

Neds muck in at the little dynamos

Non-executives at AIM-listed firms roll up their sleeves. Carly Chynoweth reports

Being a non-executive director (Ned) is generally a hands-off role. Management runs the business day-to-day, while Neds provide strategic oversight and ensure that the business is complying with all the rules. However, when it comes to companies listed on the junior AIM stock market, the boundaries tend to blur a little.

For a start, many AIM companies hire Neds with sector-specific experience because they are looking for someone who can offer business advice as well as good corporate governance, said Martin Kendall, founder of New Independent Directors, which prepares executives for their first Ned role.

"FTSE 350 companies tend to hire Neds who can offer breadth of experience, whereas AIM businesses want people who have experience in their sector," he said. "The role requires you to be an adviser as well as a director."

John Ellis, managing director of Boyden, a search firm, agreed. "The smaller the company, the more the executive can use non-executives as a crutch," he said.

This dual role means that AIM Neds can have a much higher workload than their counterparts at companies in the main market. "At a large organisation the amount of time you need to spend on a Ned role each month is fairly predictable, but the smaller the

business the more unpredictable it becomes," Ellis said. "The demands on individual Neds can vary markedly."

This is exacerbated by the fact that AIM boards tend to be smaller than those of FTSE 350 businesses. They often have only two or three Neds, so there is less peer support for non-executives.

"It means that the onus on the individual to be up to date with current regulations and the bureaucratic framework is much greater," Kendall said. "There are fewer heads to understand things, so you have to know it yourself. Additionally, there will be a much weaker secretariat than in a FTSE 350 company, which will have an army of people to take care of all the governance and compliance issues for the board and to brief Neds about any changes."

Instead, Neds can expect to spend a lot of their own time keeping on top of changes in the marketplace, in regulation and in the business itself.

"As a Ned and a chairman I talk to my chief executive every week and I like to be copied in on all relevant emails," said Frank Lewis, who has been a non-executive on 10 AIM boards. "The days of just attending a board meeting once a month are over. If you think that's enough, you are not doing the job properly."

There are also likely to be differences in the boardroom atmosphere given that the

group will probably be smaller and may include the founder as chief executive — sometimes even as chairman because AIM companies are not required to separate the roles.

"This means Neds are likely to get more deeply involved in the relationships between the chairman and chief executive and, if it isn't working, they may have to be something of a mediator," Kendall said.

Neds can face particular challenges when working with a chief executive who has not led a listed company before and who is used to doing things his or her own way.

"Entrepreneurs are totally different to managers at big businesses," Lewis said. "They have made it themselves and it is difficult for them to work within the confines of a board."

It is up to Neds to make sure the executive team understands that running a public company means taking the interests of outside shareholders into consideration and working within AIM and corporate governance rules, he said, but it also pays to keep an eye out for possible slip-ups.

Typical problems can range from the executive departing from the agreed strategic plan without informing the board, or neglecting to tell it about potentially damaging changes, such as the loss of a big contract or the bank's decision to reduce the company's overdraft. Often this is because they want to try to sort things out on their own first.

The other big blind spot for executives in newly listed companies is the need for care when dealing with price-sensitive information. Entrepreneurs who are used to talking to friends and industry con-



'I like to know what's going on,' says Frank Lewis

tacts about exciting developments at their business will have to get out of the habit fast or risk facing problems with insider trading.

Lewis admits that there are times he has wanted to grab executives by the scruff of the neck and give them a shake, particularly when they are not being as open with their boards as they should.

"I like to know at all times what's going on in the business because as a Ned I am jointly liable," he said. Sometimes it will become necessary to use your powers of persuasion to remove the founder from the chief executive role. This can be very hard if he or she is a majority shareholder, he said.

At other times a Ned may end up helping a founder take the company private again. And, if the executive refuses to listen to the board, you must be

prepared to walk away to protect your own professional reputation, he said.

Despite the role's challenges, Neds should not expect a huge salary. "If people are doing it for the money, they are the wrong people," Ellis said.

"The fee depends on the size of the company, but at the low end it could be £25,000, going up to about £100,000 for a chairman at the top end." In return the Ned should expect to put in an average of three days' work a month — significantly more at times — as well as always being available to the executive by phone or email.

Lewis thinks the key attribute, especially when working with a newly listed company, is having been in the executive's shoes in the past. Having done it yourself means you will be taken more seriously by management, he said.