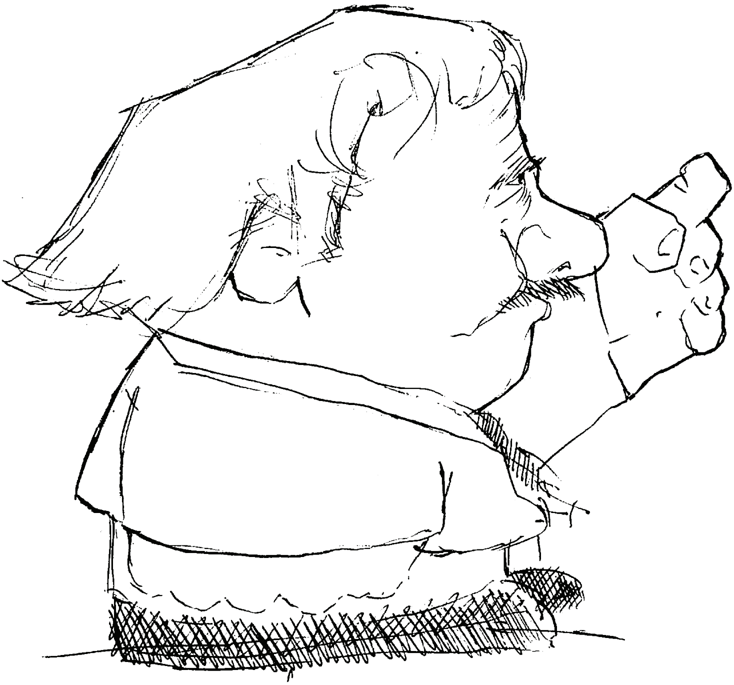
Corporate



Musings

Reflections on company stewardship

Drew Stein

Introduction

I have been both privileged and fortunate to have lived and worked as Chairman, Managing Director and CEO for a number of diverse organisations in various countries around the world. In addition I have been heavily involved in working with a number of Governments, managing the dismantling of monopoly regulatory structures and replacing them with lightly controlled competitive markets including the establishment of professional governance practices and subsequent corporatisation and privatisation programs.

This broad experience has provided detailed knowledge and critical understanding of the diverse business leadership structures and processes which have been used in order to manage, control and develop the optimal and most efficient business models applicable to various market conditions and circumstances.

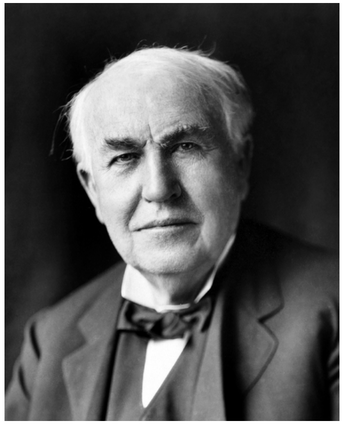
It is self-evident that business behaviour is shaped by the legal and regulatory constraints and the degree of competition that each market is subject to. However there is one global constant in business that has a common denominator regardless of market circumstances and that is;

> *"Investors will only invest if they are satisfied that the directors they appoint to be the custodians of their wealth are competent and capable of leading the company in a strategic direction that will bring wealth enhancement."*

The key to ensuring that a sound professional platform is established to meet the success requirements of shareholders is based on a number of factors. Boards need to introduce solid governance practices, establish regular holistic monitoring processes, demonstrate positive leadership qualities which anticipate and take advantage of every strategic opportunity that presents itself. Underpinning all these factors is the need to retain a focused commitment to maintaining staff, customer and stakeholder goodwill.

Featured in this publication are a series of comments, essays, blogs and snippets from various lectures and speeches I've presented on various occasions relating to maintaining sound professional business practices. I trust you will enjoy reading them and while you may not agree with all of my comments, I hope you find them stimulating, thought provoking and useful in creating your own vision of the structures, accountabilities and governance practices that underpin and shape professional and successful business models.

Drew Stein
Endeavour Capital Partner,
Professional Board Member and Director



"Many of life's failures are people who did not realise how close they were to success when they gave up."
- Thomas Edison

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Auditing A Company's Relationships Before Making An Investment

"America is the only country where a significant proportion of the population believes that professional wrestling is real but the moon landing was faked."
-David Letterman

Investing in a company as a cornerstone shareholder in order to provide additional capital for a growth scenario is always an exciting and challenging process. It's exciting for both the existing shareholders as well as the new investor and both need to work in harmony to achieve their common goal. That is, to stabilise the company's performance and to increase shareholder wealth through well planned and forward looking growth and consolidation strategies. There's always a tremendous amount of strategic work to undertake to prepare a company for a new capital injection including modelling future revenue streams matched with margin returns, pricing and recognising market place pressure points etc. This is often not fully recognised by the existing shareholders.

However, there is one major factor which often gets overlooked, regardless of whether it is a cornerstone shareholding or a simple financial investment being contemplated. This oversight, if not remedied early, can eventually lead to disharmony and disenchantment further down the track. What I am referring to is the review and audit of a number of key documents, namely, the constitution, shareholder agreements, and any relevant MOUs agreed between shareholders.

On most occasions, particularly where a company has grown over a number of years, the documents have been filed away in a lawyer's office or reside in the company secretary's bottom draw. They are often completely out of date and fail to reflect the company's current structure, governance procedures or operating model. In some cases subsidiary companies have been formed, or joint ventures entered into and the various legal corporate documents are an uncoordinated mixture, which if tested in a court of law would not stand the acid test of protecting the company and shareholders from possible litigation.

It always concerns me when an investor leaves the review and audit of such important documents to the last step in their decision making process. Surely the shareholders agreement is crucial to protecting any investment. There will be various classes of shares, there could be free carries , preferential shares with specific dividend controls, director appointments etc. The conditions imposed will either enhance or diminish the security of the investment.

If it's a cornerstone investment being contemplated then obtaining agreement from the existing shareholders to changes to these documents is absolutely critical to the investment process. Surely this is a task that should be tackled early on in the negotiation process and not left to the end?

While my comments are more slanted towards the private market I'm also surprised at times by the lack of concern from investors on the stock market regarding the legal documentation underpinning public companies obligations, responsibilities and duties. The common assumption is that the stock brokerage firms and the stock exchange monitor these issues. Yet this is not quite true, as we've seen over recent years with the various financial meltdowns.

Perhaps it's time for both private and institutional investors to raise their level of awareness around the legal aspects of the companies they are looking at investing in and be very clear as to what their rights as shareholders are before making an investment

Government Versus Private Ownership

"As I hurtled through space, one thought kept crossing my mind - every part of this rocket was supplied by the lowest bidder."
- John Glenn

Historically Governments have invested in markets that were hugely capital intensive and too high a risk for private individuals to consider and yet were essential for the country's economic growth. Take the railways in the late 1800's or the electricity generators in the early 1900's as examples where governments took the lead and drove societal change by investing taxpayer's money into these large infrastructure projects. In the mid 'thirties governments again saw it as their role to invest where there was a single player in a market which was essential to the country's economy and public well being. Thus in numerous cases these markets were heavily regulated and governments invested in commercial enterprises simply to create competition. The finance and banking markets are prime examples of these later government investment policies.

The government investments were usually managed in loose corporate structures via government deptartments. whose knowledge of the free market was almost nil. Efficiency gains geared to making increased profits did not even register in their vocabulary. Thus most government investments required continued taxpayer subsidies or became vehicles for shifting people off the unemployment benefits. They seriously distorted many markets via pricing mechanisms and the adherence to short run marginal costing structures.

As the focus around the world over recent times has moved towards ensuring government fiscal responsibility and accountability, governments are grappling with the problem of transferring their commercial investments into the private sector, particularly where there is now proven market place competition beating out state owned enterprises.

In New Zealand there has been serious debate around this issue. Numerous arguments have been put forward including improvements in efficiency via private management and stock market pressures, assistance with reducing the government's fiscal deficits, encouraging a spread of share ownership by the public and moderating the influence of government generally within the economy.

In my opinion it's difficult to escape the view that the so called "privatisation" debate has been poorly focused. Some of the arguments have been based on ideology and some have been peripheral to the main issues.

It may appear at first glance that there is a significant gain to government from the revenue gained from a sell down. However further reflection demonstrates that this gain is in a sense illusory. If the sale value of the entity and the funds used to reduce debt are equal to the present value of its current revenue streams and the expected public ownership influence on the economy then the public sector has not altered its net worth.

In other words the real economic gains are confined to productive efficiency improvements which private enterprise and ownership can realise versus government ownership which tends to be monopolistic and less market place sensitive by nature.

The point is that gains do not occur simply from the act of transferring ownership from the public to the private sector but rather through the improvement in the way the assets are managed and used. This is done by exposing the organisation to the normal disciplines of the competitive market place and shareholder's demands. Customers should benefit from sharper pricing, wider choices of product, better service, more positive response to customer demands, all driven by share market listing, private sector monitoring and full exposure to capital markets and take over possibilities.

