

 feature

## Role of the non-executive chairman

A non-executive chairman has an important role to play in making sure that an AIM company is run well and it communicates successfully with its investors.

The role of the non-executive chairman of an AIM company is important for corporate governance and in terms of maintaining good relationships with institutional investors. Just how difficult it is can depend on how smoothly the business is running but even when things are going well a chairman has an important part to play.

It would be foolish to think that there is an exact blueprint for what a non-executive chairman should do and how they should interact with the company. Different companies require different qualities but there are some broad characteristics that are vital. Corporate governance is of course a major part of the role but there is much more to it.

### Qualities

There are a large number of qualities that a person needs to be a good chairman of a small quoted company. An ability to assess the big picture and provide an overall strategic view is key in terms of the business itself. The chairman has to be able to identify the important issues and provide a clear sense of direction. This requires good business knowledge with significant board experience also important.

Communications skills are also important – both for within and for outside of the company. The chairman has to make sure that the company gets its message across.

Frank Lewis has 25 years of experience of being an independent non-executive director and non-executive chairman. He has chaired a number of AIM companies and he is currently non-executive chairman of Asia Ceramics Holdings,

which supplies ceramic wall and floor tiles, sanitary ware and other home improvement products to the domestic Chinese market, and minerals explorer China Africa Resources.

Lewis says that he believes that a new chairman needs an induction to the business and he feels he needs to visit the different parts of the business so he can understand it. "I like to talk to people on the factory floor," he adds. This helps him to understand the morale and characteristics of the business.

### Relationships

The relationship between a chairman and the rest of the board, particularly the chief executive, is a key ingredient of the role. Some companies have an executive chairman but generally a non-executive chairman is favoured by investors, although this can depend on the size and circumstances of the business. A non-executive chairman, though, is not there to run a business. That is the chief executive's job.

Lewis believes that the success of a chairman hinges on the relationship with the chief executive – a relationship that Lewis says should be "centred on honesty, trust and transparency". "There is a fine line to walk between being too involved and being too remote".

Richard Power, who heads the small companies team at fund manager Octopus Investments, says he likes to meet and chat to a company's chairman. He also wants to know that the executives and non-executives work well together so he will talk to executives about how the board is functioning and what the dynamics of

the board room are. "We want boards to be operating well."

Sports nutrition products supplier Science In Sport needed a chairman when it was spun out of Proventus during the summer. In this case, chief executive Stephen Moon had worked with the company's eventual chairman John Clarke and he gave him a call to ask him to become chairman. Clarke spent 35 years with GlaxoSmithKline and its predecessor companies, becoming global president of GSK Consumer Healthcare between 2006 and 2012. Moon worked with Clarke in the development of Lucozade Sport so Clarke has relevant experience for Science In Sport.

### Investors

Choosing the right chairman for the business is important but sector experience is not always the key quality a company wants. The chairman is an important conduit between the company and investors.

Generally the chief executive and finance director are the directors that deal with investors, particularly at results time. However, if there is a strategic question or there are concerns about the business then investors are likely to approach the chairman and they will want the chairman to make sure that any problems are sorted out. Investors will not be pleased if the chairman avoids the responsibility to keep them informed. The investors need to have confidence in the chairman.

Power says that at the smaller end of the market there is no exact prescription for the role of a chairman. When a company is small an executive chairman can work, although a split



## feature

role is obviously preferred. It may even be a good thing to appoint an existing non-executive director rather than a chairman that is completely independent and from outside of the business.

The chairman also has an important role in protecting the interests of minority investors when there is one

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big shareholder in the company, who probably also has board representation. The interests of the main shareholder will not necessarily be the same as the rest of the other shareholders. The chairman may need to stand up to that major shareholder in order to ensure that the company is run in an appropriate way for a quoted company and the interests of minority shareholders are maintained.

#### Sutton Harbour

Michael Knight announced that he was stepping down as chairman of Plymouth-based Sutton Harbour earlier this year. He had been chairman for six years, which included the global financial crisis which hit the property operations. The marine and property company started the process of seeking a replacement at the end of May. The company used an executive headhunter to find the right person. There was strong interest and a number of strong candidates.

"What we wanted was a hands-on chairman because we are a small management team", says Sutton Harbour chief executive Jason Schofield. "We already had accounting and property experience on the board," he adds. Sutton Harbour required someone with strong finance, City and governance experience. "We wanted a fresh pair of eyes," adds Schofield.

In the end, Sutton Harbour chose Graham Miller, a law and MBA graduate with experience at private equity firms, including 3i. He was also previously director of corporate

development at fully listed Avon Rubber. This meant that he had the relevant financial and City experience.

Miller, who joined the board as chairman on 23 September, admits that he did not know Sutton Harbour before he was approached.

As he is based in Bath it is easy for Miller to visit the operations

and spend time in Plymouth. Miller says that he has had plenty of opportunities to get to know the business. He has also met the bank and some of the major shareholders, which include AIM-quoted Crystal Amber. "I like to get involved", says Miller, although having been at the company little more than two months he is still getting up to speed.

Not all appointments work out even if an extensive recruitment process has been carried out. Alastair Gornall was appointed a non-executive director of political information publisher Dods (Group) ahead of taking over as chairman from Kevin Hand on 26 September. Gornall was

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chief executive of Reed Exhibitions for six years and he is chairman of unquoted corporate reputation consultancy Blue Rubicon.

A week after taking over as chairman, Gornall took over the role of chief executive from Keith Sadler, who retained his other role as finance director. Less than nine weeks later, Gornall resigned from the board. According to the company: "As a consequence of personal circumstances that were unforeseen when he first joined the company, Alastair has decided that he is not the appropriate person to carry forward the reorganisation that he has recommended and which the board

has approved".

This means Dods has to seek a new chairman, having previously gone through the recruitment process. Andrew Wilson has been appointed interim chairman and Martin Beck, who has been with Dods for a decade, acting chief executive.

#### IPO

"The sooner you work with executive management on an IPO, the quicker you can get a feel of what is required," says Lewis. Many of the executives of a company that is coming to the stock market do not have experience of the quoted arena and they do not understand what will happen or how things will change after a flotation.

A chairman with experience of the quoted arena can guide the executive management and help to build the board. Investor relations advice can also be provided by someone who has experience of the process and knows how to communicate the attractions of the business to potential investors and the media.

"It is the task for the chairman to set the tone at the top and to say

what you want the organisation to be, establishing good governance and making sure the business has the right corporate reputation in its community", argues Lewis.

"The chairman can be an unsung hero", argues Power. Like a referee at a football match, if everything is running smoothly then the chairman will probably go unnoticed. If a chairman is spending a lot of time with investors it tends to mean that something has gone wrong.

"At the end of the day, what defines a good chairman, is the ability to run an effective board, and to manage relationships with both shareholders and stakeholders", says Lewis.