

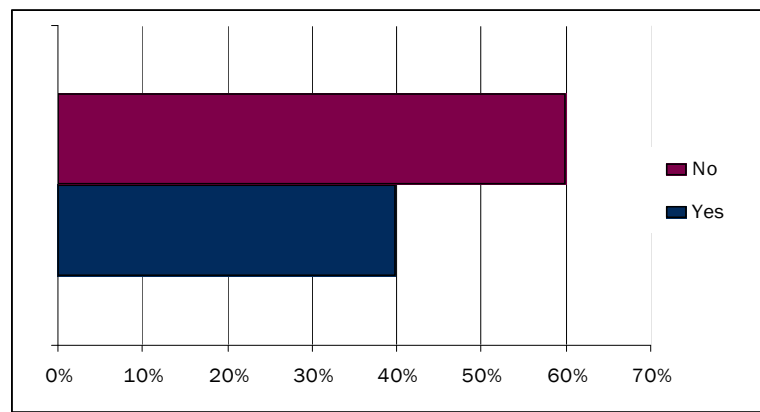
**SURVIVING THE RECESSION
THE VALUE OF
NON-EXECUTIVE DIRECTORS**

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SURVIVING THE RECESSION THE VALUE OF NON-EXECUTIVE DIRECTORS

Research commissioned at the end of the last recession shows that privately owned companies with a non-executive director on the board stand a better chance of survival in an economic downturn. Yet, more than ten years on, over half of creative companies (60%) have still to appoint one.

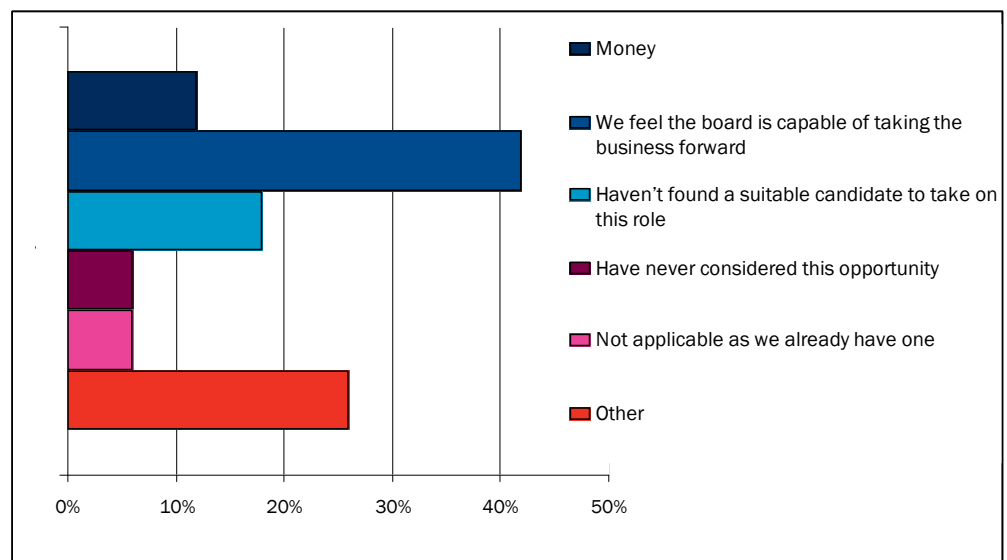
Figure 1: Do you have a non-executive director on the board?



Of the 60% of creative companies without a non-executive director on the board, 42% are confident that their existing board can take the business forward, while 30% cite constraints such as an inability to find a suitable candidate (18%) or money (12%) as key barriers to appointment. Another 6% of respondents refer to never having even considered this opportunity.

A significant 42% of creative companies have decided not to appoint a non-executive director, confident that their existing board can take the business forward. But these are extraordinary times.

Figure 2: If you don't have a non-executive director on the board, what is the reason for this?



Business owners – some of whom may not have even owned their companies during the last recession – are being tested to the full. There is no manual on how to survive these difficult times, but drawing on the experiences of those companies that succeeded in the last recession could provide potential strategies for surviving the current downturn. These strategies are as relevant now as they were then and their application could determine whether or not a business stays the course.

Following the last recession, Kingston Smith W1 commissioned Professor Roger Hussey, formerly of Bristol Business School and now at the University of Windsor, Canada, to conduct research into the business strategies used by private companies that succeeded despite the economic climate.

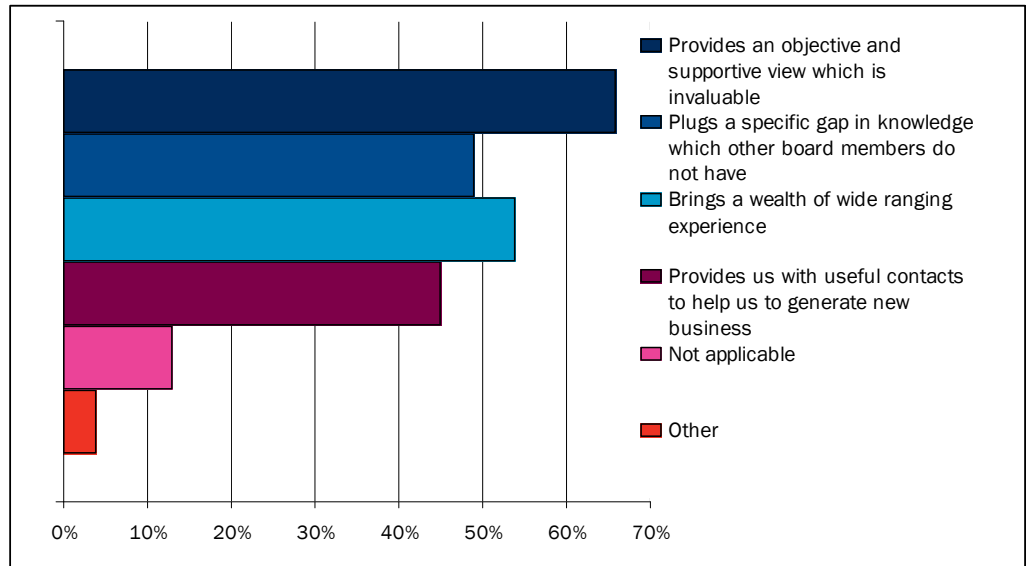
Interestingly, companies which did not focus on sales growth as a key driver during the recession and instead concentrated on providing high-quality products and services generally enjoyed higher profit margins. Smaller businesses which pursued active sales and marketing strategies tended to do well, with networking proving to be an important activity in promoting and protecting the business. The study also revealed that the most successful businesses were those with a small management team, restricting decision making to a few individuals. However, one of the most striking findings was that private companies with a non-executive director tended to have higher profit margins.