However in some countries we now have a half way house where governments can't make up their minds on the benefits accruing from private ownership or hide behind political expediency, by selling down only a 49% shareholding in their companies. This in my opinion is an absolute cop out and will not capture the efficiency gains full private ownership can realise. It's a political compromise with no real benefits for the taxpaying public nor for the end use customers.

Perhaps it's time for private investors, privately owned or publically registered companies and the informed public to demand that politicians and governments accept that government departments don't have the skills or experience to manage commercial entities operating in a competitive market. The point is that once a government's involvement is no longer necessary in a given market they should exit gracefully and let private investors take the risks and rewards that come with playing in a free and customer driven market.

Gross Margins Are The Lifeblood Of Success

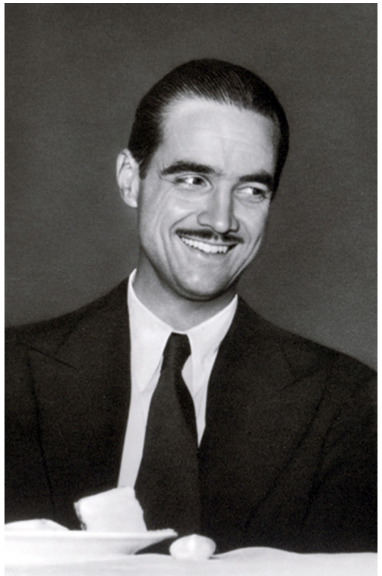
Over recent weeks I have read a number of companies' board papers and agendas and it quickly became apparent that while financial performance was always an itemised and important subject for discussion, gross margins didn't appear on any formal agendas as a definitive item.

Digging deeper, it was apparent that gross margin discussion was buried in three separate board papers; financial, marketing and operational reports but not as a separate designated item. It's fairly obvious that if a company can't sustain its gross margin profile it's heading for financial trouble yet as a subject it doesn't appear to have the emphasis and attention it deserves. Indeed there are so many strategic feeder issues that owe their attention to gross margin maintenance (pricing strategies, cost cutting programs, financial prudence, risk analysis etc.) that gross margin monitoring should be high on every board's agenda.

As the Chairman of numerous enterprises over the years I've always insisted that gross margins are an itemised discussion on the board agenda regardless of what industry sector the company is involved in. The discussion includes a feed in from every sector of the organisation that contributes to the establishment and maintenance of the gross margin polices. The board monitors overall gross margin performance against objectives using a Manhattan Chart with various market sectors clearly defined and variances explained. It is important to note that most companies will have gross margins for individual products and market segments and each sector should be individually monitored and tracked. Gross margins are central to almost every strategic decision a company makes from financial and production planning, product selection, marketing emphasis right through the supply chain to establishing market led pricing structures. Yet it's a discipline that is rarely given the attention it deserves when monitoring a company's performance.

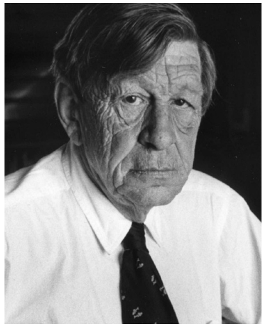
As a Chairman I was recently involved in a significant merger/acquisition process and during negotiations we tabled our gross margin policies and highlighted the fact that we monitored our performance in this corporate discipline and used this information to determine future strategies. The directors of the company we were merging with were blown away and I'm sure our demonstrated professionalism in this area added to our ability to secure an excellent outcome for our shareholders during the merger process.

Remember that without sustainable gross margins your company is on the slippery slope to disaster.



"I'm not a paranoid, deranged millionaire. God dammit, I'm a billionaire."
- Howard Hughes

Increased Regulatory Structures Becoming An Impediment To Growth



"We are here on earth to do good unto others. What the others are here for, I have no idea."
- W.H. Auden

Over recent years governments have threatened and some cases implemented increased regulation in order to moderate the market place behaviour of privately owned companies. Some of these policies have been driven by ideology or imposed societal changes rather than purely economic factors. Never the less, the drift towards increased regulatory business structures must be of concern to all investors and boards of directors.

One only has to look back in time to the fall of the Eastern Bloc economies to realise that heavy handed and centrally controlled regulation fails to produce the efficiency and economic gains produced in a free market. A study carried out some years ago by Boardman and Vining compared the performance of private companies operating in a free market to either government owned or heavily regulated companies.

The study not only endeavoured to isolate and measure the influence of a range of variables such as size, market share, economies of scale and related issues but also measured performance using six different variables. Although the results would not be without their challenges they did indicate that privately owned companies with sound market place behaviour produced higher performance levels than government owned or heavily regulated businesses. Other evidence although slightly different in context is that quoted by the UK Economic Development Commission (Mc Cabe, 1989) confirming the economic gains made from that countries privatisation programs.

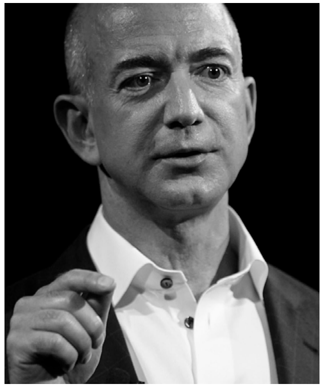
The point is that companies operating in a free market with only light handed regulation are likely to be more responsive to changing market place conditions, varying customer demands and be more innovative in introducing new products and generally adapting to change. On the other hand it is difficult to escape the conclusion that increased regulation mandates additional company time and expense to conform and ensure compliance. Although there is no empirical evidence to support the claim, logic would dictate that over the longer haul efficiency and innovation along with dividend returns to shareholders will diminish as a result of increased regulatory structures. The downside to this scenario is that slowly but surely there will be shareholder flight as investors seek more interesting and profitable investment opportunities elsewhere.

So can we learn from the past regarding heavily regulated markets?

"Regulatory interference by Government in any market which is mature, has a strong competitive element and is subject to unfettered competitive pressures will not produce any efficiency gains nor be a lever to increasing shareholder wealth. On the other hand such structures will produce increased agency and compliance costs both to business and to the Government` departments overseeing the compliance issues which will flow through to increased market place prices."

Therefore I believe, in particular investors/ shareholders and boards of directors should remain alert and oppose any moves by governments to introduce legislation which reduces the ability of companies to operate and manage their businesses within an economic framework which is focused on positively servicing their customer base while increasing their shareholders wealth.

Brand As The New Holy Grail For Business Stability



"A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well."
-Jeff Bezos

I recently shared the speaker's platform at a business conference with the CEO of one of the largest international property and patent law firms. I was intrigued by his comments when he stated that;

> *"Over the next few decades the power and security provided by IP protection will gradually diminish and brand or trademarks will quickly become the new protector of a company's intellectual property."*

This got me thinking about how often brand as a subject and a business discipline is actually included in board agendas and debated and discussed around the board table. I know from my own experience on various boards that brand hasn't exactly been a discipline that has been a central focus of attention.

Talking to my director colleagues I found I wasn't alone. It appears very few companies have programs associated with improving their brand presence in the market place or protecting their brand image. The likes of Coca Cola, McDonalds and Nike spend millions on building and protecting their brands around the world and I know from personal experience they have dedicated in-house structures and disciplines around maintaining and enhancing their brands. But in general it appears most companies pay little strategic attention to their brand image. Brand isn't just signage, packaging advertising etc. Brand is the heart beat of any organisation which will eventually determine success or failure.

So how important to medium sized businesses are the development and maintenance of a brand and where does brand discipline fit within the strategic and marketing plans of a company?

In my opinion brand is a significant influencing factor which supports the generation and maintenance of a business' revenue streams. It is the underpinning platform that everything affecting company performance is built on. From staff pride and morale, investor/shareholder confidence through to client recall and loyalty, brand is the silent enabler which permeates everything the company stands for and believes in.

Therefore brand as a discipline needs to be given focused attention in the development of any business' strategic and marketing planning process. A measurement matrix should be developed to enable the tracking of brand development and market place recognition. Internal programs need to be introduced to educate staff on the importance of brand and the disciplines surrounding brand maintenance. The board need to adopt an awareness factor around the importance of brand to the business and include it as a subject for discussion on a semi regular basis. A brand policy including standards needs to be developed with a senior manager being given a care taking role.

Brands aren't built overnight but can be lost within hours, remember Arthur Anderson and what happened in the wake of the Enron scandal. We no longer refer to the "Big Five" accounting firms, only to the "Big Four."

Brands need regular stroking and feeding to keep them alive. So my advice to SME's and smaller companies is, begin your brand program as soon as possible, take small but focused and planned steps, make sure you include all your publics in your program, not just your end use clients and regularly monitor brand awareness and loyalty.

