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Independent focus of non-executives

Non-executive directors are an important component of an AIM company's board, providing both corporate governance and invaluable experience.

Non-executive directors are a key part of a company's board and they can be particularly important for small companies.

They do not run the company but they have an important role in corporate governance and helping the company to grow. The non-executives should have a good relationship with the executives but that does not mean that cronies of management should be

executive directors, and in succession planning".

It is recommended that at least half the board is made up of independent non-executives, who have not been executives in the previous five years or have connections with the board or significant shareholders.

The code also says that the chairman should hold meetings without the executives being present and non-

has experience of Chinese companies.

Lewis was a member of the AIM Advisory Group, the committee set up by the London Stock Exchange to provide advice on regulatory and operational factors relating to AIM, but he has left. The AIM Advisory Group has always been short on representatives from the customers – the companies and their directors. It appears that AIM has decided that the AIM Advisory Group should consist purely of 'professionals' – brokers, lawyers, accountants and institutional investors. This means that it loses out on other perspectives.

Individual non-executive directors bring their own skills to the board

appointed to the role. If it is too cosy a relationship then the operations of the business will not be scrutinised with the appropriate rigour. While non-independent non-executive directors may have a role to play there needs to be a level of independence for at least some of the non-executives. They need to be able to challenge and debate the ideas and strategy of the executives.

Corporate governance

According to the Financial Reporting Council's UK Corporate Governance Code: "Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing

executives should meet annually to appraise the chairman's performance.

The UK Corporate Governance Code is designed for larger companies more than for the majority of companies quoted on AIM but it does give some guidance on what to expect from a small company non-executive director.

Experience

One man who has firm views on the role of a non-executive is Frank Lewis. He built up a number of businesses in South Africa, including computer retailer Computer Warehouse. Computer Warehouse eventually floated on the Johannesburg Stock Exchange, giving Lewis his first experience of being a director of a quoted company. He eventually left the company and moved to London at the end of the 1980s.

During the 1990s Lewis made the switch from entrepreneur to non-executive roles. He has a varied CV of non-executive directorships, including the technology, consumer products and industrial services sectors. He also

Skill set

Lewis has a list of qualities that he believes are essential to be a successful non-executive. They include good interpersonal skills, ability to manage conflict, clear communication, integrity, commercial awareness and sound judgement. It is important to be able to say what needs saying and, if it is needed as a last resort, be willing to resign – although Lewis rarely walks away from a challenge.

Lewis is a stickler for proper controls and monthly management accounts. He thinks the non-executives should "take a helicopter view". His definition of a good non-executive is someone who "ensures that the business is well run but does not run the business".

Lewis says that chemistry is important. "People make the business", he says. A sound relationship is required for a board to function properly. "You have to challenge in the right manner," he argues.

Lewis believes that the specific job of the non-executive chairman of an AIM company is to talk to the institutions

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and keep them informed of what is going on at the company. The chairman needs to make sure that investors have as few nasty surprises as possible and, if they do happen, they are informed promptly.

Lewis has been on the boards of companies that are already quoted as well as those going through the flotation process.

Non-executives have a pivotal role in guiding a company when it intends to gain a quotation and they should be appointed as soon as possible in the process. Generally, the time taken up by going through the flotation process comes as a shock to the company's management. A non-executive needs to make sure that the management

As soon as he discovered the fraud Lewis had to inform the shareholders and try to salvage what he could of the business. He took over as chief executive and refocused the company on interactive TV content. Many others might have walked away or let the business go under but Lewis, who was also a substantial shareholder, was determined to keep the business going.

More recently, another of Lewis's companies, mobile phone maker ZTC Communications, was hit by the disappearance of its chief executive. The business was profitable but it ended up being closed down. The company itself was preserved and became a shell called China Evoline. Lewis was unable to find a suitable

breeding technology company Genus by livestock tags and products supplier Ritchey in 2008. The businesses that made up the original Ritchey business were sold in September for £3.25m or are, in the case of Travik Chemicals, being closed.

"The non-executives need to be changed", says Animalcare chief executive Stephen Wildridge, who only took up this post earlier this year. He joined the company when the Animalcare business was acquired and has been behind the strategy to focus on this business. "Geoff (Rhodes) and Nick (Wills, the Marquess of Downshire) relate to the old business". Both have farming backgrounds whereas the future focus is on companion animals. Rhodes was managing director of Ritchey between 1972 and 2005, while the Marquess of Downshire has been a non-executive director since 1998.

Just because a director pre-dates the 2008 acquisition it does not mean that he is not useful to the business. Wildridge is happy with non-executive chairman James Lambert, who has been on the board since 2003 and chairman since 2005, because he provides City expertise and he is known throughout the City. He built up fully listed Richmond Foods into the largest volume ice cream maker in the UK through a series of acquisitions before it was taken private by Oaktree Capital for £176m. He still runs the business, which was merged with another company.

What Wildridge needs most is someone who knows the veterinary treatments business and has years of experience of regulation in the life sciences sector. Gaining regulatory approvals for new treatments and drugs is an important part of the business, which expects to launch at least four products in the current financial year. Anyone who can help to make that process as efficient and smooth as possible will be a great benefit to the company.

Wildridge says that there are a number of candidates but he does not expect to make an appointment before Christmas.

Non-executives have a pivotal role in guiding a company when it intends to gain a quotation

understands the process they are going through and do not spend too much of their time away from the business. If they don't, then companies can end up disappointing in their early months on the market because the business has not been properly managed throughout the flotation process.

Lewis believes that non-executives effectively sit on the same side of the fence as the nominated adviser. He would like to see the nominated adviser and non-executives of a company talking every quarter without the executives being present. That is an extension of the Corporate Governance Code's view that non-executives should meet regularly without the executives being present.

Problems

Lewis has not had a smooth ride at all of his companies. One of his early roles was as non-executive chairman of e-District, the family-focused internet and interactive television services provider, which floated on the back of impressive usage figures that proved to have been massively inflated.

acquisition in the required time and the company's quotation was cancelled in October.

While these experiences are unfortunate they do provide Lewis with a vast amount of experience that few non-executives can rival.

It is not all about making sure that the company is run properly, it is also about assisting the management team with making the most of their business opportunities. Individual non-executives bring their own skills to the board and it is important to have a good mix of experience. Lewis believes that it is important that there is a balance between being a policeman and adding commercial value.

Animalcare

Sometimes the requirements of a business might change. An example of this is veterinary treatments and products supplier Animalcare. It has gone through a number of changes in recent years.

Animalcare was formed through the reverse takeover of the Animalcare vet products business from cattle