

More than “rubber stamping” - What does a director do?

It's not just a position you give to someone on their business card. Being the director of a company has its responsibilities and by law every private company in New Zealand requires at least one of them.

Essentially the duty of the director is to ensure the smooth running of the company. Well, what does that mean in practice?

Directors are not just a “rubber stamp”. They don't just go along with everything that management puts forward. They have to be fully informed about the company's operations and the industry in which the company operates, and keep up-to-date with how the business is performing. They need to make their own enquiries in relation to proposals that have been put forward by management.

At all times directors should act honestly and should not use their position as a director to improve their own financial position.

The law expects directors to be diligent in the discharge of their duties. This means that they should:

- Obtain information in relation to the operations of the company
- Inspect factories, retail shops, warehouses, outlets and business premises owned by the company
- Attend board of directors' meetings and be an active participant in those meetings
- Ensure that management is adequately reporting to the board of directors and not using the directors as a “rubber stamp”
- Ask questions and enquire as to the meaning of various matters submitted in reports to the directors
- Ensure that management is adhering to the company's business plan
- Review Key Performance Indicators, periodic financial statements and the budget and cash flow forecasts to ascertain whether the company is performing in a satisfactory manner
- At all times be aware of the company's requirements not to trade whilst insolvent
- If unsure, insist that the board appoints an external expert to advise the directors on any particular technical issue that has been submitted to the directors for their approval.

Directors should ensure that meetings are held regularly to keep abreast of what's happening.



Insolvent Trading

It is imperative that directors ensure the company does not trade while it is insolvent.

Insolvent trading means that the company continues to trade with the public and continues to incur further debts, while it is unable to meet its existing debts or will be unable to pay the current debts being incurred.

The test of solvency is - can the company pay all its debts as and when they become due and payable?



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Keeping Watch on Financial Affairs

There are numerous reasons for businesses incurring financial difficulties. Directors need to be aware of these so they can ensure appropriate action is taken to prevent the company trading whilst insolvent.

Reasons may include:

- Low operating profits or losses being incurred
- Problems with paying creditors in accordance with the negotiated payment terms
- Problems with meeting loan repayments to banks, financial institutions and other lenders
- Problems with paying income tax installments
- Suppliers refusing to give the company credit
- Legal action being instigated against the company by any supplier for the non-payment of goods or services
- High debtors' amounts owing above the amount for which the company has budgeted
- High stock or work in progress investments above the amount for which the company has budgeted
- Excessive investment in capital expenditure, especially if it was not budgeted for
- Departure from the budget or cash flow forecast prepared for the business.

How to Get the Most Out of Your Day

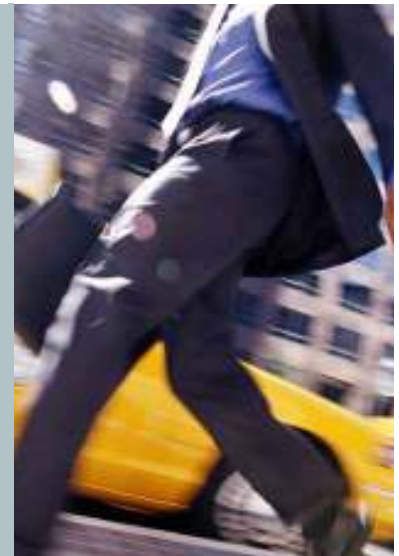
It goes without saying that effective time management is essential for running a successful small business.

You've only got a certain number of hours in which to run your business and those hours need to be allocated amongst a number of competing areas of responsibilities.

Effective time management involves planning, delegation and elimination of bad time-wasting practices. Many people find goal setting a useful way to get things done. You need to prioritise the most important tasks and then plan daily, weekly and monthly goals to achieve them.

Probably you've heard that idea before and while you try to set goals and work towards them you just can't seem to get away from all the seemingly urgent crises or problems that confront you on a daily basis.

Let's take a look at quadrant 1 and quadrant 2.



“Quadrant 2 is the heart of effective personal management. It deals with things that are not urgent, but are important. It deals with things like building relationships, writing a personal mission statement, long-range planning, exercising, preventative maintenance, preparation – all those things we know we need to do, but somehow seldom get around to doing, because they aren't urgent.”