Managing for Success

"At the end of the game, the king and the pawn go in the same box."
- Old Italian proverb

In my career I have been fortunate to have been appointed on numerous occasions to various boards and executive positions to lead and manage recovery and or growth programs for companies with either serious financial problems or serious growth ambitions.

I well remember being appointed Executive Chairman of a company which employed 650 people. I knew the company was in financial strife but upon arrival found out the situation was far worse than had been disclosed. There were insufficient funds to meet the next payroll payment.

I managed to turn this company around and over a twenty four month period made a 15% return on shareholder funds. In another instance I led a company that had lost $4m in one year through poor implementation of a growth strategy and in thirty months grew the company to the point where it not only achieved its ambitious revenue targets and international growth objectives but made a $22m after tax profit.

Both of these businesses were in trouble, one had poorly managed their finances and the other didn't understand that throwing money at a business without well thought through and managed programs doesn't work. However the real problem in both scenarios was one of poor leadership and a lack of focus at both board and executive levels.

So the question is how to address these types of problems and generate well controlled enthusiasum within both the board and executive functions focusing on achieving the ultimate goal of increasing shareholder wealth.

There are six principles which anyone charged with the task of invigorating a company needs to acknowledge and put into practice.

The Six Principles

One.

Make sure from the outset that everyone knows you're the leader and that your directions are to be followed to the letter. That is not to say you shouldn't listen or operate an inclusive style of management but rather you need to adopt an autocratic style of leadership ensuring firm control over both policy development and implementation planning and execution.

"People will follow strong leaders!"

Two.

Directors and Executives are either team players or they go. Individuals who can't or won't positively accept the challenges of change need to be moved on. Regardless of employment history or individual value to the company, if they are not committed team players and don't share and support your vision they need to be moved on as quickly as possible.

"Remember, you haven't been appointed to be liked by everyone!"

Three.

Within two months a dedicated strategic plan needs to be formulated and adopted with input fromt independent advisors, directors and executives. This plan should not be rigid but rather sufficiently flexible to accommodate market place and client reaction as the company changes its market and company profile but always with the end game of improving shareholder wealth as the guiding beacon to success.

"The day the ink dries on the paper the strategic plan will require amending; nothing remains constant and the plan should be viewed not as being set in stone but rather as a guide and pathway to success!"

Four.

Communication is the glue that holds everything together. A dedicated communication plan involving shareholders, directors, executive, staff and the market needs to be introduced from day one. Communication needs to be regular and informative, telling it how it is and where necessary targeted to specific groups.

"An informed staff is the catalyst to ensuring everyone is supporting and working towards the same objective!"

Five.

Monitoring implementation and progress against set targets should be a board and executive task. There needs to be a collective accountability and responsibility for achievement with directional amendments made where ever necessary. Poor results should not be accepted and if necessary additional experienced resources should be applied to rectify the situation.

"You can't plan the future unless you understand the past which can only be recognised by a regular dedicated monitoring regime!"

Six.

Culture is always an elusive factor to box into an explainable discipline. However when facing a situation that demands change you have to build a positive culture within the organisation based on achieving success. This fuels the desire for belonging to an organisation which is recognised by its peers as being successful.

"Pride in the organisation is a hugely motivating factor which is achieved by cultural behaviour demonstrating a collective willingness to strive to achieve results which are in access of the business targets!"

Summary

There are other business principles such as the importance of cash flow and debt equity ratios, capital investment and allocation which flow and support the above six points. However get the six principles right and you're on the right track to successfully grow your business aspirations.

"From experience I can tell you that there's nothing more satisfying and exhilarating as a business leader than turning a struggling company into a successful enterprise. You'll suffer a few bruisers along the way but these are forgotten when the adrenalin rush of success kicks in."

Preparing A Company For A Capital Injection Associated With A Growth Scenario

"Growth is never by mere chance; it is the result of forces working together."
- J.C. Penney

Most business analysts talk about countries' economic futures being driven by large companies achieving above average growth rates along with SMEs coming out of the ruck and becoming the darlings of the investment community overnight.

However it is my belief that the real opportunity for growing an economy lies in the middle ground with companies who have been around for years which have plateaued in terms of their ability to recognise and create a real growth vision. Recently I have been encouraged by the number of companies who are now beginning to realise that growth is possible and if managed correctly will produce considerably increased wealth for their shareholders.

Most growth initiatives require a capital injection which can be achieved by way of various financial instruments, the introduction of new shareholders or a combination of both options. The ultimate of course is to find a cornerstone investor who will take up shareholding and share the risk while also providing the required loan monies.

It is in preparing for a capital injection program that the difficulties arise. Most of these companies and their directors/shareholders have never managed a capital investment program and are of the belief they can carry out the required projections and documentation in house and that investors will fall over themselves to be involved.

Unfortunately life is not that simple. For example, establishing a share value for the issuing of new shares needs a real professional touch. Averaging the last three years NP and then using a multiplier misses the point as to why anyone would want to invest in a growth company.

The share price multiplier has to capture the future vision balanced against risk and reward. This equation requires the development of a robust five year strategic plan which outlines the company's future vision with a detailed analysis of the financial implications.

Most companies living in the space I'm talking about do not have the internal resources to undertake and complete such a professional document.

Then there are the organisational issues which need to be addressed and matched against the objectives outlined in the strategic plan. Governance and delegated authority policies need to be tested and amended. Leadership is a big question that requires examination along with a detailed analysis of the current business model, matched by a plan to address the short comings and capture the opportunities.

Once the strategy document is finalised, a detailed implemenation plan needs to be created to match. There are numerous other issues that require addressing but once all of these are completed then the final and most important step is to present all of this information in a professional IM package.

Failure to attract investors is particularly high for these medium size companies. In my experience there are a number of key factors which contribute to this failure rate.

One.

Directors opt to undertake all the preparatory work in house without any professional assistance, leading to sub par financial predictions and a possible introduction of biases that would be avoided through the use of an independent party.

Two.

Existing shareholders have difficulty accepting that by adopting the capital raising program their shareholding in percentage terms will diminish when new investors are introduced even though their shareholder wealth will increase over time.

Three.

The strategic business plan lacks detail and as a result the financial information does not attract the right investors.

Four.

The IM package does not present the vision that the company wishes to capture and project nor why it requires the capital injection.

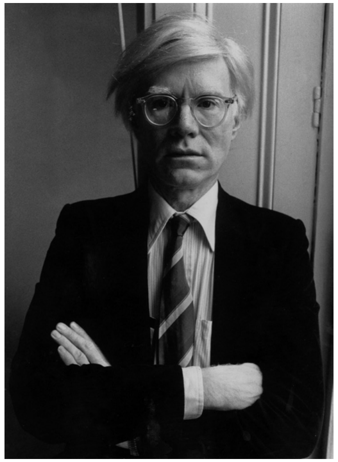
Five.

The implementation plan does not address the changes in organisational structure and staff required to achieve the planned growth objectives.

Six.

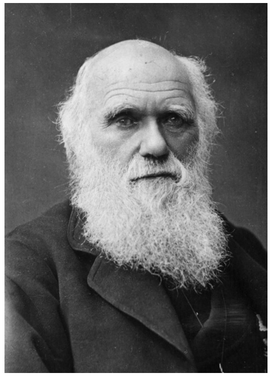
Shareholders focus on loan monies and push aside the introduction of new shareholders thus pushing the risk reward balance towards the higher end of the risk spectrum.

With capital in most markets now freely available, it is time for companies in this segment to step up and take advantage of the opportunities that are out there. Nonetheless it is critically important to seek advice and support from professionals who have the necessary experience which will significantly contribute to a successful capital raising program or cornerstone shareholder identification.



"Making money is art and working is art and good business is the best art."
- Andy Warhol

Refreshing A Board's Composition In Order To Meet Changing Market Needs



"It is not the strongest or most intelligent who will survive but those who can best manage change."
- Charles Darwin

A few decades ago directors on boards were appointed to cover a set of base skill requirements such as marketing, legal, accounting, engineering, sales, communication etc. These composite skills and structures had served shareholders well in the past and were considered adequate to address the market requirements that affected and drove company behaviour at the time. In addition director appointments were for an average five year period and in numerous cases there was no time limit at all with directors staying on boards until they retired.

Beginning in the early 1980's the market place began to change as technological advances, new financial instruments, engineering developments, increasingly complex sales offerings, a huge increase in M&A activities and corporate diversification becoming the byword for success. Despite this change, very little changed with director qualifications linked to director appointments until the mid 1990s.

Prior to this, boards tended to contract in professional experts to provide specialised advice and hire in executives with the required skill level.

However during the first decade of the new century market place change accelerated. There were increasing demands for new technology and engineering diversification coupled with greater levels of competition and new regulatory structures and requirements. In addition the markets became more diverse and the rise of a knowledgeable consumer base pushed the risk/reward balance heavily towards risk. Thus we saw financial melt downs, company and corporate failures, court litigation, government interference and shareholder concerns at levels never seen since perhaps during the great depression.

