

12 Corporate governance challenges for SME CEOs and Boards

And how to overcome them



Insights Material 202412.2



Your trusted partner in SME Financial management and Corporate governance solutions

SME governance challenges: Overview

SME CEOs and Boards often face unique governance challenges due to resource constraints, evolving business needs, and informal processes. Understanding and addressing these challenges is key to ensuring sustainable growth and accountability.

Below are some of the most common struggles and how they manifest across four critical areas of governance.:

Category	Common challenges
Strategic alignment and decision-making	<ol style="list-style-type: none">1. Lack of clarity in roles and responsibilities2. Balancing governance with agility3. Overlooking risk management
Governance structures and policies	<ol style="list-style-type: none">1. Insufficient documentation of policies2. Compliance fatigue3. Measuring board effectiveness
Financial governance	<ol style="list-style-type: none">1. Oversight over internal controls2. Inadequate monitoring of cash flow and liquidity risk3. Effective relations with the Finance team & the Auditors
Leadership and team dynamics	<ol style="list-style-type: none">1. Building and maintaining effective boards2. Succession planning and Leadership transitions3. Resistance to change board culture



1. Lack of clarity in roles and responsibilities

Challenge:



When roles and responsibilities within the board or between the board and management are unclear, it leads to inefficiencies, duplication of effort, or conflicts in decision-making.

Example:

A board member intervenes in day-to-day management decisions, causing confusion and delays.

Solutions to consider:



- **Define boundaries:** Develop a clear governance framework that separates the roles of the board (strategy and oversight) and management (execution).
- **Document responsibilities:** Use a Delegation of Authority (DOA) document to specify decision-making thresholds for key functions like finance, operations, and HR.
- **Board induction:** Train new board members on their roles and responsibilities to avoid role overlap.



How clear are the roles and responsibilities within your board today?



2. Balancing governance with agility

Challenge:



Implementing governance frameworks that support accountability without slowing down decision-making.

Example:

Requiring board approval for minor operational decisions creates bottlenecks.

Solutions to consider:



- **Fit-for-purpose governance:** Tailor governance practices to fit the SME's size and stage of growth, focusing on key areas like strategy, risk, and compliance. This is in line with King IV's principle of proportionality.
- **Empower management:** Delegate operational decisions to the appropriate levels, as outlined in the DOA.
- **Use technology:** Implement board management software, or equivalent tool, for quick approvals and decision tracking.



Are your board's governance practices enabling agility, or are they creating unnecessary delays in decision-making?



3. Overlooking risk management

Challenge:



SMEs often react to risks instead of proactively identifying and managing them.

Example:

A financial risk, such as fluctuating cash flow, is only addressed when it becomes critical.

Solutions to consider:



- **Create a Risk register:** Identify key risks, assess their likelihood and impact, and document mitigation strategies.
- **Regular reviews:** Discuss risks as a standing agenda item in board meetings.
- **Scenario planning:** Conduct "what-if" analyses to prepare for worst-case and best-case scenarios



How proactive is your board in identifying and mitigating risks before they become critical issues?



4. Insufficient documentation of policies

Challenge:



SMEs often operate informally, without documented governance policies, leading to inconsistency in decision-making.

Example:

The absence of a procurement policy results in unmonitored spending.

Solutions to consider:



- **Prioritise key policies:** Start with essential documents like the DOA, code of conduct, and procurement policy.
- **Simplify documentation:** Use templates tailored for SMEs to reduce complexity.
- **Review annually:** Update policies regularly to reflect changes in the business environment.



Are your board's policies well-documented and up-to-date to support consistent and effective decision-making?



5. Compliance fatigue

Challenge:



Keeping up with regulatory requirements can overwhelm SMEs with limited resources.

Example:

Missing deadlines for regulatory filings leads to penalties.

Solutions to consider:



- **Outsource compliance:** Partner with governance professionals or accounting firms to handle filings and audits.
- **Automate processes:** Use software to track compliance deadlines and streamline reporting.
- **Create a compliance calendar:** Map out key regulatory requirements for the year to stay ahead.



Does your business have the tools and support needed to consistently meet regulatory requirements without overwhelming your team?



6. Measuring board effectiveness

Challenge:



Boards often fail to evaluate their own performance, leading to stagnation.

Example:

The board does not track progress on strategic initiatives.

Solutions to consider:



- **Self-assessments:** Use a simple board evaluation tool to identify strengths and areas for improvement.
- **External reviews:** Engage a governance expert for an independent board evaluation.
- **Set metrics:** Define success indicators, such as achieving strategic milestones or improving meeting efficiency.



