to make a significant contribution to the company, and even a substantial sacrifice in the company's interests. Corporate entertainment may take a number of forms: lavish parties, expensive meals, and free tickets to sporting or cultural events.

The only major problem with corporate entertaining is that there is usually a scramble for the most attractive occasions. If you happen to enjoy opera, symphony concerts or the theatre, you're in luck: usually, these forms of corporate entertainment are reserved for directors and executives who are lowest in the pecking order. By contrast, only the Chairman and General Manager - and their closes allies and supporters - are likely to score tickets to a "State of Origin" match.

What adds to the pleasure of corporate entertaining is the fact that your guests - which is to say, the freeloaders who also have their tickets paid for by your company - will feel an obligation to reciprocate. Not only does this double your enjoyment; it also enables you to boast, in your report to the Chairman, how successful you were in consolidating your company's relationship with the guest's company, as reflected in the fact that the guest's company has invited you to partake of a "freebie" at his company's expense.

5. Board committees.

The biggest challenge for any new member of a corporate board is to be seconded to the "right" committees of the board. In the case of prestigious public companies, junior members may have to place their names on a lengthy waiting -list to get on the "right" committees.

Which are the "right" committees? There are three ways to identify which committees are "right". One way is to find out which committees actually do something: if a committee actually does something, then, by definition, it is not the "right" committee to be on. The second criterion is to identify those committees which provide an opportunity to extend largesse to other people - that is, other people to whom one may, in the future, be looking for a favour. The "executive remuneration" committee is perhaps the most highly sought-after; the "sponsorship and charitable contributions" committee is also very popular. But the third way to identify which are the "right" committees to join is the very easiest: just take a look at the company’s last Annual Report, if you can find it, and see which committees the Chairman has appointed himself to.

Avoid, at any cost, being on the "accounts and audit" committee or the "legal compliance" committee. This may not be easy, because newly-appointed directors are ordinarily expected to serve some time on these committees, before graduating to a more desirable committee. But it is possible to leapfrog the "wrong" committees entirely, by the skilful use and exploitation of two phrases: "conflict of interest" and "lack of expertise". If you are a lawyer by profession, and you are offered a choice between the accounts and audit committee or the legal compliance committee, you can reject the former on the basis that you lack the necessary expertise, and the latter on the basis that you will inevitably be exposed to conflicts of interest. If you are an accountant by profession, and you are offered the same choices, you can simply use the same excuses in a different order.

6. The missionary position.

Most directors’ reaction to the concept of a Mission Statement is summed up in a four-letter word, not ordinarily used in polite society, although (according to a recent decision in Victoria) not so offensive as to constitute a contempt of court when applied to a member of the judiciary. A word processor’s "spell check" function may suggest such alternatives as "walk", "wink", "want", "swank" and "rank", but none of these words explains the usual attitude to Mission Statements quite so succinctly.

You must learn to overcome these prejudices. Most of the functions undertaken by directors are entirely meaningless. It follows that you can demonstrate your competence as a director, by devoting yourself whole-heartedly to the drafting of a corporate credo which is intended to be meaningless.

It is no easy task to assemble a mass of verbiage which is entirely devoid of any substance. The process should take at least two years, during which - as Chair of the Mission Statement Drafting Committee - you will have the best possible excuse to beg leave of absence from committees undertaking more mundane and less relevant tasks, such as the accounts and audit committee or the legal compliance committee.

The first step is to consult a copy of Roget’s Thesaurus, and find as many superlative words as you can. Mission Statements are not supposed to reflect the mediocre reality; they are supposed to aspire to an unattainable level of perfection. It is not enough to say that the company should do its job well, or even that it should do its job better than it has in the past; one needs to use words like "excellence" or, better still, phrases like "state of the art" or "world’s best practice".

You should not feel concerned if your grammar is a bit weak. Mission Statements only encourage perfection; they do not attempt to demonstrate it. It is, for example, considered *de rigueur* to use comparative words, such as "quality" and "value", as if they were absolutes. It should not trouble you that you do not know the difference between a transitive and an intransitive verb, or even the difference between a verb and a noun: nobody will bat an eyelid if your Mission Statement requires that you will "grow" your corporation, or that you will "gift" something to the community. If a word sounds impressive, there is no need to feel any concern as to what it actually means. So a Mission Statement may promise to fulfil the expectations of all "stakeholders", regardless of the fact that a "stakeholder" is an entirely disinterested person who "holds the stakes" in a transaction to which he is not a party.