During this period we began to witness slow changes in board composition. Directors were appointed for shorter terms, the requirement for increased skill levels to match the changing market and business circumstances when making appointments was recognised, the use of board subcommittees with outside expertise involvement increased, tighter governance procedures were introduced, strategic planning and performance monitoring was given higher priority on board decision making agenda's, and shareholder requirements were given the credibility and attention they deserved.

So this brings us to today. Where are we at with board composition and what do companies need to do to ensure their board and directors have the capability of staying in tune with their markets and making a profit as well as positioning themselves in order to take a leading position and strategically growing their business for the benefit of their shareholders?

In my mind it's fairly simple. The board should take their strategic plan as their base document. The assumption is that if the board recognises the need to plan for director replacement then their long term planning skills will have transferred into a robust strategic plan. Using these strategic documents identify the skills and experience required around the board table in both the short term and also longer term that will not only be required to achieve the plan's objectives but will significantly add value to board decision making going forward.

Matching these identified skills and experience required against current director skills will clearly highlight any shortfalls around the board table. The board should then develop a plan to address these issues.

This may and probably will require a shift in director appointments requiring resignations to make room for new blood. With shareholder approval these changes can be managed in a positive and progressive manner.

Finally, there are four points I would make;

One.

This process of developing a plan for director appointments should be reviewed on a regular basis and certainly each time the strategic plan is changed or amended. Director changes rarely happen overnight and should be managed in an orderly fashion in order to retain the intellectual knowledge base which exists around the board table.

Two.

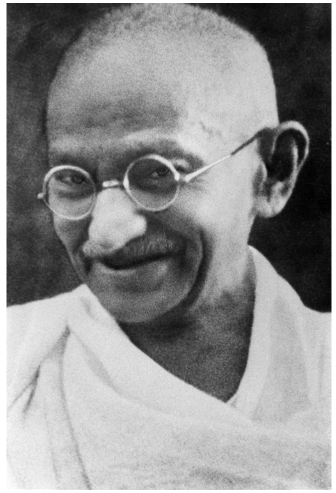
Director planning should be tabled, discussed and approved by the shareholders. Remember it's the shareholders who make director appointments and their support is critical to the process.

Three.

With the current swing in corporate governance to more shareholder involvement there is real danger that if the existing board doesn't address the situation it may be taken out of their hands by the shareholders. A board cannot forget that they represent the shareholders and it is they who have the final say.

Four.

The introduction of diversity in director appointments should in today's market be a paramount consideration. Younger generations, different genders and diverse backgrounds are a important factors for introducing diversity in the board, provided they first have the appropriate skills and experience.



"A lecturer of Gandhi's asked him the following question, "Mr Gandhi, if you are walking down the street and find a package, and within it there is a bag of wisdom and another bag with a lot of money; which one will you take?"

Without hesitating, Gandhi responded, "the one with the money, of course".

Mr. Peters, smiling, said, "I, in your place, would have taken the wisdom, don't you think?"

"Each one takes what one doesn't have", responded Gandhi indifferently."

Risk Versus Reward

"Life is either a daring adventure or nothing at all."
- Hellen Keller

Every decision a board makes has a risk reward factor under pinning the recommendation they are being asked to approve. It matters not whether it's a policy decision, capital investment, marketing initiatives, financial structures, strategic implementation or people issues; all are underpinned and directed to their conclusions by the risk reward scenario.

In most cases larger strategic investment proposals particularly where they involve capital investment will always have a risk reward analysis as part of the analytical frame work presented. However, most other proposals have their risk reward scenario hidden in wording that doesn't provide any clear indication of the balance between the risk reward factors and doesn't provide sufficient information to permit robust and intelligent debate around the board table.

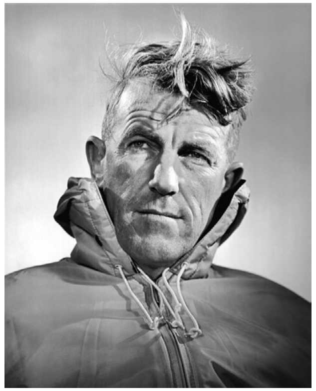
This is a real problem particularly for companies that are embarked on a growth program where not enough attention when making critical decisions is focused on understanding the balance between risk and reward. From my experience it's quite noticeable that SME's or smaller companies spend an inordinate amount of time analysing the risk factors (which is only natural) without placing the same emphasis and time on analysing the reward factors. This ultimately leads in numerous instances to lopsided and unbalanced decision making.

All business decisions have risks and while directors are charged with maintaining the stability of their company and also protecting their shareholders wealth, to adopt a negative and low risk policy without balancing the reward factor will ultimately lead to the stagnation of the business. Naturally the converse can be applied. Overstating the reward factors can lead to over optimism and consequential disappointment when the forecasted results aren't achieved.

So it's all about balance and establishing a risk reward profile which can be applied to any or all decisions being made. However it's absolutely critical to understand that this profile can and should change dependent upon what stage in terms of maturity the business has reached. There comes a time in every company's life cycle where taking a higher risk to reap larger rewards becomes paramount to ensuring future earning streams, staying ahead of the competitors and increasing shareholders wealth. The trick is to recognise when that situation arises and grasp the opportunity with complete enthusiasum otherwise the moment will have passed by and mediocrity will have won the day.

I well remember a couple of years ago I was appointed Executive Chairman of a reasonably sized Australian company which was performing badly and the shareholders wanted a recovery program implemented to restore their financial wealth. Amongst a whole range of initiatives I introduced and as part of strengthening the governance structures I demanded that every single paper that was presented to the board which required a decision included a separate and highlighted section covering off the risk reward factors inherent in the recommendation. It took some time to get the balance right and get the executives to accept the importance of this discipline but within a matter of months both the directors and executive were committed to the process and I like to think contributed in some way to the successful turnaround of this company.

The Circus Syndrome



"It is not the mountain we conquer but ourselves."
- Edmund Hillary

Smaller SMEs where the founder shareholder has complete unfettered control of the business, making all the day to day decisions as well as endeavouring to plan for the future normally suffer from what's known as the Circus Syndrome.

This syndrome, which can be terminal, manifests itself in the juggling act (from which the syndrome derives its name) that the founding shareholder has to perform just to keep the business alive. They continually juggle their time and effort between various and varied management decisions. These include financial, marketing, production processes, product development, delivery, inventory levels, purchasing, client communication, staffing problems and all the other aspects that make up the everyday running of a business operation.

These SMEs are too small to hire in dedicated individual expertise and thus the founder has to be the jack of all trades, juggling the various priorities requiring attention and usually (but not always) without any real focus on the longer term implications of the decisions being made.

This Circus syndrome is simply part of the natural lifecycle of any SME business model but needs to be addressed as quickly as possible to enable the business to move on and mature otherwise it will ultimately strangle the business as the juggling act becomes impossible to maintain and forced decision making will lead to bad decisions being made and contribute to the demise of the business.

So the question is how to move through this phase of the business cycle as quickly and as positively as possible coupled with an eye to supporting a future vision of establishing a mature business model based on growth and increasing shareholder wealth.

There are numerous scenarios and answers to this question each with its individual positive and negative upsides. However the one holistic program that provides not only an immediate resolution to the Circus syndrome problem but also sets the business up for future growth is the introduction of a cornerstone shareholder.

Cornerstone shareholders come in various guises from simply providing a capital injection to the more mature model of not only providing the necessary funding but also providing involved management expertise as part of the package. It is this latter model that holds the answer to the Circus Syndrome. These types of cornerstone investors not only bring an immediate capital injection but also promise of future funding to grow the business.

More importantly they bring committed and experienced management expertise to the SME's everyday business activities, providing a support platform in decision making functions for the founding shareholder. In addition they will have numerous business contacts and associations which they will bring to the table and thus provide a catalyst for increased growth potential.

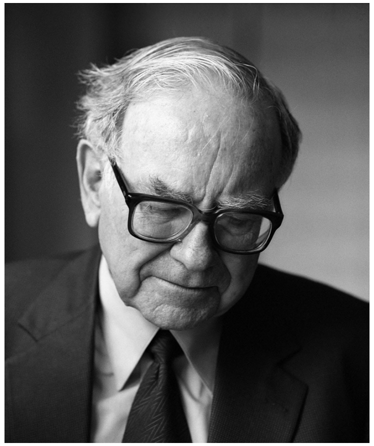
The upsides of this style of cornerstone shareholding are that;

- The founding shareholder retains total control of their business while receiving management support, input and advice.
- The business receives an immediate capital injection with the promise of more funding if required.
- The founding shareholders wealth curve should significantly improve.
- The business lifecycle affected by the Circus syndrome can be quickly passed through and the business can reach a mature stage without too much fall out.
- A defined pathway to implementing a growth strategy can be introduced and implemented with complete confidence.

