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# **SME Business Owners/Directors** *Introduction to the owner/ director's role in growing their small to medium business*

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Your focus as a business owner/director is key to the growth and long-term sustainability of the business

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## SME Business Owners/Directors

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#### **Your focus as a business owner/director is key to the growth and long-term sustainability of the business.**

If you are looking to take your small or medium-sized company to the next level, it is important to understand how your role as a director underpins the growth of your business.

In some small and medium sized enterprises, the manager may also be a director. In such cases the separation between daily management and growth strategy can become blurred. However, it's important that requisite time and focus is dedicated to both. A company looking to grow cannot afford to ignore the role of its directors and the business benefits that can be achieved through good governance.

#### **What is an SME?**

"SME" stands for 'small to medium enterprise'. For the purpose of this guide, 'small' is deemed to be a business that employs less than 10 employees and 'medium' is a business with 10 to 199 employees.

#### **What is a director?**

The term 'director' is defined in the Corporations Act 2001 as: 'A director is someone that is responsible for directing (and, in smaller companies, managing) the affairs of a company. A director is anyone who acts in this capacity - even if they have not been formally appointed'.

- Are you the owner of a SME and a sole director, or one of a small number of directors in the company?
- Or have you been appointed as a director to the board of a small, medium or large business?

If so, this definition of a director applies to you.

The Australian Securities and Investments Commission (ASIC) is the corporate body concerned with ensuring that companies comply with the Act, and that individual directors carry out their responsibilities.

#### **What is a board?**

A board (or board of directors) is the collective term applied to the group of people who each perform the role of a director within a particular company.

#### **Your role in company growth**

Directors (and thus the board) are responsible for two broad areas:

1. Business performance, and
2. Compliance

Together, these functions are commonly known as "corporate governance". Corporate governance is defined as the systems and processes that an organisation implements to control and monitor - or 'govern' - itself.

The need for good governance (both commercially and legally) applies equally to small, medium and large businesses, regardless of whether they are private or public enterprises.

#### **1. Build business performance to grow your company**

Strategic business planning, policy-making and providing a forum for open and regular communication are key future-oriented practices for driving long-term growth and sustainability in business.

In small or medium enterprises, there may be a lack of understanding of how to create and implement effective business plans. Where they exist, they are often forgotten, or as the saying goes, 'left on the shelf'.

Do you have a strategic business plan for growth?  
Are you working to the plan?

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### Performance activities – a checklist for business owners/directors

At different stages of the SME journey, your role as business owner/director will continue to evolve as the business grows. The following list is a set of guidelines you should consider:

- ☑ Provide leadership for managers to enable them to understand the business objectives and values
- ☑ Create a strategic business plan and annual budget and share this with the managers and employees as appropriate
- ☑ Create a risk management plan
- ☑ Develop strategic direction and the key result areas (KRAs) for the strategy
- ☑ Maintain a structure and reward system which supports the organisation's achievements
- ☑ Develop and appoint key performance indicators for senior managers
- ☑ Understand and provide a framework for reporting requirements
- ☑ Seek external advice

## 2. Your compliance responsibilities

When you incorporate your business it becomes a Limited (Ltd) company.

Incorporation means you've set up the company as a legal entity that is recognised as a person under the law. The company is therefore separate from its individual members. Where members of unincorporated companies are liable to be sued as individuals, incorporation limits your liability, provided you and your directors are following the proper business and community standards.

All incorporated businesses and directors are required to comply with the Corporations Act 2001. Directors of private and public companies also need to be aware of other legislation applicable to them. Regulators and the courts will not accept the "passive director" as an excuse, no matter what the size of your company.

### Your legal duties

- Act with care and diligence. As a business owners/director you must act with integrity, honesty and proper purpose. You must keep yourself informed of and scrutinise the activities of your business.
- Act in good faith in the best interests of the company. This means to avoid conflicts of interest, and to reveal and manage conflicts if they arise.
- To not use your position for personal gain or to the detriment of the company.
- To not use information you've gained whilst a director for personal gain or for the detriment of the company.
- Disclose to other directors any material personal interest in a transaction.
- Prevent the company from trading if insolvent. Insolvent means that a company is not able to pay their debts as and when they become due.

For a comprehensive overview refer to *Duties and Responsibilities of Directors and Officers*, by Professor Bob Baxt AO 19th Edition.

### Your financial duties

Your financial duties as a business owner/director also involve driving and monitoring business performance. This includes:

- Monitor both financial and non-financial performance
- Keep accurate financial records
- File an annual return with the details of all current directors and the primary business address
- File appropriate tax returns
- Prepare for an annual audit by an independent auditor (for public and some large proprietary companies)

The Australian Institute of Company Directors offers a Finance for the SME Director/SME Owner course as part of their Foundations of Directorship suite of programs.

### Other director duties

- Register your business trading name
- Maintain your business name and keep ASIC informed of changes in your company details.
- Register your website name and address
- Assess business risks and take out the appropriate insurances

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#### To learn more

Visit [companydirectors.com.au](http://companydirectors.com.au), for further SME resources such as:

- Online SME Guides – for more information about how good governance can help you grow your business see our other online guides for SME business owners/directors:
  - The benefits of an Advisory Board – mentoring for growth
  - Good governance – A roadmap for growth
  - The benefits of a Board
- Articles
- Video: Kochie's Business Builders, Interview with Brand Hoff, 15 November 2009
- Frequently Asked Questions (FAQ's)
- Director and Board Education Courses – including:
  - Foundations of Directorship Course – available for directors of small and medium companies
  - The Role of the Director – an e-learning course
  - Company Directors Course – a comprehensive program for directors
- Events, books and other information to support you in your



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