

THE BENEFITS OF A NON-EXECUTIVE DIRECTOR

Adding value through independence and experience will help all organisations to raise their `bottom-line`.

Businesses at all stages of development, from small owner managed firms to public limited companies, are able to benefit from the appointment of an experienced Non-Executive Director (NED).

Can you relate to these business issues?

- The Board needs to be strengthened and could benefit from outside and dispassionate objectivity
- Senior management would benefit from an independent sounding board
- Growth is stifled due to the lack of a particular skill
- The company needs to maximise shareholder value
- The company needs to review its business strategy
- The business needs introductions to new target companies or market sectors
- The company needs more credibility with prospective customers, suppliers and funders
- There are potential conflicts between shareholders and management

Yes? Then you could benefit from a Non-Executive Director

How can NEDs help you?

NEDs can contribute through:-

- Challenging and contributing to strategy development
- Monitoring goals and objectives with an independent assessment
- Ensuring financial information, controls and systems are effective

- Determining remuneration levels of directors, succession planning and other people related activities
- Skills which are complementary to existing management
- Specialist knowledge at critical stages of growth
- Particular sector knowledge contacts
- Overall help for you to be successful

The role of the non-executive director has undergone a marked change. Now NEDs are becoming a basic requirement for successful companies of all sizes but they must be quick on their feet.

Strictly speaking, NEDs have exactly the same legal responsibilities as company directors which are, briefly:

- a fiduciary duty to act honestly and in good faith
- a duty to exercise skill and care
- statutory duties, including the preparation of accounts, a duty to employees and duties in relation to auditors.

The only point where the legal duties of executive and non-executive directors depart slightly from each other is in the depth of their attention to company affairs. Strictly speaking, NEDs are not required to give continuous attention to the company's affairs. They are required, though, to 'familiarise themselves' with the company's affairs and should attend board meetings whenever they are reasonably able to do so.

A NED brings significant benefits to companies of all sizes. They can be used to fill a knowledge gap on the board, to provide specialist expertise on deeper knowledge of the industry. Most NEDs have long careers behind them and can bring solid experience and contacts to a new company. They may also bring a comforting feeling of experience and gravitas to a newly-formed company. According to a survey carried out for Ernst & Young and the Institute of Directors, the benefits of NEDs most rated by directors of larger companies are: advice on strategic direction, independence and knowledge. Interestingly, the survey showed a gulf between what NEDs believe they bring to a company and what executive directors believe NEDs bring. In general, NEDs see themselves as providers of strategic direction. Executive directors, on the other hand, stress their monitoring and supervisory roles as most important and also rate their ability to bring contacts and specialist knowledge to the company.

In smaller companies, the benefits, if anything, are even greater. A NED may, for example, encourage a degree of formality in board meetings which, in smaller companies, can make the full-time directors think more carefully about the consequences of a particular decision. He or she can advise on formal board procedures and other management issues if the existing directors are new to the role. And he or she can act as a confidante and adviser to the chairman or owner. And yet the presence of NEDs on the board of smaller companies is a relatively new concept. As recently as 15 years ago, it would be almost unheard of. The growing demand for good NEDs in smaller companies is evidenced by the number of agencies with posts available.

A non-executive director can bring a wide range of benefits to a small and medium enterprise. Generally they act as a sounding board, providing a detached viewpoint when key strategic decisions are being made, particularly in board meetings. Sometimes they may also play a more hands-on role in how the business is run, bringing new skills to the management team.

I believe that many firms see the costs as prohibitive - but adds that in reality, a non-executive can help boost sales, reduce costs, bring retention to customers and employees with their input. NED are a investment and help improve the 'bottom-line'.

It's often useful to have a non-executive with experience of your business's sector - they will have a good idea of what will work and what won't. They will also have useful contacts. Or you may look for someone with expertise in another key area - raising finance is a good example.

Non-executives can be particularly useful when you're having a board meeting. The presence of an outsider brings objectivity, allowing management to look at issues from other angles when planning the business's future. It also brings discipline to the process, ensuring you prepare board papers giving full information about the firm's performance and prospects.

Of course, if engaging a non-executive director is to be a success, you'll need to pick the right person. Consider whether they've got expertise in an area that will be useful to your firm. Check they understand the nature of small or growth businesses. Can they provide a genuinely objective perspective? And make sure you're clear on their motivation and what they expect from the arrangement.

A Non-Executive Director is a true benefit and will add value to the business in many ways, so take on board this investment and see your `bottom-line` improve.