

Understanding the role of non-executive director

In part three of this management series, Franklyn Roberts gives answers to that frequently asked question: 'What does an SME non-exec actually do?'

In the first part of this series of three articles, Franklyn Roberts, managing partner of OXNED, which provides non-exec services to SME businesses throughout England and Wales, outlined his perspective on how and when a non-exec can most add value throughout the business life-cycle, and in part two, he looked at the key factors to be considered when choosing a non-exec. Here he examines specifics of the role.

How are non-executives perceived by most people?

Due to misunderstandings and the reputation of some long-serving old style non-executive directors in larger companies, many business owners' perceptions are understandably vague and are based on the non-exec's perceived abilities to make useful connections in business or political circles or on regulatory responsibilities such as corporate governance. Whilst these can be and often are a minor part of the role, they are not the essence of the role when working with an SME business. The key focus for a non-exec working in an SME business is always the commercial and financial success of the client business.

What does a non-exec actually do?

Let's look at a typical scenario and take a company about fifteen years old with a turnover of around £8 million as an example. The owner and his or her family are living well out of the business, but the company is not making any real profits and is always short of working capital. The owner wants to increase turnover significantly and to make real and substantial net profits year on year. Let's say they are aiming for £25m turnover and £1m minimum pre-tax net profit per annum and to achieve this within three to five years. There may also be a longer term aim, say during the following five years or so to exit the business with a target of realising £5m to £10m for self and family.

The SME non-exec's role is to validate the feasibility of the objectives, assist in formulating a strategic plan to achieve them, and then most importantly to support implementation of the resulting action plans through to successful completion.

In the above example, the strategic plan may cover three, five or even ten years and may very well be undertaken in discrete stages.

A non-exec will typically be

engaged for a minimum of three years and in most cases will stay for the five or ten years that it takes to achieve all aims and objectives. His or her contract will typically cover two days per month of his / her time, of which half is likely to be face to face, and half not, but these percentages can and do vary.

How does it all start?

Stage One of the SME non-exec's project is dedicated to the agreement of primary aims and objectives and devising with the business owners the strategies required to achieve those objectives with timescales and resource implications indicated. These will be incorporated into a ten to twenty page strategy change business plan, plus financial projections.

This work is sometimes carried out by Accountants and or Management Consultants. The difference is that when a non-exec is involved and driving it, the resultant plan is one that does not only rely on pre-conceived financial judgements or on prescribed management theory only, but on the real business-life experience of the non-exec who will have run a similar sized business before and helped other businesses achieve similar objectives.

How long does this take and what is involved?

It may take three or four months of the SME non-exec working closely with senior management to build a plan together. This timescale leaves time for research and reflection, testing of financial models, marketplace reviews and consultations with others inside and outside the business.

If objectives are clear and a strategic plan is already in place, then the effective SME non-exec challenges and if appropriate validates it, pointing out any potential pitfalls and analytical errors, or any missed options and opportunities. In our example scenario, the business may perhaps have rejected acquisition as a route to growth or been too modest about what could be achieved organically by assuming no change in product offerings.

Crucially, the non-exec will not let critical issues remain unaddressed or fudged and will ensure that plans are down to earth, realistic and achievable. He will gather data, question assumptions, investigate options, generate ideas, challenge perceptions, develop and propose strategies until an



A non-exec will typically be engaged for a minimum of three years

agreed plan is arrived at and until all parties are confident and determined to make it happen.

And the next step?

The next step is to turn the strategic plan into an action plan with realistic monthly / quarterly / annual objectives and activities. A strategic plan without this will often stay on the shelf, and half-implemented strategies are doomed to failure. The non-exec becomes the key driver of action plans, reviewing them and updating them rigorously with senior management at least monthly.

How is the non-exec's time spent during implementation?

A non-exec engaged for two days a month typically, and spends about half of that time in board or other meetings on site and half working off site exploring options, updating actions plans, undertaking various tasks as agreed, working on financial models, consulting other external professionals or sourcing potential partners, routes to acquisition or other resources.

The "third half" of his time, whilst travelling, in the bath, reading or on other business is non chargeable and is spent 'thinking', and plotting and planning, and networking professionally on behalf of the client.

Does the non-exec usually work with several companies at the same time?

Yes they do, but a professional SME non-exec would not take on more than five or six clients at any one time. They need extra time within the twenty two days available to them each month for the 'third half' of their remit as described above.

What areas of the business would the non-exec get involved in?

In our example business, the non-exec would be involved in devising marketing strategies, human resource planning, financial mod-

elling, researching routes to acquisition opportunities and facilitating network contacts to generate additional opportunities for organic growth.

Keeping the action plan on track is a continuous activity in any remit, and includes restructuring relevant board packs, ensuring that all the relevant financial and non-financial information needed for informed discussions and decision-making is available. A non-exec will also monitor key issues such as IP, marketing, human resources, business continuity planning, and financial performance.

How could the non-exec role be summarised?

The non-exec is the catalyst for change and progress. He prevents pitfalls and knocks down barriers to progress at every stage, ensuring nothing is overlooked and that all opportunities are recognised and exploited appropriately and professionally.

Non-executives are sometimes called 'an eagle on the shoulder', sometimes a business mentor, often a nag, but it is their professionalism, objectivity and prior experience that will time and time again guide business owners to good decisions and the effective actions that will ensure successful achievement of their commercial and financial objectives.

And how can the value of the non-exec be measured?

The only true measure of value is the achievement of the commercial and financial objectives set in agreed strategic plans. In our example, the non-exec would first be measured on increased turnover and profitability year on year and then on the realization of the exit value of the business to the owners.

Details: 01235-850790
franklyn.roberts@oxned.co.uk
www.oxned.co.uk