

Experience on tap

Whatever the size or scope of your business, a non-executive director (NED) can provide invaluable insight, guidance and stability when you need it most. Here Jim Doyle shares some of his experiences of taking this key role, revealing the extent to which a NED can prove invaluable – especially in unexpected circumstances.

It was June 2011 when, as the non-executive Chairman of a software company, I received some devastating news. After a short illness the Managing Director, one of the founders and major shareholders of the business, had died.

Any board of directors needs to ask itself the question of what would happen in such an event – indeed, it is one of the key questions that they can expect their NED to ask them. The board must carefully consider the robustness of the company's Risk Register, and what contingency plans are in place in the case of such an adverse event, in this case the loss of a 'key person', at the highest possible level. Recognising the possibility of such a loss, and its ramifications, can be the basis for establishing financial cover from a commercial insurance policy. However, the suddenness and sadness of losing a colleague and a friend is not in truth something that one can emotionally prepare for. Such was the situation in which I found myself, effectively having to steady the helm while the Board itself was reeling from the shock.

My immediate challenge as the non-executive Chairman was to ensure that objectivity was kept to the fore across the small organisation. The company had to continue to fulfil its orders, to support and reassure its software customers, to improve and develop its current release, to maintain its Quality Assurance Systems, and to pay its suppliers and staff. The mantra 'Keep Calm and Carry On' is seen everywhere these days, but still it would not have been inappropriate if emblazoned on the company's front door.

The Board obviously needed to debate its reaction to the loss of one of their own, agree between them the most sensible way forward in the immediate and medium term, and also carry its shareholders along that route. It was incumbent on the executive directors to reassure their teams that there was no need to be concerned about the ongoing health of the business. One of the features of this particular company is the 'large ticket' nature of its training systems: six figure purchases, bureaucratically slow by nature, aimed at medical and educational institutions, notwithstanding the current economic climate. The company's strategy remains global in scope, based on cooperation with sector specific local distribution networks, reflecting the timescales involved. Three months after the death of the MD, five systems were sold into Australia via our Sydney based distributor with whom we had established a relationship in 2008. This was as reassuring psychologically as it was commercially. It also reaffirmed the message that the company and its strategy are more than the sum of its parts. It was a creditable achievement that reflected the passion the MD had, and which his colleagues still have, for the business, which continues to look forward to an exciting future.

It is interesting that this same company recently exhibited in Boston at a location impacted by Hurricane Sandy. Monday's seminars and presentations were curtailed at 2pm as a result of the superstorm, but by Tuesday normal business was restored. Perhaps bolstered by their experience of handling the bereavement of their friend and colleague, I am confident that the directors and staff on the ground in Boston had no difficulty in putting the inconvenience of a disrupted conference into its proper perspective.

Vital skills

A freelance director operating through a limited company can add value in a non-executive basis at little risk. If introduced by a trusted adviser, there are no upfront recruitment fees and no redundancy package if the chemistry proves inert. Accounting partnerships such as PKF, Baker Tilly, PWC and Grant Thornton maintain a panel of such NEDs, comprising professionals from many fields, and advisers can 'matchmake' suitable directors to businesses for maximum benefit.

Financial institutions including large banks can often benefit by bringing in appropriately experienced interim panel members. Several years ago, I was called upon by a hotel business to construct a medium term P&L, balance sheet and cashflow on behalf of the directors, so that their bank could take an objective view of a business which had been 'flagged up' as living dangerously close to its covenant constraints and funding limits. The bank had asked its advisers for an opinion, but the advisers, having discovered that no robust forecast existed, had to stand back from actually producing the forecast – as they would subsequently need to perform a due diligence exercise upon that forecast, and obviously could not do both. The forecast needed to

be independently produced by the directors, approved by the directors and the results of the exercise owned by the directors, before the bank's advisers could meaningfully challenge the key assumptions built into the model. So I was introduced, and we drew up a formal agreement between the hotel and my company outlining the scope of the work I would perform. The model was built using six years' retrospective monthly numbers as a foundation. Following detailed conversations to hammer out reasonable and robust assumptions with the directors, I was able to generate firm forecasts of the forthcoming 18 months, supported by recent experience of being a full time Finance Director within the leisure industry.

The key conclusion was that the fundamental business was sound, profitable and cash generative. However, the long term loan's repayment structure, put in place at the point when the directors bought into the business, put too much liquidity pressure onto the business's ability to generate EBITDA over the short to medium term. The perceived trading problem manifested by the bank's internal 'overdraft warning' system was then fully understood. Assured by the conclusions of the advisers' subsequent 'due diligence' exercise, the ongoing relationship between the bank and the directors returned to a normal state of health, focusing on trading issues and positive discussions over future capital spend that would enhance the forecast performance over the medium to long term.

The value of versatility

NEDs can also operate in the public sector – I have worked in this capacity on the Trust Board of an Acute Hospitals Trust. Company law dictates that all NEDs of a private sector business share the same legal responsibilities and obligations as the executive directors. Taking on those legal responsibilities as a layman operating within the medical field should not be taken lightly, but the value that one's commercial experience can add to a Trust Board makes such a role an interesting and rewarding one to both parties.

Understanding the bureaucratic nature of the NHS is as intellectually challenging as it is time consuming. The monthly Board Pack was encyclopaedic. Certainly, holding Trust Board meetings in part in public session was a new experience for me. During my time as a NED I chaired Consultant Appointments Committees (having first taken the required HR training courses), sat on the Capital Project Board that had delegated powers to oversee the building of a new cardiac unit and a new oncology facility, and I learned a great deal about senior employee reward and retention issues as a member of the Remuneration Committee. The professional challenge of helping a Trust Board achieve non-profit objectives should not be underestimated. When one's organisation can be punished by having too large a financial surplus at year end as well as having a deficit, it does cause the grey cells to operate in a different way! In a Trust whose income is £1m daily, £365m pa, achieving a break-even position allows a tolerance of less than 0.3% of turnover.

Any board of directors wishing to appoint a NED can expect to gain from experience accumulated from other industries and sectors. They can also expect to be challenged. A creditable NED will walk away from a board that he or she believes is taking the wrong path, but by challenging from an 'I'm on your side' perspective, their overriding aim should always be to find the best way forward, to be constructive, and to be an invaluable ally.

There are very few business decisions that are so low in risk and cost, and yet which offer so much potential value, as the appointment of a credible, professional non-executive director. Their ability to move between companies and sectors, to constructively challenge the status quo, and their willingness to share their experience and ideas can fertilise business growth.

Jim Doyle

Jim Doyle is a member of a number of NED panels across the UK, a registered supplier of Wind Energy Network and a member of The Renewables Network. A Fellow of CIMA and HOSPA, Jim has worked at Board level since 1988. More details can be found at www.jadfms.co.uk.

