

The Sue Fenton Interview



It wasn't too long ago that a non-exec would be appointed simply to add some gravitas. But the days when a non-executive director could simply turn up for a board meeting, offer a few valuable nuggets of wisdom drawn from their experience, and then disappear until the next one are long gone.

Nor are they just taking their place on the board just to satisfy the requirements of the IPO process or the private equity investor.

Today they're taking on more responsibilities and helping privately-owned companies to cope with high frequency change, says Frank Lewis, who has had more than twenty non-exec chairman and director roles.

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Being a non-executive director was once considered to be a part-time sinecure for the CEO looking for something to do in retirement. Has that changed?

"It has become a more professional role and more of a full-time job. Long gone are the days when you just came to lunch and a board meeting now and again. Because layers of regulation have been ratcheted up as the result of various scandals, there is always a threat of legal action and that can impact on the reputation of the business and its managers. So risk mitigation has become more important.

"That means there is more work involved for the NED. You have to spend more time with executive management and be more of a partner with them and get more involved in the business than you did in the past. At the end of the day, the role of the non-exec is to ensure that the business is well run, but not to run the business.

"The traditional arrangement is three days a month but in reality you need to be available twenty-four/seven to deal with issues. Sometimes it's like the proverbial three buses arriving at the same time. When I was chairman of a mobile phone company I once got a call to say the chief executive had gone missing and they had a problem at their factory in China. It was a serious situation; the shares had to be suspended, there were a lot of legal issues and there were riots in the factory because no one was in control. I never even considered the time it would take me to sort it out. If something

happens you have to deal with it; the non-exec has a fiduciary duty to look after the interests of the stakeholders.”

What are the key attributes for a non-executive director?

“You mean in addition to what you would expect, the interpersonal skills, sound corporate governance, financial and entrepreneurial skills, good judgement, integrity and commercial awareness? I would say exceptional networking and communication skills and the credibility to liaise effectively with city institutions, stakeholders, lawyers, brokers and auditors. And the willingness to be hands on, particularly in a private company.

“A lot of non-executives have a financial or legal background but the best are those that have run businesses themselves and have gained the entrepreneurial skills and have got the scars and T-shirt.

“Also being able to ask the stupid questions can actually be quite helpful. It’s not necessary for a non-exec to have sector experience except in certain specialist areas like financial services, providing you have a good, broad general business knowledge.

“But you do need to be able to challenge in a positive, constructive manner; in some ways the ability to stand up to the executive management is even more important than your other qualifications to do the job. You need tact and diplomacy but if that doesn’t work you have to be able to do whatever it takes. I once discovered a director was carrying out fraud in collusion with other people in the company. It came as a shock because the board should have found this out. I called an emergency meeting and we did what we had to do.”

How can the non-exec add value?

“I look at the management operates and at the finances and if the company’s performance is erratic, first up and then down, then something needs to be remedied. Being able to understand why it’s happening is very important. It could be competition, a product becoming obsolete,

the sales team not up to standard. Maybe gross margin is eroding or sales are decreasing. I look at the trends each month. The smaller the company the more hands on a non-exec might need to be. In bigger companies it is more about vision, strategy, dealing with institutional shareholders, and increasingly corporate culture. I am a firm believer that culture done well is a powerful driver of organisational performance.”

What due diligence do you do before getting involved in a company?

“I start by looking at the financials and talking to the executive management and, if it’s an AIM company, to brokers and nomads to get a good basic grounding. I can also get the best information from middle managers and the shopfloor. Nobody usually comes to talk to them and they will tell you things that perhaps you won’t hear from top management. Talking to them gives you a good understanding of the issues, it gives you an idea of how things are being run and whether management is dealing with issues and what the culture is like. If there was a general consensus that the company was doomed, I won’t get involved unless I felt that I could play a part in fixing the problems.

“The idea of doing due diligence works both ways of course. If you’re taking on a non-executive, don’t just look at their CV, ask around. You should have carte blanche to talk to anyone they have been involved with.”

How important is the relationship with the chief executive?

“An open and transparent relationship with the chairman and chief executive is vital for the success of the business. The relationship should be based on mutual respect and understanding of the distinction between the role of executive management and the non-exec. The most common failing of a non-executive is not understanding that they are not there to run the business. But at the same time, I am not

just there to make up the numbers. I can make things happen, for example, an organisational restructure or an acquisition; I can say 'this is what I think should happen and it isn't'. But some entrepreneurs see the NED as being there just for decoration, or just to comply with corporate governance requirements

To what extent is the role of the non-exec that of risk avoidance?

"Increased regulation has meant that non-executives have become more risk averse; if we don't work closely with the board we could be liable if they mess up the business. So the job is largely to mitigate risk, but being only risk averse is not a proposition any more; it doesn't add value. Non-executive directors need to become more entrepreneurial. The definition of good corporate governance is making sure there is prudent, effective and entrepreneurial management to deliver long-term benefit to the stakeholders.

