



[ MASTERCLASS ]

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# Non-exec roles in SMEs

Non-executive directors have come in for much criticism of late, but they can be an invaluable asset for small and medium businesses

**R**ECENT HIGH-PROFILE corporate meltdowns have not reflected well on non-executive directors (NEDs). Their apparent failure to blow the whistle on errant senior executives has landed them in hot water. With their role now under renewed scrutiny, being a non-exec is no longer an easy ticket to a handy stipend and a free lunch.

Interest in the roles and responsibilities of non-execs is not new. The Higgs Review, commissioned by the UK government in 2003, undertook a detailed review of the role and effectiveness of non-executive directors in the UK.

Its author, Derek Higgs, highlighted the delicate balance between the role of the non-exec as a supporter of the strategic development of a business on the one hand, and, on the other, as a policeman monitoring the activities of the executive.

"Higgs suggested that non-execs should act as 'constructive challengers' within their organisations and, had there been more of that going on, we wouldn't have seen boardroom turbulence on the scale we've witnessed recently," says Tom O'Higgins.

Executive and non-executive directors have the same legal responsibilities. However, as non-executive directors do not report to the chief executive and are not involved in the day-to-day running of the business, they are sup-

posedly more objective. Non-execs also make contributions to board sub-com-

mittees in areas such as strategy and executive remuneration.

"One of the big problems here with board composition in the past is that organisations were fishing in a very shallow pool. As a consequence, they tended to appoint people in their own image, which led to ingrained thinking

and conservatism,"

O'Higgins says. "In my experience, there are many capable people out there who would be invaluable to small to medium enterprises (SMEs) in terms of bringing fresh thinking, experience and different skills to their board tables. Having a diverse board can be an important strength for a company especially during a recession."

Willing and able to provide this training is the Institute of Directors (IoD), which is running two courses of specific interest to smaller enterprises this autumn on the subject of corporate governance for directors of SMEs and director training for family-owned businesses. The Institute also runs one-day training courses for newly appointed directors.

"There is definitely a greater awareness now of the roles and responsibilities of being a director and people are very keen to know exactly what their obligations are," says Maura Quinn, IoD chief executive.

Former head of the Industrial Development Agency (IDA), Padraic White, has a wealth of experience in non-executive roles in SMEs. "One of the first things I do when I join an SME is to bring a degree of formality to proceedings," he says. "I tend to work in the non-executive chairman role and often find SMEs can be quite informal about procedures. Some might confuse formality with bureaucracy. I see it as good discipline that ensures a proper

approach to the decision making process within the company.”

White believes one of the most compelling reasons for recruiting a non-exec is to benefit from their experience. “SMEs often operate in their own little world (particularly those that are family-run) and don’t really see the bigger picture,” he says. “By bringing someone on board who knows their sector internationally, for example, the SME gets a fast-track insight into what’s going on.

“Similarly, if a company is looking for funding, it makes sense to appoint someone who knows the ins and outs of raising money. People often assume putting an accountant on a board is a surefire way to impress. I really don’t see the need if you already have a good financial controller. Look for expertise you don’t have. Possibly the biggest mistake people making when choosing a non-exec is to pick someone they assume will bring in business.”

For companies contemplating taking on a non-exec for the first time, there are formal and informal recruitment channels available. The Boardroom Centre (part of the IoD) has a database of around 260 potential non-execs an SME can tap into. The process works like a normal recruitment service, with the company outlining what skills and experience it wants and the Boardroom doing the matchmaking. Using this service will cost the company the equivalent of 25 per cent of the non-exec’s first-year fees. Typical fees for a non-exec joining an SME start at around €15,000.

A company’s professional advisers or even their bank manager may also have suitable candidates to recommend.

Best practice states that directors should serve no more than three three-year terms, but Quinn says turnover tends to be more frequent than that. “It’s hard to see how someone could remain truly independent after a very long period on the same board,” she says. ■

## Getting the most from a non-executive directors

While companies differ in terms of scale, complexity and boardroom needs, the Higgs Review suggests four key areas in which NEDs can be particularly valuable:

**Strategy** Non-executive directors can both contribute to the development of strategy and challenge it

**Performance** Non-executive directors should scrutinise the performance of management in meeting agreed goals and monitor the reporting of performance

**Risk** Non-executive directors should satisfy themselves that financial information is accurate and that financial controls and risk management systems are robust and defensible

**People** Non-executive directors are responsible for determining appropriate levels of remuneration for executive directors and have prime roles in appointing – and, where necessary, removing – senior management and in succession planning

## Becoming a non-exec

Becoming a non-exec is a commitment. It takes time and carries responsibilities. The law draws no distinction between directors. Non-executive and executive directors have exactly the same responsibilities and obligations.

These responsibilities come under two headings: common law duties and statutory duties. Common law requires directors to act in good faith and not to use their powers for personal gain or the benefit of others at the company's expense. They must also act with due care, skill and diligence.

Statutory obligations include ensuring proper books of account are kept, giving a yearly report of the business to its owners, keeping documents up to date and filed with the Companies Registration Office.

Most crucial of all, perhaps, is the common law duty of care, which has been interpreted to mean that a director should act in accordance with the level of knowledge and experience people would reasonably expect them to have.

Jim Maher has recently joined an SME as a non-exec. "I was hesitant because it is an onerous undertaking," he says. "To be sure it was right for both parties, we decided on a three-month period during which we had the opportunity to check each other out. Both were happy and we went ahead.

"Initially, I was going to work one day a week, but it's more like twice that now and I'm enjoying

every minute.

"The difference between being a consultant and a non-exec is about involvement versus commitment. As a non-exec, the guys can see that I am as committed to the business as they are.

"What attracted me to a non-exec role with this particular company was the energy of the people involved and the potential of the business to grow. What made me attractive to them was that my experience could help them realise that potential.

"They have been very successful thus far, but taking things to the next level is outside their abilities at this point – but

within mine. I am now working individually with the executive team to build their skills and capabilities and to encourage them to look at the planet from a different perspective.

"These are 20- and 30-somethings brimming with bright ideas, but my value is in having been there before and being able to stop them wasting time going down cul de sacs or doing things that I know from experience won't work."

