THE PROFESSIONAL EDGE

Just because you operate a small- to medium-sized business does not mean you should become sloppy or apathetic when it comes to day-to-day operations. Professionalising your business and making sure you have all the right controls and structures in place can reap massive rewards, as Sue Prestney explains.

SMALL businesses are often criticised for having a lack of professionalism – something that can hold back their development and growth. It is not hard to understand why small businesses are often unsophisticated. It takes time, money and skill to implement systems, protect intellectual property, document procedures, approve contractual arrangements and shareholders agreements, and instigate financial measures and controls. Small businesses are simply resource poor and usually the owner/operators are very skilled in operating the core business but have little experience in finance and general management.

Implementing some corporate governance procedures is a good starting point. Bringing some discipline via a formal board of directors will naturally draw the focus onto the key issues that are necessary to professionalise the business.

However, many small businesses do not hold directors meetings that are more formal than a discussion around the kitchen table and many others do not recognise the need for board meetings at all. What board meetings are supposed to do is ensure that important issues are dealt with, including:

- Review of periodic management accounts – which requires them to be prepared in the first place;
- Approval of annual financial statements – which requires you to understand them;
- Approval of business plans, budgets and strategy;
- Approval for borrowings and capital expenditure – which requires analysis; and
- Risk management.

Without a formal process these matters can be overlooked or, at least not given the consideration they deserve.

Board composition is an issue that is frequently fraught with problems. In a family business it is not unusual for all family members to be directors irrespective of their positions in the business. It is little wonder that board meetings end up dealing with the minutiae of family squabbles, like who has taken too many holidays or overdrawn on the loan account.

One of the functions of a family business constitution is to set out how business decisions are to be made and how the board is to be appointed. This is an opportunity to ensure board members are appointed for their experience and skills rather than their surname.

However, on occasions this may result in some family members being removed from the board, creating disenfranchised family members. Some family businesses form a Family Council and allow it to appoint a representative to the board who then acts as a formal conduit between the family and the board.

Appointing the right people to the board is not always easy, given the onerous responsibilities that a director's position brings with it. External parties are generally reluctant to take on such a position unless they are well compensated.

An advisory committee is often used as a means for the board to obtain the advice it needs without burdening the external advisors with directors' responsibilities. Obviously care must be taken to ensure that these people are not in reality acting as directors – which could make them liable as directors under the Corporations Act.

An external party will also be more inclined to be involved on a board when family issues are kept off the agenda or are formally presented through the Family Council representative. This is more easily said than done. Where there is more than one family member on the board the chances are that family issues or conflicts will arise. We have all seen the (often damaging) interaction of father/son combinations and the many manifestations of sibling rivalry. Some family members seem congenitally unable to agree on an issue, and businesses have been paralysed by the inability of family board members to agree on any strategic decision.

A good chairman can often overcome these blockages but generally this is more difficult where that person is a family member, especially dad, who also has an emotional stake in the family issues. Taking sides with one family member against another, or with a non-family board member against a family member can be at enormous cost to family harmony even where the decision was clearly in the best interests of the business.

The role of chairman is critical to the professional, efficient operations of a board. From my experience the chairman should, generally, not be dad (although it is often next to impossible to prevent it). Not only because of the confusion that can arise between his role as chairman and his role as dad but also because many SME business owners have no external board experience and do not really know how a board should operate. As a result, meetings are often unstructured, even if they have an agenda, focus on operational issues and make few important decisions.

I also have misgivings about executive chairmen. A person who has a management position in an SME may give priority to looking after their own interests and covering his/her back. This can be very political and result in counter-productive meetings.

The ideal solution is to have an experienced, independent chairman. This means that the person would actually have to be a director and, as a result, would require an appropriate level of remuneration. This may seem like a high cost for what could be seen as a discretionary expense, but it is actually a small price to pay if it allows the business to professionalise and ultimately realise its full potential. wcm

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