

- 1) A pathway to playing a role in SME governance.
 - a) No different than networking for executive roles – as many people as possible know of your interest and availability. But, as always, clearly state your focus as SME. Then, two people talking about a need and YOU aren't there ... one suggests your name to the other.
 - b) Tap into your network of professionals who specialize in SME business and are trusted advisors/friends of the SME principals – lawyers, accountants, consultants, insurance brokers.
 - c) Once on a SME board, your fellow directors are good sources from two standpoints – 1. they may be asked to sit on a board but they don't have the time. 2. they may want to pursue another/better opportunity but have to relinquish something.
 - d) NFP director roles are great for honing director skills with minimal risk.
 - e) Another source for leads are VC firms who do not have the time or inclination to oversee their investments through board.
 - f) Consider firms in which you have invested.
 - g) Bottom line is that there is plenty of opportunity ... you must be selective exercise as much DOC in assessing an opportunity that you would if you assumed the role.
- 2) What a SME expects from a Director:
 - a) There are two answers ... “it all depends on the life stage of the SME” ... and “governance is not enough”.
 - i) Life Cycle Stages (defined in Don Hathaways's book “Tables and Chairs”):
 - (1) < \$5M – Seed funding & product development.
 - (a) Product refinement
 - (b) Reputation.
 - (c) Start courting future capital sources.
 - (d) No PR or broad based marketing.

- (2) < \$25M – Early commercialization
 - (a) Focus on systems/processes.
- (3) > \$25M – Late stage expansion
 - (a) Focus on execution.
 - (b) Clearly understand capital requirements.
- (4) Liquidity transaction.
 - (a) Preserve/increase value of the corporation.
- ii) Also depends on whether the enterprise is financed through Private Equity vs Publicly Traded (Dec 08 The McKinsey Quarterly.)
 - (1) PE – adding value
 - (a) Strategic
 - (b) Effective performance
 - (c) Operational issues
 - (2) Publicly traded – avoiding risk.
 - (a) Protect interests of shareholders.
 - (b) Audit issues
 - (c) Compliance
 - (d) Remuneration.
 - (e) Risk assessment.
 - (3) Time (PE) = 3X Time (PT)
- b) The old adage “noses in, fingers out” still applies but fingers can definitely be “in” more than for larger corporations.
- c) Be prepared to contribute to market development as well as seeking additional or future capital.
- d) Assume you will have more involvement than large company director and more access. Quarterly meetings are typical but expect frequent seeking of advice.

- e) Patience ... NOT criticism. This doesn't mean backing off on challenging management processes.
 - f) Bring industry specific experience to role as well as governance.
 - g) SME entrepreneurs are more comfortable when the VC's are governance literate.
 - h) Pascal Levensohn "white papers" describe director attributes:
 - i) Emotional stability.
 - ii) Interpersonal skills.
 - iii) Pattern recognition.
 - iv) Investment & operating experience.
 - v) Network.
 - vi) Mentor CEO.
 - vii) Tolerance for ambiguity.
 - viii) Obligation to make a personal impact
- 3) What the Director should expect from the SME.
- a) Don't look for extensive staff support for your role ... or even within the organization.
 - b) Don't expect the 3 ring board binder to arrive 10 days before the meeting. On the other hand, regulators won't excuse from your DOC if you approved financials that you haven't reviewed.
 - c) Don't expect to have a lot of fellow directors – typically 7 or less.
 - d) Don't expect a long term appointment. Because needs of SME will change as the company matures, most appointments have no term but are reviewed annually.
 - e) Don't expect help navigating the "user unfriendly" SETI insider trading reporting system.
 - f) Do expect to look for opportunities to apply all large company methods and processes ... but, remember that a SME does not have the capacity to deal with

- significant overhead or front end investments. Most people in the SME will do a number of jobs. So, the notion of dedicated roles is unlikely.
- g) Exposure to executive resources is not a problem ... Senior management will sit in on most/all board meetings.
 - h) Do expect to deal with issues ... the most common relate to :
 - i) Failure to face tough issues.
 - ii) Especially, related to senior management.
 - iii) CEO is an entrepreneur but not an executive.
 - iv) CEO recruited “old” friends to help get business off the ground.
 - v) “Friends” don’t have the skills needed to support the business.
 - i) Expect some form of compensation comprised of :
 - i) Stock options
 - ii) Equity
 - iii) Cash – an honorarium or a fee paid per meeting that declares there is value attached/expected to your involvement.
 - j) If assuming multiple directorships, try to cluster in adjacent industry verticals.
- 4) In summary, there is a huge need ... and demand for competent directors in the SME sector.
- a) XK enterprises incorporated.
 - b) 4K enterprises publicly traded.
 - c) > 50% of workforce.
 - d) 85% of exports derived from SME’s < 100 ee’s
 - e) ICD Focus
 - i) 4 SME DEP’s to date with more planned
 - f) Clarkson Centre for Board Effectiveness score SME’s adoption of governance best practices ...
 - i) 10% improvement in scores.

- ii) Still lagging large corporations by 5 years.
- 5) If, in light of my comments, you pursue a role in this segment,
- a) New and different perspectives on current issues.
 - b) Often SME's are "niche" businesses, not complicated and easy to understand and make a contribution.
 - c) Cradle of innovation in Canada ... Invest as much as 5X R&D as large firms when expressed as % of revenue ... exciting place to be.
 - d) SME management are nimble ... they see an opportunity and attack. The line between concept and commercialization, between decision and implementation ... can be very direct and short.
 - e) So, jump in and enjoy the ride.