Naturally, identifying and finding this type and style of cornerstone shareholder requires a certain amount of preparatory work by the founding shareholder but there are plenty of experts with experience in this discipline who can provide the necessary assistance.

The real answer to the Circus syndrome is for the founding shareholder to be brave, stop the juggling act and step up and be the ring master with the confidence that the cornerstone shareholder will provide the necessary and required support to ensuring the supporting circus cast performs to the ring master's satisfaction.

The Investor's Lament



"After all, you only find out who is swimming naked when the tide goes out."
- Warren Buffett

Over recent years the focus of government regulators, academia and management consultants has all been about either imposing or threatening regulation under the banner of making companies more open and accountable to the public and their critics or forcing social engineering through the guise of diversity. Now while to a certain extent such focus has been warranted and indeed in certain instances justified if one stands back and looks at the umbrella of rules and regulations that companies and boards now operate under its almost akin to the business wearing a corporate straight jacket with complete freedom to operate being neutered. Companies who used to consider their shareholders as their prime stakeholder now have numerous so called stakeholders with even suppliers who tender for contracts being ranked as stakeholders. This situation somehow in its entirety evokes the feeling of creeping socialism; *no skin in the game but having an influence on decision making.*

Within this mass of structured and organisational mayhem which by its very nature forces all involved to bow down before the alter of mediocrity the one voice that is lost and is being gradually muted by so called progressive movers and shakers is that of the investor. Can you think of any legislation or even knowledgeable debate around the concept of providing investors with more influence over company's decision making processes or input associated with determining future strategic direction? What about investors taking back the ability of making boards and their appointed directors more accountable for their commercial behaviour. How about some legislation around the collective board and individual director's performance being mandated as having to be published in the annual report? What about boards being made to provide quarterly confidential reports to shareholders.

The point that I'm making is that gradually but surely investor rights are being eroded not by taking away any of their historic rights but by moving the balance of accountabilities and responsibilities inherent in the business chain more towards the boards of directors and the executive. When was the last time investors rights were actually improved so that they had some direct input into the companies they had invested in?? We only have to look at the lack of any serious debate and discussion on Linkedin regarding investor rights to realise that the importance of investors to the well being of the commercial world is simply not a sexy or hot enough topic deemed worthy of exploring. The current rise of investor agitation will only increase if changes and a rebalancing of responsibilities and accountabilities aren't addressed between those who lead and manage business behaviour and the investors whose wealth is at risk.

It's interesting to note that at present the private company sector is awash with investors. It hasn't escaped notice that the logic behind this shift from publicly listed companies to private company investment is mainly driven by investors having a closer connection and influence on private company activities than is possibly in the publically listed sector. Surely this is a signal that there is need for some reform to ensure investor expectations and requirements are listened to and changes made where ever possible. Remember without satisfied investors we won't have any sustainable competitive market nor witness any visionary growth in our commercial markets.

The Power Of Networking For Professional Women

Over the years in my role as CEO and or Chairman in various markets and countries I've mentored numerous women who have moved on to become extremely well respected CEOs, Board Directors and or Chairwomen. During the informal coaching sessions with these individuals I've always emphasised that apart from experience and skill the most important aspect of growing and expanding anyone's professional image is the art of professional networking.

For some people of both genders, but perhaps more particularly women, this discipline, yes it is a discipline, is difficult. Self promotion may not come naturally and important networks are heavily male dominated. Nonetheless, networking is a key ingredient for both men and women in appearing on the radar of boards and investors looking for new directors.

There are many aspects to networking. You've got to carefully select the functions you want to attend and organisations you wish to join. You've got to check invitation lists to make sure you connect with the right individuals who you believe can further your career. You need to follow through by initiating communications with selected individuals in order to build up a professional relationship with them. You need to listen and be a good communicator in groups at functions picking your time to join the discussion. Shareholder groups are an important connection that can be extremely helpful. Moving into networking groups outside of the market environment you are working in is essential. Make sure the individuals you plan to network with are decision makers and more senior in reputation than yourself. These are just a few of the numerous aspects to good networking.

I've given a number of addresses to mixed gender and also single gender audiences on "The Power of Networking." My advice to women seeking to build a portfolio of directorships is to build a detailed networking plan with set objectives and then make sure you follow through with its implementation. You'll be pleasantly surprised how quickly your professional status grows. Doors will be opened and opportunities provided that you never thought would be available to you, provided you connect with and engage the right people.

"There is a special place in hell for women who don't help other women."
-Madeleine Albright

The Quality of Board Papers and Agenda

"A committee is a cul-de-sac where ideas are lured and then quietly strangled."
- Sir Barnett Cocks

Over the years I've served on many boards as both Chairman and director and particularly over the past decade undertaken independent board governance audits for a diverse range of companies. As can be imagined I've accumulated a considerable amount of documentation and files relating to various boards activities. So it was this Easter with abysmal weather and storms prohibiting any outdoor activity I decided to have a clean out of both my hard copy and computer filing systems. Armed with a glass of single malt I started the process with some files dating back decades. After some time of sorting what to keep and what to dispose I suddenly had a Road to Damascus enlightenment.

It struck me as I sifted through the papers and board agendas that there was a huge difference in the quality of board papers and board agendas between the various companies. Then when I looked at company performance those with the quality documents were also those that had performed best in both growth strategies and adding shareholder value. Now this may be coincident and the sample group not large or diverse enough to reach a definitive conclusion. Perhaps analysing a broader data base would make a good Phd project?

However it got me thinking about my own experiences as Chairman and the quality I demand and raised the question; could I do better? So apart from the administrative issues I enforce when chairing a board such as; ensuring all papers are in the same font, having identical layout/format, each paper having a subject heading, who the author is, and what type of decision is expected from the board etc. what are the other factors that contribute to quality around the board table?

I've found the agenda format that follows has, with some variations at times, worked well for myself and the other board members in my Chairman roles.

You'll notice I've made a passing reference to use of electronic/computer messaging associated with board papers. There is a growing trend for this medium to be used for board agendas, papers and overall board communication. This is an interesting subject which certainly warrants more discussion and debate at another time.

First, these are the general rules I believe are the catalyst for ensuring quality in both board papers and agenda;

- Each paper presented must be signed off by the CEO as being approved for board presentation regardless of whom the author is.
- Maximum length of any paper, three A4 size pages or equivalent electronic sizing
- The board agenda is jointly developed and agreed between the Chairman and CEO including ensuring the items signalled for follow up in the last board minutes are addressed.

The agenda is split into various sections. After the administrative process, apologies, approval of minutes etc the distinct sections into which papers are slotted are described on the following page

One.

Follow through: items that the board asked for more information on or follow up at the last board meeting

Two.

Subcommittee reports: including any subcommittee recommendation that the full board may need to ratify.

Three.

Strategic monitoring: reporting on progress and variance against the strategic plan and actions to be taken to rectify any shortfalls.

Four.

Decision papers: issues and or processes including new programs or expenditure, communication plans etc which require board discussion and approval

Five.

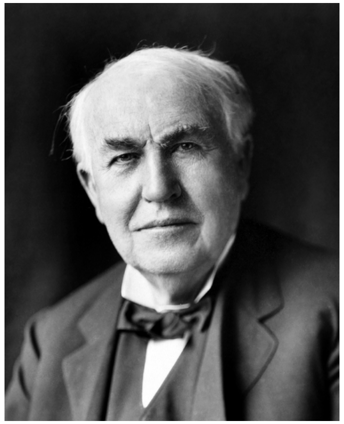
Information papers: making the board aware of issues which affect the company but no immediate action is required. Also signalling issues that may in the future require board papers requiring board approval.

Six.

Financial reporting: monthly and cumulative year results, risk evaluation, cash flows, margins, operating costs etc. Major focus on future projections rather than past performance.

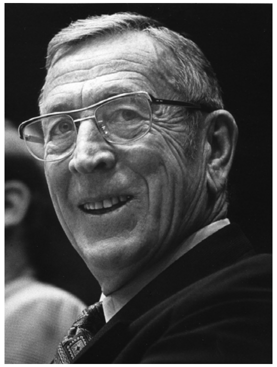
Seven.

Executive reports: CEO's report limited to three pages with other executive reports limited to two pages.



"As a cure for worrying, work is better than whiskey."
- Thomas Edison

Using A Cornerstone Shareholder To Avert Failure



"Failure isn't fatal, but failure to change might be."
- John Wooden

Over the past decade we have witnessed more volatility and swings in national economies than we've ever seen before. In hindsight this probably hasn't been overly detrimental to the business community as it has demanded more robust business practises with investors and directors becoming more attuned to ensuring business governance is robust in the extreme and certainly matched with an increased focus on strategic direction and managing current and future market and financial risk. However over recent times I've noticed that a number of smaller, mainly privately owned companies with revenues in the $20 to $30m range have either been put into receivership or forced into liquidation. Some of these companies had been on steady growth curves for years with reasonably high public profiles which left me asking; "what went wrong?"
Using the information available I decided to examine a selected few of these failures to see if I could find a common thread which might be either a definitive cause or at least a significant influencing factor in the demise of these businesses.