Having prepared a check-list of superlatives, you should then scour the financial press to find the latest "buzz words" which have received the approval of industry commentators. You need not feel a moment’s hesitation in adopting an expression which you do not understand, and which you suspect has no intelligible meaning. Remember, Mission Statements are intended to be meaningless. And if you don’t understand an expression, the chances are that no-one else will, so nobody can challenge your use of the expression.

Such "buzz words" tend to go in and out of fashion even more quickly than the creations of Paris couturiers. This is an added advantage, giving Mission Statements an evanescent quality which requires that they be updated at regular intervals. With some luck, by the time that your committee has finished drafting the Mission Statement, it will already be outdated, and you will have to start working on the revised version - with the result that you can permanently avoid membership of the accounts and audit committee, or the legal compliance committee.

At the time of writing, some of the more desirable "buzz words", which are essential to any Mission Statement, include "quality control", "due diligence", "value adding", "cost efficient", "environmentally sustainable", "equal opportunity", "socially responsible", "community based", "transparent" and "morally viable". It is also very popular, just at the moment, to include particular mention of "digital information technology", although references to the "information superhighway" are now considered somewhat *passé*. Current practice also demands some reference to "industry benchmarks", although it is preferable to remain rather vague as to what these "benchmarks" might be.

No doubt all of these expressions will be outdated even before the ink on this paper is dry. Your challenge is to find the latest crop, and harvest them whilst they are still in full bloom. If you cannot bring yourself to read the *Australian Financial Review* or *Business Review Weekly*, try hanging around the bar at a prestigious golf or gentleman's social club, with a discrete pencil and notebook - you will not be disappointed.

Eventually, after some two years of dedicated research and discussion, over long and well supplied luncheons with the other members of the committee, you will decide to adopt the draft supplied by some back-room underling whose competence, humility and social awkwardness guarantee that he or she will never be promoted beyond the level of a junior clerk. Regardless of the nature of your company's business, it will say something like this:

> Our mission is to add value to our shareholders' investment, to fulfil the aspirations of our dedicated staff, to satisfy the most demanding requirements of our loyal customers, and to fulfil our social compact with the wider community, by conducting our business to a standard of excellence which exceeds industry benchmarks, utilising cutting edge technologies, in a workplace environment which nurtures talent, rewards innovation, fosters diversity and protects the disadvantaged, thereby contributing to the creation of a better world for our children and our children's children.

Even when a working draft has been achieved, your job is not entirely at an end. This is where, for once, you must use your own ingenuity. Study the draft carefully, and ask yourself this question: Is it possible that, even on the most generous interpretation, the draft Mission Statement could ever be construed as actually requiring the company to do, or to refrain from doing, anything at all? If the answer to that question is in the affirmative, you have failed in your mission; you should take out a clean sheet of paper, and start all over again. Of course, Mission Statements are not in any way legally binding - but it is potentially embarrassing for you, as a director, to justify any arguable departure from the Mission Statement for which you are planning to take the credit.

What are the rewards for all this hard work? They are manifold. A Mission Statement is like the Oracle of Apollo at Delphi - any guidance which it offers is studiously ambiguous and obscure, and therefore requires interpretation by a high priest. Who better, to consult the Oracle, than the person who created it? This confers on you an unequalled power-base within the company. Your support for or opposition to any project, expressed in terms of whether the project does or does not comply with the Mission Statement, will become the received wisdom. Your allegiance will become invaluable to both management and your fellow directors. Nothing can happen without your personal *imprimatur*, whilst your *obstat* will sound the death-knell to any proposition which you, in your entirely unfettered discretion, rule to be inconsistent with either the letter or the spirit of the Mission Statement.

7. Executive remuneration.

This is one of the most delicate, but also one of the easiest and most personally rewarding tasks, that a director can be associated with. It provides directors with an opportunity to enhance their working relationship with management, at the expenditure of very little time and effort, and otherwise totally at the shareholders' expense.

The actual decision-making process is not likely to be demanding. The Board (or the relevant committee of the Board) will be presented with recommendations from management. To avoid any suggestion of conflicts of interest, it is likely that senior executives from one department or branch will be asked to make recommendations in respect of senior executives from another department or branch; in some cases, recommendations may even be "out sourced" to hired consultants.

You are unlikely to be troubled by recommendations which are less than generous, since it is in everyone's interests to maintain a healthy bench-mark for executive remuneration. In some cases, recommendations may err on the side of excessive generosity, but you should not be troubled by this fact: it is done, quite deliberately, to give you an opportunity to show how ruthless you can be, in cutting back the extent of the recommended salary increase to a level which is only slightly higher than the GDP of most third world countries.