“The Seven Habits of Highly Effective People”, Stephen R Covey.

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Be sure to read each article with the mindset “How this could apply to our business”. Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.

Spend time on the important but non-urgent matters

In his book, *“The Seven Habits of Highly Effective People”*, Stephen R Covey talks about four quadrants in the time management matrix - those activities that are: 1. urgent and important, 2. not urgent but important, 3. urgent but not important and, 4. not urgent and not important.

He says people who constantly operate in a state of crisis management spend most of their time in Quadrant 1 - constantly attending to crises and pressing problems. Quadrant 2, however, is where you need to aim to spend most of your time.

Covey says: “Quadrant 2 is the heart of effective personal management. It deals with things that are not urgent, but are important. It deals with things like building relationships, writing a personal mission statement, long-range planning, exercising, preventative maintenance, preparation - all those things we know we need to do, but somehow seldom get around to doing, because they aren’t urgent.”

If you’re working in this quadrant of time management you have more time to work on your business. And by spending more time operating on the important but not urgent matters, you will, in time, reduce the problems and the time you spend in Quadrant 1.

The critical point here is that by spending more time on the planning you will begin to reduce the crisis points in your business.

To run a successful small business you need to aim for a smooth, considered approach on a daily basis. Obviously it won’t always be possible but, in most cases, success in business comes down to effective planning. And effective planning is only possible through effective time management, allowing you to work mostly in Quadrant 2, on the important but not urgent matters of your business and reducing the crises and problems of Quadrant 1.



Next Steps - Prioritise Your Time

If you can:

- Prioritise the most important things to do
- Set daily, weekly and monthly goals
- Plan time each day to work on them...

Then you would probably be doing better than most of us. But prioritising and goal setting does not always get you past the daily crises and the problems. The priorities you list may simply be more daily problems to work on. To move beyond that, you need to change the way you prioritise your time. As Michael E. Gerber says, you need to work “on your business, not in it.”

- Ideas on time management have changed over the years. Read *“The Seven Habits of Highly Effective People”* by Stephen R Covey to work out where you currently stand in the time management stakes and how to go about making a change for the better.
- Aim to spend most of your time working on the important but not urgent matters - the planning, preparing and creating - to reduce the crises and problems hitting you on a daily basis.

An important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

Employ Right First Time

After you've completed the interviews, now is the time to choose your future employee. With luck, the right candidate will stand out above the rest and may have from the time you interviewed him or her.

But it's not always that obvious. When it comes down to the last two or three candidates you need to make sure the one you select will work towards your business' success.

Getting recruitment wrong can take a considerable amount of time, energy and cost to undo, not to mention the negative repercussions it is likely to have on the rest of the team. You need to do everything in your power to make sure you do get it right.

Check again against the job description and make sure the person you select will be able to carry out the relevant tasks, or have the initiative and common sense to quickly learn how to do them.

Initiative and attitude are vital to small business. Finding out what they know and how they think about business will tell you a lot about how well they will fit into your organisation.



What is the applicant's attitude to business?

- What is the applicant's attitude?
- What does the applicant know about business?
- Do you believe the applicant can communicate effectively?
- Does the applicant understand customer service?
- Does the applicant understand teamwork?
- Will the applicant be a good team player?
- Has the applicant any understanding of marketing?
- Does the applicant understand the business' need to generate bottom line profitability so that it can succeed?

Referees

Even if one person has stood out above the rest from the very first interview it's still important to follow up with the referees they have provided. Checking with referees can be very helpful. Where the candidate has told you about levels of responsibility, taking initiative, and so on, the referee can tell you how well they managed it.

Ask the referee very specific questions. You're trying to ascertain what the previous employer really thought about this person.

- For how long and in what capacity have you known the applicant?
- In what position did the applicant work?
- In what organisation?
- Please comment on the qualifications and experience of the applicant and the applicant's suitability for this position.
- Would you re-employ the applicant in his/her former position?
- Please comment on the applicant's ability to be part of a team.
- Did the applicant exercise initiative in his/her position?
- Can the applicant work independently, recognise potential problems and take appropriate action?
- Do you have any other comments?

If you can't find the right person, think carefully before going with second best. You may be better off starting the recruitment process again.