Finding a common thread wasn't at all difficult. All had overloaded debt equity ratios and the burden of debt was such that even the smallest downturn in revenue or competitive pressure influencing margins produced a negative cash position forcing even more debt onto the balance sheet until the foreclosure of the business was inevitable.

However my inquisitive mind then turned to the question of how did these businesses get themselves into this position? They were growth companies with reasonable turnovers and market place presence and on the surface appeared to be reasonably well managed. So I began searching to determine if I could isolate one dominant factor shared by these businesses that contributed to their financial demise?

What I found needs to be considered totally subjective as it's based on very limited detailed information and certainly with no empirical evidence to back my conclusions but never the less is interesting.

The companies still had their founders as the major shareholders although over the years they had taken in a range of small minor shareholders as growth capital was required who simply invested in the hope of a future financial return. In most cases these were family members, business associates and or friends who invested but were silent shareholders contributing nothing strategically to the business model.

Then as the business continued to grow the founding shareholders didn't want to dilute their shareholding through new share issues and possible control of their companies so they turned to a combination of bank and financial house loans to support their company's growth scenario. Slowly but surely their debt equity ratio became unbalanced and they were then on the slippery path to the point where the debt and interest burden became too great and the bank or other major creditors moved in.

What I've described is a sad picture of a founder not understanding the economics of managing financial security through the prudent management and use of the market value of their shares. In other words there comes a time in every business where additional capital is required to capture and stabilise the growth already achieved and at the same time provide for future growth providing increased shareholder wealth.

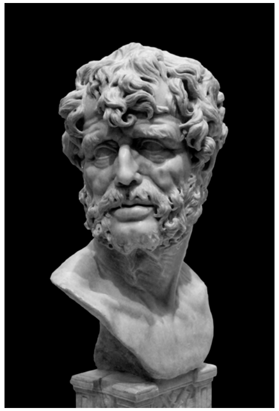
The answer to this requirement is not to continue to take in a multitude of small shareholders who provide capital without adding any strategic value to the business but to find a cornerstone shareholder who will commit to not only initial but also future funding and who will add experience and strategic grunt to the business decision making process. Naturally the trade off for the founder is a certain loss of control as new shares are issued to the cornerstone shareholder versus the ability to stabilise the business and use the corner shareholders strategic knowhow and grunt to increase future share values.

Without any doubt the companies which I've looked at would have benefited considerably from bringing in a cornerstone shareholder who would have added strategic value to the business rather than relying on the addition of smaller shareholders and then resorting to banks and financial houses to prop up their business models. However this raises an interesting question and that is,

"At what stage of a business life cycle and or what are the triggering factors which signal that a cornerstone shareholder is the best option for securing business stability, supporting growth ambitions and increasing shareholder wealth?"

Appreciating that each business is different and founding shareholders have different aspirations in their personal lives there must be a number of common factors which are identifiable and can be applied to most business cases. The trick is to recognise the trigger points in the business life cycle which indicates a cornerstone shareholder requirement and then to educate the founders to understand that bringing in cornerstone shareholders who not only inject capital but also provide strategic direction and input is both a protective mechanism as well as a major enabler to increasing their share wealth profile.

Using opportunity pipeline monitoring as a lever to improving company performance



"Luck is what happens when preparation meets opportunity."
- Seneca

A board has many levers it can push or pull to enhance company performance. Some are strategic, others relate to policy development and operational monitoring etc. However as I've carried out governance audits for various boards it's always intrigued me that the monitoring of the sales opportunity pipeline is almost never an agenda item.

When reviewing a company's well being and future sustainability one of the factors thrown into the analytical mix is a measure of the robustness of its sales opportunity pipeline. Operationally most boards will have information on the company's pipeline but the detail is normally buried within a host of other statistics and is very rarely examined in any depth. If you doubt what I've just described take a look at any board minutes and see if you can find any in depth discussion or analytical review of pipeline economics and performance being recorded.

As Chairman of various companies I've always insisted on pipeline statistics being an agenda discussion item. In addition I've made sure the Finance and Risk subcommittee includes pipeline statistics and commentary when reporting to the main board.

The report format requires the opportunities to be ranked and grouped based on the possibility of achieving a sale. Groups can range from certain through to maybe with a final comment on future opportunities which have not as yet been quantified. Overlaying these categories should be a time element detailed in months together with a dollar number against each indentified opportunity. There needs to be a summary comment which outlines in a cumulative sense the dollar numbers and highlights the risk parameters and what action is being taken to mitigate the problems indentified. For presentation purposes I've always liked the Manhattan chart approach with the overlay being colour coded. With such a document the board now have statistical information matched with probabilities and risk which they can discuss with some confidence.

Another important element to address is the conversion rate in percentage terms. Put simply this is the number of opportunities converted into actual sales measured in percentage terms against the overall total of opportunities recorded and reported to the board. If a company achieves a 40% conversion rate imagine the positive effect on profits if that conversion percentage could be lifted to 55%. Therefore the conversion rate target becomes a critical enabler to increasing profits and underpins the long term sustainability of the company.

In addition the time to conversion has a significant impact on the business cash flows. Shorten this by a 20% factor and the company's cash in hand being used to reduce bank facilities will improve the company's debt equity ratio thus strengthening its balance sheet.
`If the board focuses management's attention on improving the conversion percentage rates and improving the time to conversion parameters the overall value of the pipeline should, subject to fluctuating market conditions, automatically increase and will have a positive effect on revenue streams and company performance.

I am unaware of any studies that have been undertaken around pipeline monitoring but I can provide one example which I was involved with. The company's pipeline statistics and reporting were abysmal and didn't rate much discussion around the board table. A pipeline template was developed and over a three month period was populated with facts which enabled meaningful discussion around the board table. Over the next two years the company increased its commercial revenue from $10m to $20m and the robust pipeline monitoring and management was one of the factors (certainly not the only factor) contributing to this success story.

Opportunity pipelines can be developed for any business regardless of their markets or organisational focus. It's simply the matrix reporting mix that changes.

When emotion becomes a barrier to logic the resulting chaos always promotes mediocrity

"Emotions have no place in business, unless you do business with them."
- Friedrich Durrenmatt

The SME market is an exciting place to monitor and work with. New companies starting out and striving to make their mark, others finding the going rough and trying to solidify their position, there's a certain amount of M&A activity (not enough in my opinion), shareholding changes and then of course there are the real growth companies. It used to be that the availability of capital for growth was a problem but that's certainly not the case now with capital funds readily available either by way of financial instruments or share investment. Altogether a market that certainly is extremely active and gets the adrenalin pumping. It's been said before that because the SME market is the feeder into the larger economic picture the actual overall economic activity of a region can be measured by the size and activity levels of its SME market.

However while this market churns away with extremely high activity levels it has to be acknowledged that very few SME companies actually break out of the SME mould and hit the big time moving on with IPO's to become publicly listed companies. A lot seem to stagnate at a certain level and never push through the barrier of mediocrity. Surely if a region's economy is to continue to grow it requires more companies to measure success in quantum numbers rather than be satisfied with single digit growth

Now there are many and varied reasons why SME's don't achieve their full potential. I certainly don't intend to canvas them all with this article but one issue that really troubles me and contributes to lower success rates in this market segment is the "emotion factor of the original and probably founding owners to changes in shareholding." Let me explain.

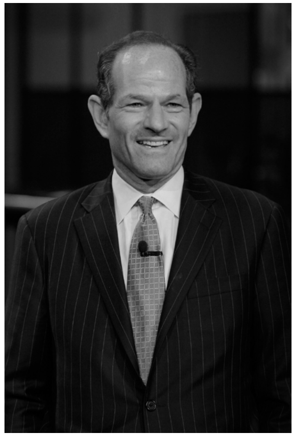
The life cycle of an SME normally commences with a single shareholder and while the company organisationally grows, shareholding remains constant until certain staff are given minor shareholding as an incentive based on the retention factor. This is a time of shareholder stability as the company continues to grow. Then the need for new capital arises so outside shareholders are introduced but with the founding shareholder always holding a majority shareholding and by retaining their chairmanship position controlling the board.

Now the company has reached the point where if it is to make a quantum leap in both size and profit it requires a major injection of capital through a new share issue. This is where emotion becomes a barrier to logic as the original founder realises they will no longer be the major shareholder in their company nor the Chairman and possibly not even a board member. The logic of their actual share value increasing thus their wealth being seriously enhanced is overruled by their emotional pull to the business they created. This is particularly true where family trusts are involved.