However, for the ambitious young director, participation on the executive remuneration committee affords a rare opportunity to make a real and innovative contribution. A little bit of research may be required, but this can usually be delegated to one's PA. The real challenge is to think up new and even more extravagant "perks" than the executives themselves have been able to devise.

For example, it might be your function to interview a divisional manager who has been recommended to receive a 50% salary increase, and it may be your unpleasant task to inform him that, due to the company's straitened financial circumstances, you will only be able to recommend an increase of 49.9%. But, through your (or your PA's) diligence, you may have learnt that the executive in question has 13 children, and this will give you the privilege of mentioning your personal recommendation that the company should introduce a system of educational scholarship for executive offspring - a proposal which derives added attraction from the fact that all other senior executives are either unmarried, gay, or beyond the age of procreation.

Then again, your (or your PA's) research may have brought to light the fact that the executive in question is a very keen golfer, albeit entirely lacking in talent. How better to secure his perpetual loyalty than to unveil your plan for the company to subsidise sporting club membership fees for executives, and also to sponsor a major "pro-am" tournament at which executives will be required to team up with the likes of Greg Norman and Tiger Woods?

8. Dismissing staff.

Nobody enjoys giving someone else the sack. That is why you should volunteer to do it. You will enjoy the respect and affection of your Board colleagues, for relieving them of an unpleasant duty. And, to your initial surprise, you will find that it does not in any way harm your relationship with management.

On the contrary, the truth of corporate life is that all executives are in competition with one another, and therefore hate one another. Whilst they remain on the pay-roll, they stick together for mutual advantage; when one of them is sacked, the others simply chorus their approval of the Board's decision, and your perspicacity in identifying the "weak link" in the company's management.

But it gets better. The more often you sack someone, the more likely you are to get a reputation as the Board's "hatchet man". There is only one thing better than being liked by management, and that is to be feared by management. You can almost hear the subsequent discussion in the executive wash-room: "Can you imagine that ruthless b****** sacking Smithers, after Smithers included him in last year's junket to Acapulco ... we will have to do a lot better if we are going to keep our jobs".

9. The accounts.

Aside from all the boring and time-consuming work of being a director - free overseas holidays, free tickets for the opera and football, and so forth - there remains one job which is the greatest nuisance of all: signing off on the company's annual accounts. Whilst it is possible to avoid much of the work and responsibility associated with this task, by artfully escaping appointment to the accounts and audit committee, the law unhelpfully requires that the entire Board must approve the annual accounts.

What the law requires is that the accounts present a "true and fair view" of the company's financial position. What you must bear in mind, and keep telling everyone who listens, is that there is no such thing as a "true and fair view" of a company's financial position. It is all a matter of interpretation. Directors may draw some comfort from the fact that Parliament has specifically recognised that corporate accounts are necessarily "rubbery", by providing that such accounts "must give ***a*** true and fair view"; if there were only one possible "true and fair view" of a company's position, surely Parliament would have required that accounts "must give *the* true and fair view".

Yet, whilst there may be many different views of a company's financial position, each of which can be characterised as "true and fair", there is the (at least theoretical) possibility of directors being held liable for accounts which are demonstrably untrue or unfair. This risk calls for special precautions.

One possible response is for a director to achieve sufficient familiarity with the company's financial position to form his (or her) own conclusions as to the veracity of the accounts. I mention this possibility only for completeness - plainly, it is totally impracticable. And, worse than that, if you look too closely into the company's accounts, you expose yourself to the risk that you can be accused of knowingly endorsing false accounts, rather than (at worst) simple negligence.

The preferred alternative is to know as little about the accounts as possible, and to place complete reliance on the assurances received from management and the company's auditors. If you cannot resist asking any questions at all, adhere strictly to the principles outlined above: focus your questions entirely on matters which are utterly trivial or, better still, simply give management the opportunity to assure you that the accounts are in order.

If worst comes to worst, and you cannot escape a "tour of duty" on the accounts and audit committee, there is no need to panic. The only real risk is if you have the misfortune to share membership of the committee with a director who is genuinely committed to ensuring that the accounts are scrupulously accurate. This is a most unlikely scenario, and you can be confident that it will quickly be terminated by a summary transfer of your co-director to another committee where he or she can do no harm: say, the information technology committee, or the catering committee.

As a last resort, however, you may decide that it is essential to leave a paper trail showing the sincerity of your concern regarding the accuracy of the company's accounts. It is a mistake to underestimate the dangers which present themselves whenever you begin to scrutinise your company's accounts, and this suggestion should not even be attempted except in circumstances of dire necessity. But if you absolutely cannot avoid subjecting the company's accounts to some measure of scrutiny, try to focus your attention exclusively on an area of the accounts which (a) appears likely to hold up to scrutiny, and (b) will not significantly alter the total picture if some adjustment needs to be made.

