MELLO LONDON

THE IMPORTANCE OF HAVING THE RIGHT BOARD

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THE RIGHT BOARD OF DIRECTORS

Why does that matter?

- **To the company -** *the duty of 'guardians'*
- **To management -** guidance and monitoring
- **To investors -** preserving a 'fair view'
- **To shareholders, creditors etc -** INDEPENDENCE

Balance on a Board of Directors

Investors, sometimes Boards, lenders, regulators, even management, often fail to grasp the relevance and importance of the right balance on a Board of Directors

COMPANIES ACT 2006

The General Duties of Directors

(s172 et seq.)

…..TO PROMOTE THE SUCCESS OF THE COMPANY

..with independent judgement…care, skill and diligence...avoiding conflicts of interest…etc.

Considering the consequences of decisions in the long term

SUCCESS – CALLS FOR BOARDS THAT

- Understand the markets and customers
- Anticipate…. energise…. consider strategy
- Constantly, constantly **challenge**
- Set a culture and
- Assess (maybe even change) management

Some Important Guidance

- **The FRC Corporate Governance Code**

  Proposed Revisions to the UK Corporate Governance Code – effective from 1.1.2019

- **QCA Corporate Governance Code 2018**

  10 Principles starting with:

  Establish a strategy and a business model which promote long-term value for shareholders

  Have at least two Independent Non Execs

  Evaluate Board Performance Annually

- **UKLA (Continuing Obligations) and AIM Rules**

“What counts is the actual behaviour of the organisation and its top people. This is far more significant than a hundred statements about a company’s culture or its ethical policy”

David Tyler, Chairman, J Sainsbury

BUT

“Culture eats strategy for breakfast”

Peter Drucker

First…

GOOD CHAIRMAN = GOOD BOARD

POOR CHAIRMAN (Chairperson)

No teamwork

- No challenge; No vision; No strategy;
- No direction given to management;

Or even

- Uncontrolled management, a somnolent Board a drifting company
- and perhaps - classic litigation!

So what's the balance?

Chairman: 'leads' the Board, encourages the wider agenda, engenders openness and challenge

Board: Works as a team; shares oversight; 'lifts' management

Non Execs: Must be truly independent and have the time to understand the company and challenge the Executive

Management: they manage, run, and <u>control</u>, the business (Board should check that there are controls!)

Shareholders: if they 'engage', and hopefully do so constructively

In the interest of the Company, employees, creditors etc

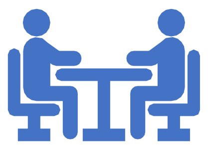
SOME CRISES WE HAVE EACH KNOWN

We will talk through, without names, some of the disasters with which we have been familiar where….

A poor Board was part of the problem

Creating constructive challenge

- Good, challenge is creative…..it is productive risk management.
- Good Independent Non Execs provide the challenge.
- The breakthrough: what should that be?
- What reports/controls should you know are in place?
- Because management will only give you what management measures....



DIVERSITY

- Not for 'correctness' but because:
  - Different perspectives matter
  - Different backgrounds and skills help
  - Men can be quite blinkered, women valuable board members
  - The goal is a constructive team

Also…it is less and less acceptable…

To use "*Non-Executive*" as any form of distinction.

The law does <u>not</u> distinguish one Director from any other.

It is no defence to say that you did not know what you <u>could</u> and <u>should</u> have known in order to do your job.

<u>Don't wait to be sued</u> to find that out !

In conclusion

- Get out and meet customers, managers, staff, investor-shareholders, potential shareholders. Visit plants.
- Work as a team led by a good Chairman
- Ensure a min of two Independent Non Execs with the rights skills & time
- Listen, think, challenge
- Assess and then monitor management: support, even mentor, the good and absolutely **get <u>rid</u> of the problem management**.
- Know what **<u>you</u>** add to the Board.

Downing

Downing Strategic Micro-Cap takes strategic stakes in quoted companies that have reached a transformational stage and yet are still undervalued. DSM is prepared to be constructively active and engage with the boards of companies as a catalyst to realising value for shareholders.

FIRST FLIGHT

NON-EXECUTIVE DIRECTORS

Specialist search for Non-Executive Directors, Chairs & Advisory Board Members for AIM companies.

VIVA CAPITAL

VIVA Capital is a scalable venture capital and advisory platform that provides investors with the opportunity to participate in the upside of the digital transformation and ecosystem disruption by backing the very best entrepreneurs from around the globe. VIVA's leadership are experienced in managing the interface between shareholders and company boards.