This problem can be difficult to address and becomes a real barrier to growth. The founding shareholder may try other methods of raising capital to ensure their majority position is maintained but this can lead to financial overreach with dire consequences for the company further down the track. Naturally, this could lead to lost market opportunities and or the loss of their competitive advantage in the market place. On the other hand what normally happens is that the major shareholder/founding owner accepts that the current operation is from their personal point of view satisfactory and serious growth strategies are put aside and the business simply plateaus. The downside of such action is that eventually the company will either be ripe for a takeover or will simply fade away.

Addressing people issues when it comes to egos and emotions associated with business activities can be difficult but I've always subscribed to the notion that it's a challenge rather than a barrier. However it's really frustrating when you can see the benefits for all involved but "emotion becomes a barrier to logic."

Shareholders' Role And Responsibilities



"Shareholders have the right and obligation to set the parameters of corporate behavior within which management pursues profit."
Eliot Spitzer

Shareholders are the lifeblood of any business. They are the ultimate risk takers investing their funds into a business and placing their trust in a board of directors to safe keep their investment but with the expectation that their wealth will increase via share price and dividend streams faster than inflation, interest rates or real estate growth. Being a shareholder is a risky business therefore higher than normal rewards should be expected to offset the risks involved.

If the business is going poorly or the shareholders wealth incremental curve is not meeting expectations they will simply cut their losses, cash in and flee the market. Normally shareholder turnover provides a reasonable guide to the health of a business with high churn rates indicating a business not meeting shareholder expectations in terms of dividend and wealth creation levels. The exception to this scenario is where a company is on a huge upward curve with well above average profit results and shareholders may take a short term position and cash out simply to take the immediate gains from their investment rather than taking a longer term view and going for the ride associated with increasing share prices and dividend streams.

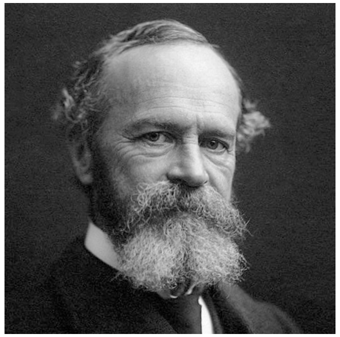
Shareholders have a defined and legal protection mechanism associated with their investment that being the appointment of the directors to the board. It's normally the major shareholders who manage this process seeking out suitable director candidates from within the business environment who they believe can guide and grow the company's fortunes thus protecting and increasing their wealth curve. However as the business environment diversifies and new technology begins to disrupt the market shareholders may need to appoint directors with more specialised skills. Further as the public at large becomes more sophisticated in their demands, product introduction and differing pricing options will require a more "fleet of foot" approach to managing a business and a new set of skills will be required around the board table. These are factors which shareholders will need to take into account when making board appointments.

Shareholder communication with the board is an area of great importance which if not managed correctly can become a very difficult issue. In principal shareholder interaction with the board should be formally recognised and on no account should shareholders interfere with the board's accountability, responsibilities and or duties. The shareholders have appointed the directors and must rely on their abilities to achieve the results that they have been charged with producing. There are two distinct mechanisms which shareholders have to monitor and influence the board's decision making process. Firstly is the board's quarterly report which the Chairman presents to the shareholders. Secondly there is the annual shareholder meeting where apart from announcing the year's results the board presents for shareholder approval a rolling five year strategic plan including any capital requirements or major strategic activity.

Being a shareholder and an investor can be a lonely place where the downside risk or the upside reward of increased wealth rests with individuals whom are appointed and collectively as a board of directors are charged with achieving the success the investors are looking for. In the future as the markets change driven by technology advancements and consumer demands coupled with accelerated change time frames we may see shareholders becoming more directly involved in some aspects of the decision making process.

There's a new word that has come to dominate our vocabulary and it's called "Governance." This discipline is not readily understood as yet by the market nor the management academics but I'm sure governance as a practise will evolve in the future and influence in a positive manner the behaviour of both shareholders and boards of directors.

Directors' Role And Responsibilities



"A great many people think they are thinking when they are merely rearranging their prejudices."
- William James

It is important that the Directors of any company or major organisation have a comprehensive understanding of the strategic logic which drives the business practises and organisational behaviour of the enterprise they are charged with leading. For example is the business driven and governed in response to market place demands coupled with ensuring that there's a result producing above average returns on shareholder funds or is it operating at the other end of the scale being a government department providing a social service based around transparent government funding.

Regardless of what business model the Board is charged with directing the important point is that the Directors need to have a clear understanding of where the business/ organisation sits within the market place and social structures of the community and the market it serves. Naturally the regulatory environment within which the business operates will to a certain extent also be a factor driving behaviour and Directors will need to be fully versed on the ramifications of legislation which effects their particular business model.. Even more importantly the Board needs to embrace and ensure that the shareholders requirements and expectations are clearly understood and are the focus of all decision making around the Board table.

The Board of Directors must annually reach agreement with the shareholders regarding the strategic business plan and expected performance outcomes of the company covering the next twelve months with shadow numbers and strategies projected out for four further years. Information such as dividend expectations, major capital works requiring new financial arrangements, product price movements etc. should all be agreed between the shareholder and the Board of Directors. In addition the market place behaviour of the organisation and its people policies should also be agreed upon.

However, it needs to be noted that the shadow detail provided to the shareholders and the subsequent agreements reached are based on extremely high level overview positions and certainly not long on finite detail and numbers and should be viewed by all concerned as an expectation of performance subject to market developments.

The Directors are directly accountable to the shareholders for company performance and market place behaviour. As such, a quarterly reporting mechanism needs to be established where the Chairman meets and presents to the shareholder representatives the results measured against the business plan and signals any changes that may occur in the coming months. At the quarterly meetings both shareholders and Board if in agreement can and should make material changes to the business plan if necessary to reflect current circumstances.

The Board of Directors should strongly resist and also insist that the shareholder does not become involved in the management or business operation. Shareholder communication must be through one channel, that being the Board Chairman unless otherwise agreed between the parties. In principle and also in practice the quarterly meetings should be sufficient to maintain sound shareholder monitoring procedures.

In principle the Board has three prime functions:

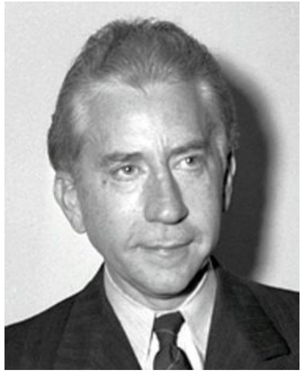
- To so guide the business that it meets the shareholders' expectations associated with profit, dividend realisation, sustainability, capital allocation and increased shareholder wealth as outlined in the strategic plan.
- To establish delegations of authority and promote policies which, will enable the CEO and management to achieve the approved strategic and business plan results
- To monitor monthly performance of the business at a high level, taking into account both current and forecasted trends.

At the same time, it needs to be realised and accepted by the Directors that the Board was not established to manage the business nor become involved in general operational matters or associated management approval processes. These issues will have been made clear via the delegations of authority, which need to be regularly reviewed and updated to ensure that only High Level approvals or change in policies require Board approval. Just as the Board, via its strategic plan has clearly established lines of communication and monitoring associated with its shareholders, so too must the Board have similar clearly established communication protocols with the CEO. The Board should establish what information and reporting it requires from management (via the CEO) and the Chairman and the CEO should sign off on these protocols and delegated authorities once a year.

The Board, based on past history and also its understanding of possible shareholder expectations, should establish draft High Level Targets and philosophies regarding the direction and performance of the business for the coming year. The establishment of this information package is normally carried out by the Chairman and the CEO and then presented to the Board for discussion and approval. .The CEO, armed with this information, directs his management team to build a ground up business plan which is then morphed into a five year strategic plan. The Board will discuss and reach agreement on both documents. It is from the final agreed documents that the detail is sourced for shareholder discussion and approval.

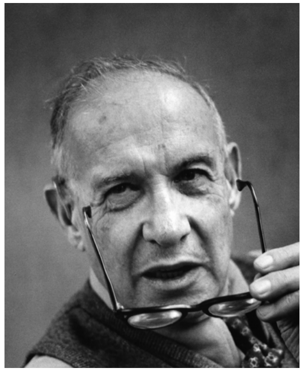
The Chairman as leader of the Board should be the sole communicator of all Board decisions, questions and or concerns to the CEO. Board members should not under any circumstances, unless agreed by the Chairman, have direct communication with either the shareholder or the management on business issues. The Board needs to be absolutely ruthless in its High Level monitoring of the strategic and business plans and the business in general via the monthly reports This is the key mechanism to ensure the business is on track to meet its targets.

