CAKE blamefest takes surreal turn

AN AIM listed company has recently made the news headlines for a sudden alarming discrepancy in its accounts and briefly assumed soap opera proportions with its central entrepreneur character portrayed as both goody and baddy. As further detail and/or crisis PR messaging dribbled out, the shifting sands of this blamefest potently mixed delighted schadenfreude, hero-grams, whodunnits and history lessons with additional dollops of partisan Brexit opinion (from either side) also crowbarred into the news equation.

Amazingly, in these tidal waves of financial opinion spume, an experienced financial expert commentator stole the show by gratuitously mixing wrong-headed obsequiousness – apparently brought on by his intense Executive Chairman love – with some breath-taking but still world class misunderstandings of how corporate governance usually works in the UK.

Some of the few facts we know include that the long-time Finance Director of this company was also the Company Secretary so – structurally – occupied the key gatekeeper position for the flow of all financial and legal information. The Executive Chairman is a 37% shareholder in the company and also headed up its three-man Audit Committee. So far, so closed circled. Astonishingly said 'expert' appears to believe that – in this instance – effective corporate governance is NOT and would not have been helped by the additional supervision of "overrated" independent directors because "independence partly comes from having to reason to care what happens at the firm(s) you are supposedly overseeing or advising".


Gerry Brown, Chairman
NovaQuest Capital

According to non-executive directorship expert and advocate Gerry Brown, "this cock-eyed slightly perverse perspective requires a long walk round the houses to end up in this particular faraway cul-de-sac of misunderstanding. The clear benefit to any UK company – whether public, private, non-profit or AIM-listed - is the possible advice, guidance and supervision that can be provided by properly independent directors. Excusing the failure to spot fraudulent behaviour by counter-factually blaming non-executive directors is to proudly hold the telescope the wrong way round. Even if we ignore that board executives – Executive Chairman and Finance Director – rather than non-execs were the primary supervisors then doubting the structural benefits, use and effectiveness independent directors can deliver is – at best – nonsensical. Stranger still, it is possibly the unique first instance of non-executive directors surrealist accountability: non-execs being held responsible for a CAKE they didn't bake and then not stopping it being eaten!"

Brown continues, "though I am not an experienced business and finance journalist – investigative or otherwise – many different or elementary questions about corporate governance could have been asked instead. For example, is it better governance best served by the majority shareholder also being executive chairman? This question applies to any business so organised, let alone one with (previously) reported revenues of £120 million. Does being an "entrepreneur" automatically entitle you to a mulligan from the less enquiring?"

Brown hopes, "If nothing else, and looking to the bright side, this mis-placed knowledge light but apparently sincere critique of the alleged ineptness of non-executive directors must surely stimulate further wider debate into their role, function, purpose and effectiveness. Hopefully, it will also prompt government legislation to ensure the many and varied contributions of independent minded non-executive directors to UK business and its corporate governance is better understood, enabled and – most importantly – properly legally codified."

Gerry Brown's influential book *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence* suggests that we need to empower our existing cadre of experienced non-executive directors to make a real serious supervisory and strategic difference at corporate board level. Brown's book demonstrates that properly independent directors offer shareholders, pension funds, investors, management and the public many real immediately implementable strategic and supervisory benefits.

See the Book Review of *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence* on page xx of this issue of ***Credit Control Journal and Asset Risk Review***.