Often, the easiest place to start is with "provisions" - provisions for doubtful debts, provisions in respect of legal claims, provisions for long service and holiday pay, or whatever. If you look up "provision" in any accounting dictionary, you will find that it means (more or less) "a guess". Of their nature, provisions are uncertain. So, no matter how closely you scrutinise them, you should not find anything which is demonstrably inaccurate or misleading.

Indeed, almost any "provision" contains some scope for adjustment. So why not demonstrate your conscientiousness by expressing (and recording in writing) your dissatisfaction with the figures presented by management, and recommending a marginal increase in the relevant provision? Such provisions typically each represent less than 1% of the company's annual revenue, so if you recommend (say) a 10% increase in the provision for exchange rate fluctuations, you will not be responsible for any significant change to the total accounting picture. And the reality is that no-one will be able to argue with your recommendation, since your guess is as good as anyone else's. But you will have a perfect paper trail showing how rigorously you applied yourself to your duties in ensuring that the accounts of the company present a "true and fair view".

Still, it is much easier if - by the most fortuitous of coincidences - it happens that you have a dental appointment on the day that the Board is to consider the annual accounts.

10. If it's too hot in the kitchen.

The rewards of being a company director are significant - the directors' fees, the free trips, the corporate entertaining, not to mention the prestige and notoriety. But, in spite of the selfless sacrifices which you may be willing to make in order to remain on the Board, there are some occasions when your first duty has to be to yourself. Usually, this occurs within days prior to the appointment of a provisional liquidator.

Curiously, Australian law contains no restrictions at all on the circumstances in which a person can resign a directorship. Generally, no prior notice is required. You can just submit your letter of resignation to the company secretary, even as the provisional liquidator is walking through the front door.

Unloading your shares may be more problematic, due to a little-known and inconvenient concept called "insider trading". It is technically illegal to take advantage of knowledge which you have acquired as a director, when you are buying or selling shares, unless the same information is available in the public domain. The absurdity of this restriction is demonstrated by the fact that the law does not prevent you from using "insider" information in deciding *not* to buy shares, or *not* to sell shares which you already own.

In Australia, there is no legal requirement that a director of a public company holds shares in the company, unless the company's constitution contains such a requirement (very few do). But it looks good if a director has sufficient confidence in the company to make at least a modest investment in its shares: an investment equal to, say, the cost of one or two nights at the luxury hotels where directors are accommodated whilst traveling at the company's expense; or, where the company offers discounts to shareholders, the minimum parcel necessary to obtain such a discount. Details of directors' personal shareholdings in public companies are ordinarily recorded in the Annual Report, so it is best to acquire a modest shareholding when you are first appointed to the Board, and neither increase or diminish that investment whilst you remain on the Board. This gives the appearance that you regard the company's shares as a sound long-term investment.

Meanwhile, any actual trading in the company's shares should be conducted in a different name. Vanuatu-based trusts are becoming increasingly popular, although many a director still prefers to conduct share trading in the name of his wife's maiden aunt.

In the unlikely event that a director is challenged over share trading conducted by relatives or related companies, two stock answers should be sufficient to deflect all but the most rabid investigators. In the first place, a director can express a grave concern not to destabilise the company's share price, and point out that, if the director had regularly bought or sold substantial parcels of shares in his own name, that might have produced a quite unjustified reaction in the market. Secondly, directors can borrow a useful strategy devised by members of the Federal Parliament in response to pecuniary interest disclosure requirements: the fact that share transactions are not conducted in the director's own name is not to conceal the transactions from scrutiny, but rather to "quarantine" the investment from the director's personal influence and control. The fact that the director's wife's maiden aunt sold off her entire investment just after the director resigned from the Board, and just prior to a public announcement of the company's impending liquidation, was purely coincidental.

Finally, you should not allow the fact that your company has failed, to curb your career as a director. There are some 1,300 public companies listed on the Australian Stock Exchange, and many thousands of others which are publicly traded in one form or another. Experienced company directors are hard to find. If you have closely followed the recommended precautions outlined above, no-one will possibly be able to blame you for your last company's failure - indeed, your value will be enhanced by your "hands on" experience in dealing with a company in crisis.

By escaping unscathed from one corporate collapse, you will earn the admiration and respect of company directors everywhere. They will wish to benefit from your experience, and learn how they too can insulate themselves against potential corporate calamities.

Welcome to The Club. Your career as a company director is now assured.