Once or twice a year Directors and Managers should meet as an integrated group to discuss all aspects of the business, both current and going forward. Such forums provide the platform for free and open discussion between all parties while ensuring that all involved at the top of the business, regardless of rank or position, understand and accept the collective responsibility for achieving the acknowledged business objectives. Such meetings are generally held offsite and involve a night away. This bonding process between Board and Management adds considerable value to the business culture while still ensuring that at regular Board meetings it is clear that the ultimate responsibility to the shareholder for the business performance lies with the Board



"Going to work for a large company is like getting on a train. Are you going sixty miles an hour or is the train going sixty miles an hour and you're just sitting still?"
- J. Paul Getty

Management's Role And Responsibilities



Management is doing things right; leadership is doing the right things.
- Peter Drucker

Having examined the investors' (part 1) and the directors' (part 2) roles and responsibilities the final part of the corporate / business jigsaw is the executive or management team.

Management has a unique position in the responsibility and decision making chain of any business. Their prime function is to convert the Board's vision and shareholders expectations into hard-core reality. In addition, and as an integral part of the overall process, management must consistently feed new ideas and possibilities to the Board for consideration. In other words as well as ensuring the business achieves its objectives as set out in the Business Plan, Management, as a group, has the responsibility to act as a catalyst for change within the business.

However, Management's position in the responsibility chain is not just to service the upward demands of Board and shareholders but to also accept responsibility in a downward sense for overall company operations, business behaviour, staff well-being and customer enhancement. Therefore Management, being at the centre of the business responsibility circle, must be effective communicators both upwards and downwards as well as posessing the necessary leadership qualities to successfully manage the business.

Someone once said "In any business enterprise, management which works together as a team supporting one another and is well lead by an effective CEO will always win out in the market place over a disjointed, self demanding group of individuals, regardless of differing intellect and experience levels." Management, as individuals play leadership roles in numerous teams within any organisation. An individual manager could be part of the senior management team, lead their own team of employees, play an active role in selected teams within the organisation i.e. health and safety etc. and also accept overall organisational responsibility in a team sense for the company's behaviour. Participating in so many different roles, good management practices require real leadership and communication skills. It naturally follows that good leaders are positive delegators, disciplined in their follow up procedures and possess real people skills. The management team of any business must accept that they are the leaders of that organisation and that leadership respect is not given to individuals nor the team as a whole just because of their positions. Leadership respect must be earned and bestowed by other people based on practical observation of the individuals and team behaviour.

The Business Plan is the one document, which not only provides the drivers for organisational performance but is also the control mechanism for monitoring Managements ability to meet the Boards and shareholders expectations. While the Board, and to a lesser extent the shareholders may approve the Business Plan document, in a very real sense, ownership of the Business Plan clearly rests with the Management Team. The broad principles of the plan should drive every decision that is made within the business. The Business Plan should be a bottom up exercise with Management making sure the checks and balances are in place to ensure the overall document is glued together in a concise and detailed manner. It is the management team, lead by the · CEO, who should then present a draft Business Plan to the Board of Directors. Once approved, it is Management's role to implement the plan and if possible exceed the plan requirements.

The CEO should each month report to the board on progress against the Business Plan objectives. Highlights and disappointments should be detailed, forward projections noted and the Board should be updated on all major issues which affect the organisation's performance against plan. Low Level and repetitive detail should be avoided at all cost in any Board Report. Keep Board information flows to High Level summaries. If the Board requires additional information they will so inform Management. The Management report to the Board should be holistic in nature and not sectional.

Always, on a regular basis, inform the organisation's staff of how the business is progressing against its Business Plan objectives. An informed staff will be far more responsive to Management requests for change and extra effort versus staff who are not aware of the organisations directional needs and requirements.

In any situation that requires significant change Management will be the first group to feel the heat. The shareholder or Board will be placing downward pressure on them and or the staff will be applying upward pressure. In a competitive situation it will be the customers who apply the pressure. Wherever this pressure comes from, it will always without fail require a response from Management. Therefore another responsibility of Management is to be able to absorb business pressures wherever they may come from while actively analysing the position in a real sense as to how the situation may affect the business operation and ability to achieve its Business Plan. Once Management have reached a conclusion as to the way forward they, as a team, must accept collective responsibility for the outcome of their decisions.

A good Management Team will always adopt the philosophy that change is inevitable and recognise that as a team they will be remembered by how well they managed the inevitable change, not how they dodged the issue.

Management cannot operate a business on its own. They need staff - good staff, willing staff – people who will go that extra mile. Naturally there are a lot of aspects and management traits, which go into the mix of being able to manage staff successfully - leadership, communication, compassion, individual interest, mentoring, and so the list goes on. However, apart from natural leadership, the one key attribute to managing staff successfully is communication. Good communication is a dual discipline - talking to and with staff and most importantly being a good listener.

Staff, even at the lowest levels of an organisation, can have good ideas, which can and or may change certain aspects of the Company's operation for the good and benefit of all. Be a good listener. Hold regular staff meetings and make sure the message, as a manager, you wish to communicate gets right down the line. Always look for feedback.

The Management Team is responsible for building and fostering the culture of an organisation. A business without a positive internal and external culture will eventually die. Culture is something that is difficult to exactly define but it permeates every aspect of an organisation. For example a bad or poor culture will be represented by high staff turnover, high internal crime rates, falling sales volumes and a host of other easily recognisable indicators. A positive culture on the other hand, is equally recognisable with happy staff, high customer retention factors, business growth and generally acceptance that the organisation is a good place to work.

Management must closely monitor the culture of the business and provide individual and personal leadership in this area while still maintaining the important overall team approach. There are numerous methods and programs for building a positive culture in an organisation, but each depends on the starting point and where Management wish the culture vehicle to travel.

Outside of the Business Plan the Management Team must accept the responsibility for developing a plan to build the culture of the organisation in such a manner as to support the overall objectives of the Company. For example high staff turnover could undermine the Business Plan objectives for growth. Regular monitoring of staff attitudes and individual behaviour relative to culture development is an important ingredient to the success of any business.

"It's better to keep your mouth shut and appear stupid than open it and remove all doubt"
-WInston Churchill

Conclusion

I've been a long time admirer of the thoughts and sayings of Ulysses Brave and whenever I'm looking for inspiration or simply need a thought changer I'll pull out a couple of his books and lose myself in contemplation reading his short and mind bending philosophical quotes. In putting this publication together I suddenly realised that there was one common thread regarding management principles that Ulysses captured and which could be attributed to all of our corporate endeavours.

> *"If the tide goes out on your fountain of management knowledge as it eventually will, make sure you're still standing in the same place to benefit from its eventual return."*

Over the years I've been extremely fortunate in having a number of mentors who with their wisdom influenced my thinking, shaped my management style and enhanced my corporate and board disciplines and thus my commercial behaviour. However linked with these personal influences has been the thought provoking and visionary management concepts of two of the world's foremost management thinkers whose books and articles I've religiously read and endeavoured to implement albeit with some adaptation for the circumstances. I would recommend that any executive striving to make their mark in the competitive professional world to read these authors works as these two individuals changed the world of management thinking and disciplines and the corporate world certainly owes them a debt of gratitude for the strong professional foundation they laid

Abraham Maslow: 1908 – 1970

Most famous for his development and subsequent publication of the "Hierarchy of needs," a philosophy still taught today in most Universities. Maslow's publications all focus on enhancing the management quality of people. One of his publications, "Motivation and Personality" is in its fourth edition and is still a bestselling management text book. He and Tony Sutich founded the Journal of Humanistic Psychology, a common management reference journal and one I often turn to.

Peter Drucker: 1909 – 2005

Founded the "Management by Objectives" corporate leadership and measurement system which is still widely used today in larger enterprises around the world. He was responsible in 1971 for developing the first executive MBA program for working professionals and was a prolific writer, having published over twenty books and many hundreds of articles on management principles. As an Emeritus Professor he taught his last class at the Clermont University age ninety two and was still giving addresses on management principles as a visiting lecturer at various learning institutes and universities around the world up until his death at aged Ninety five

I would recommend any executive or board member to take time out to read publications from both these extraordinary and visionary individuals, you won't be disappointed.

Finally, it's been fun pulling these various thoughts of mine together into this E-Book presentation and as I've read the various comments I've made about various issues have been stimulated to contemplate assembling another similar publication in the future. I hope you have enjoyed the read and you are more than welcome to contact me to discuss and even debate some of the philosophical management points I've made.

Go well in all your endeavours

Drew Stein

There are publications involving a series of Drew's international speeches and lectures plus other specific standalone speech notes all of which are available for a small fee to cover postage and administration. In particular one publication is focused on the historic monopoly practices of the electricity industry and how with light handed regulation its possible to unbundle the monopoly industry factors which inhibit commercially driven competitive practices. Another publication focuses on the need to deregulate and restructure the domestic and international postal markets and by so doing eliminate the financial barrier to entry which is the major inhibiting factor restraining the introduction of real competition within this industry

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