Experienced non-executive directors are likely to have worked through the last recession and can provide valuable advice on trading through turbulent times. They are also likely to have a healthy contacts book, which can prove especially useful when trying to drum up new business.

In fact, 45% of creative companies surveyed said that non-executive directors would add value to their business for exactly this reason. Another 49% said that non-executives would fill a specific gap in knowledge which other board members do not have, while 54% referred to the wealth of wide-ranging experience which non-executive directors bring to the table.

Significantly, 66% said that where non-executive directors would add most value is by providing an objective and supportive view which is invaluable. In our view, non-executive directors can often look at a company dispassionately and make judgements which owner-managers may be too close or emotionally linked to the business to consider. For example, Professor Hussey's research highlighted that directors often had no reliable benchmarks about what the costs should be for a given level of activity. Cost-cutting advice is just the kind of experience that the right non-executive director can bring to bear.

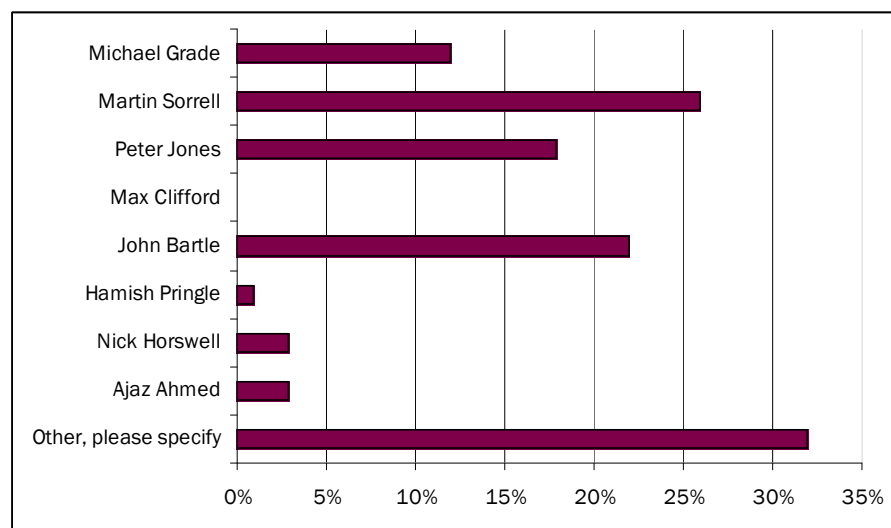
Figure 4: How do you think a non-executive director has added value/would add value



Choosing the right non-executive director for the business is paramount. It is often an extremely effective way of supplementing the skills of the existing board, providing the management team with strong financial, legal or marketing expertise.

Of those creative companies surveyed, 26% said that WPP Group chief executive Sir Martin Sorrell would be their ideal non-executive director. Interestingly, WPP's own 14-member board holds 11 non-executive directors. John Bartle, one of the founders of Bartle Bogle Hegarty and a non-executive board director for the Guardian Media Group, came a close second with 22%. Meanwhile, Peter Jones of the BBC's Dragon's Den drew 18% of the vote and Michael Grade, executive chairman of ITV, received 12%.

Figure 5: Who would be your ideal non-executive director



Before making a non-executive director appointment, the Institute of Directors recommends first identifying those competencies around the boardroom table and then developing specifications of the skills, personal qualities, knowledge and experience required for the appointment. It is important to find someone who is independent and impartial but who can firmly identify with the company.

Once an appointment has been made, business owners must draw on their experience, maximising on the benefits of having a non-executive director involved. They must be prepared to ask tough questions and accept honest, unbiased answers. Example questions to ask include:

1. Are there any other ways in which to cut costs?
2. Are there any other markets that can still be tapped with our existing products/services?
3. Can we use our current facilities and contacts to enter completely new markets?
4. Will a merger with another company provide a synergy?
5. Do we have a viable business?

One of the key benefits that non-executive directors bring is helping the board to focus on what needs to be done and helping to make it happen despite the demands of day-to-day activities.

Recent statistics from The Insolvency Service reveal that there were 5,055 compulsory liquidations and creditors' voluntary liquidations in total in England and Wales in the second quarter of 2009 (on a seasonally adjusted basis). This was an increase of 2.9% on the previous quarter and 39.1% on the same period a year ago. In light of these figures, seeking the advice of independent experts who have been through a similar experience could shape the future of some creative companies.

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