"The role means constructively challenging the management, being proactive and ensuring the vision of the business is being achieved, ensuring the business is well run and has the right controls and governance procedures in place – and that the right corporate culture permeates throughout the business - without getting involved in its day-to-day running."

What is the catalyst of bringing in a non-executive?

"Sometimes a company just wants someone to help make the business generally more professional. What is more interesting to me is where there is a specific purpose; somebody is retiring or the company wants an IPO or an exit for other reasons and there's a need for a proper plan to help ratchet the business to the next stage. It might be that the board doesn't have all the skills required and has no experience of dealing with institutional investors and brokers."

Non-execs are a pre-requisite for flotation and private equity investment to ensure

governance, but what are the benefits for a private company of having one on board when there is no legal requirement for them to make such an appointment?

"Private company executive directors can be too close to the business. They can't see what needs to be done or they don't want to do what needs to be done because they have become too comfortable. The business is delivering the lifestyle they want; they're not prepared to move the business forward or make changes. In a bigger company, the issues are more sophisticated: perhaps the management is not able to see the big picture, or the product is getting obsolete. "Both private and public companies are the same in terms of how they should be run. The difference is that a public company has to undress itself more. There are more reporting procedures and there are more people looking over your shoulder - the press and institutional investors for example.

"Private businesses don't have the same compliance issues, but if they want to scale up for an exit - a trade sale or IPO - it is helpful to bring in an experienced chairman to assist in the process, who can make sure the business runs in a way that adds substantial value. The non-exec can bring in a good structure and processes and reporting procedures. And where necessary, they will mentor board members so they are able to continue to run the company well as it grows. "Most companies going through an IPO don't know what's hit them. They can spend so much time on the listing process that the business suffers. In a public company everybody wants to see it grow so when you are setting budgets for a listing be conservative in your forecast so you can beat it by 10%. The worst scenario is to over promise and under deliver - that will make the share price crash. My role is to take some of the pressure off and help the management focus on that."

What are the challenges for a non-exec working with a family business?

"A lot of family firms have always been run to fund a lifestyle, and not a lot of thought has

gone into what happens down the line. When they do and want to maximise the value for the family, they can decide it is necessary to bring in an outsider - which can be quite a difficult and emotional experience for other family members. "It can be difficult to get them to understand what the requirements are to take it to the next level and that they need to make fundamental changes. Sometimes they want all the trappings of the public company with the lifestyle of a private company.

"There are often very mixed feelings among the family. Some might want an exit while others want the next generation to carry on the business. So it's crucial to get the family to understand what's needed to take the business forward to benefit all of them. The non-executive needs to be sensitive as well as impartial and the net result should be to make the business more professional so that, whatever happens, the outcome is the right one for the family shareholders as a whole."

What's the attraction of being a non-executive?

"It is an interesting role if you like to be involved in bringing your experience and skills to bear on helping a business. I love working with people and feeling part of a team and making things happen, helping companies and people grow. In a public company, I enjoy it when the vision is achieved and the share price moves up; which is a barometer of success. My most rewarding roles have included helping to build up a chain of computer stores that were then listed on the Johannesburg stock exchange. Another time my involvement meant an engineering group managed to turn a substantial loss into profit. Those were tremendously satisfying experiences."

What downsides are there to the job?

"One issue is that some companies see their non-executive directors as a way to open doors and get work for them. To put somebody on the board just for that purpose is ridiculous; that is

what the executive directors and management are supposed to be doing."

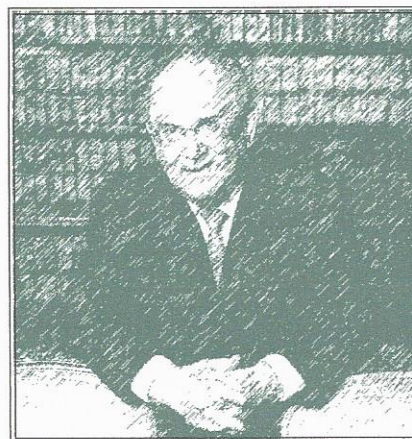
"The D-Ned has been talked about as a key hire - someone with extensive understanding of digital who provides advice on all things on-line and e-commerce.

"Cyber security is increasingly a governance issue. It brings big implications, such as the possible loss of reputation. A business can be destroyed by hacking.

"So businesses need to make sure that is a board level issue. But many directors are men of a certain age with grey hair, or no hair, and their understanding of these issues is not that great. They might hire a full-time manager responsible just for those issues, who can talk to the board and advise the directors on what needs to be done."

Serial non-executive and executive director and chairman Frank Lewis has a diverse portfolio of non-executive directorships which include rapidly expanding AIM quoted companies in the UK, along with overseas ventures. He is actively involved in mentoring CEOs and SME boards in several industry sectors and working with entrepreneurs to develop their businesses, advising on business growth, profitability, acquisitions, exit strategies and flotations.

Lewis has been involved in the full business lifecycle from start-ups to success, and has dealt with diverse businesses and cultures, nationally and internationally, with significant experience working with investors, professional advisors and brokers.



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