Governance versus management for SME directors

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Though directors of SMEs may have to “wear two hats”, a director’s primary role is a governance one: setting the strategic direction and goals for the company, and acting as a guardian of the interests of the company’s shareholders.

It is far easier for directors of larger corporations to remove themselves from day-to-day management, but are the multitude of SMEs that operate in Tauranga big enough to have separation between governance and management?

The answer should undoubtedly be yes. Of course it is common for directors of SMEs to be working in the day-to-day operation and/or management of their businesses, but in such cases it is essential that they also take time out to properly "govern" their company. The directors of too many SMEs are guilty of spending all their time on the shop floor and not enough time "with their director's hat on" thinking about business strategy, structure, and direction. This can result in underperformance of the company over the longer term, and in worst cases will put directors at risk of neglecting their legal obligations as a director.

Some simple steps that can be taken to improve governance in the SME context include the following:

- Have formal board meetings. These should be scheduled regularly (eg monthly) and should be separate from operational/management meetings.
- Set an agenda for directors' meetings that focuses on governance issues (high-level decision making, strategy and long-term planning, financial review). Circulate the agenda and any papers that are critical for discussion and decision-making in advance of the meeting. Keep written minutes of key decisions that are made including any resolutions that are passed.
- Chairing of the meetings needs to be strong. The role of the chair is to ensure that good ideas come to the table and are discussed fruitfully. Full and frank discussion is important, and all directors should be encouraged to share their views – that is what they are there for! Formal meeting time together is precious, and a good chair will keep discussion focussed so that the meeting keeps to time and gets through its agenda.
- Consider appointing one or more independent directors. Having a perspective from someone not personally invested in, employed by, or transacting with the business can be very useful around the boardroom table.
- Even if the company does not appoint any independent directors, consider using advisory panel members (non-directors who attend the meeting)– this may bring fresh perspectives and new ideas. Alternatively, from time to time invite an external advisor or other guest speaker with a perspective on the business, its markets, or the economy to address the board.
- Wherever possible, ensure that board meetings are enjoyable. They are unlikely to achieve all that they should if they are long, tedious and overly solemn. Holding at least one meeting per year in an "off-site" location provides a change of scene, and being physically away from the business can often help directors to get out of an

operational mind set.