

Who's on Board?

Owners of privately held businesses often question me about the dynamics of their Board of Directors.

Forming a board is generally seen as the sign of a maturing organisation. Sometimes it is driven by the owner's recognition that new and fresh ideas would be of value. Other times a Board is formed in anticipation of a sale, capital raising or other similar event. A recent survey by the ANZ¹ found that 84% of privately owned businesses were pleased with their Board's contribution to strategy and compliance.

What value should you expect from your Board?

A commonly used term for the functioning of your Board is "governance". For SMEs this is a mixture of the following:

- Guiding strategic direction and generating ideas for growing the business
- Ensuring owners invest in bigger picture thinking
- Challenging owners and holding senior management accountable
- Providing independent perspectives during decision making
- Mentoring senior executives when appropriate
- Ensuring risk and compliance issues are monitored

78% of the ANZ report respondents considered strategy and independence as the most important attributes of a Board.

Who should be on your Board?

Wearing your shareholder hat you need to ask: 1) can this person add value to the company and 2) can they effectively represent the interests of all shareholders. Diversity of backgrounds and expertise is important especially as your Board grows to ensure breadth and depth in strategic decision making. There's a thought that 4+ directors is preferential on an SME Board to avoid the situation of "a husband, wife and the 'poor third'". This may be something to aim for over time.

How about an Advisory Board?

I sometimes advocate the establishment of an Advisory Board as a precursor to, or to supplement, the main Board. The former is used as a source of expertise and knowledge and can help open doors but has no legal responsibilities or the depth of involvement in the company's operations as opposed to the latter.



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The roles on a Board

An Executive Director is a Director who is also employed in the business. A Non Executive Director is a Director who has a shareholding in the company but is not employed in the business. An Independent Director has neither a shareholding nor is an employee, hence the “independent” tag. The Chairperson has an important role in facilitating meetings, driving the Board and should have a close relationship with the CEO. In my experience a Board with a Chairperson who is not an Executive Director operates more effectively.

When should you not set up a Board?

Here you have to be true to yourself. If in all honesty you have no desire to let go and have others involved in guiding your business then there's no point. Similarly if you as the owner are happy with the status quo and have little appetite to grow your business or to seek a change of control then the time, effort and cost involved in establishing a Board may be questionable. Engaging someone to monitor risk and compliance issues would still be prudent but this could be achieved through your professional advisors rather than via a formal Director.

Footnote 1: The ANZ Privately-Owned Business Barometer 2008