How regularly does your board evaluate its own performance, and are you using the insights to drive meaningful improvements?



7. Oversight over Internal Controls

Challenge:



Boards sometimes lack visibility into the company's financial controls, increasing the risk of fraud or errors.

Example:

Expense approvals are not monitored, leading to unauthorised spending.

Solutions to consider:



- **Conduct periodic assessments:** Perform regular 'health-checks' of your internal controls to ensure they align with best practice frameworks tailored for SMEs.
- **Implement approval processes:** Define clear thresholds for expense and payment approvals in the DOA.
- **Use Accounting Software:** Leverage tools with built-in controls and reporting capabilities.



How confident are you that your board has adequate visibility into the company's financial controls to prevent fraud and errors?



8. Inadequate monitoring **Liquidity Risk**

Challenge:



Cash flow issues can quickly spiral into crises if not proactively monitored.

Example:

The company struggles to meet payroll due to poor cash flow forecasting.

Solutions to consider:



- **Cash flow forecasting:** Prepare rolling forecasts to anticipate short-term and long-term liquidity needs.
- **Build cash reserves:** Establish a cash buffer to handle unexpected expenses.
- **Monitor key metrics:** Track working capital and debt-to-equity ratios regularly.



Does your business have a reliable system to forecast cash flow and manage liquidity risks effectively?



9. Effective relations with the Finance team and Auditors

Challenge:



Boards may not fully engage with finance teams or auditors, missing critical insights.

Example:

Audit findings are ignored, leaving risks unaddressed.

Solutions to consider:



- **Schedule regular meetings:** Hold quarterly meetings with the finance team to review key metrics.
- **Engage proactively:** Work closely with the finance team to address key audit findings and implement recommendations.
- **Understand financial reports:** Provide board training to improve financial literacy.



How effectively does your board engage with the finance team and auditors to address key risks and leverage financial insights?



10. Building and maintaining effective Boards

Challenge:



Attracting and retaining board members with the right expertise can be difficult for SMEs.

Example:

The board lacks diversity, limiting its ability to tackle complex challenges.

Solutions to consider:



- **Tap networks:** Use industry associations or personal networks to recruit qualified board members.
- **Offer non-financial incentives:** Highlight opportunities for impact and professional growth.
- **Review composition regularly:** Ensure the board's skills align with the company's needs.



Does your board have the right mix of skills, diversity, and expertise to tackle the company's current and future challenges?



11. Succession planning and Leadership transitions

Challenge:



SMEs often lack a formal plan for leadership changes, risking instability.

Example:

Key roles remain vacant after a sudden resignation.

Solutions to consider:



- **Develop a Pipeline:** Identify and groom internal talent for leadership roles.
- **Document Processes:** Create handover plans for critical roles.
- **Engage the Board:** Make succession planning a standing agenda item.



Does your business have a clear succession plan in place to ensure stability and continuity during leadership transitions?"



12. Resistance to Change Board Culture

Challenge:



Boards may resist adopting new practices, limiting innovation and diversity.

Example:

Reluctance to bring in younger board members with fresh perspectives.

Solutions to consider:



- **Foster open dialogue:** Address resistance through honest discussions about the benefits of change.
- **Introduce gradually:** Implement small changes to demonstrate value before adopting broader reforms.
- **Set an example:** Encourage leadership to model openness to change.



Is your board open to embracing new ideas and diverse perspectives to drive innovation and growth?



Conclusion

As SME CEOs and Boards, addressing these governance challenges is not just about compliance - it's about **laying the foundation for long-term success and resilience.**

Key Takeways

1. **Strategic focus:** Align your governance practices with your business's strategic goals to drive purposeful decision-making.
2. **Proactive risk management:** Anticipate and address risks before they become critical issues.
3. **Financial oversight:** Build robust financial processes to support sustainability and growth.
4. **Leadership development:** Foster a dynamic board culture that embraces innovation, diversity, and accountability.

Next steps

- Reflect on the challenges highlighted in this guide and **assess your business's governance practices.**
- Prioritise areas for improvement and **create an action plan** to address gaps.
- **Engage professional support if needed** to implement tailored solutions that strengthen your governance framework.



Disclaimer

- This document has been prepared in good faith for informational purposes only. It does not constitute professional advice tailored to your business.
- If you require specific guidance on any of the topics covered in this document, we recommend consulting with qualified professionals who understand the unique nuances of your business.
- For tailored support, please feel free to contact Abueng Advisory at admin@abuengadvisory.co.za or any qualified advisor of your choice.

