

WHAT WORRIES SME DIRECTORS

Article



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MATTHEW SAINSBURY FINDS OUT WHAT'S DOMINATING SME BOARDROOM CONVERSATIONS AND KEEPING SMALL BUSINESS OWNERS UP AT NIGHT.

In 2000, Andrew Thomas left university with a semester in Computer Engineering and Science unfinished to start a business, Thomas Duryea Consulting. Thomas and the three friends he built the business with – Evan Duryea, Micah Smith and David Stagg – have remained with the company through 12 years of solid growth.

Thomas' story typifies one of many successful young entrepreneurs in Australia: learning business on the run, making mistakes along the way, but ultimately having a vision to see the company through the tougher times.

A little over a decade later, the company has reported revenue of \$60 million, a staff of 110 people and is a model example of how well-run small and medium-sized enterprises (SMEs) can grow and compete with much larger corporations in the market.

For Thomas, in his capacity as CEO of Thomas Duryea Consulting, simply learning management and how to work with a board has been a major cause of the growing pains.

"I realised it was vital that the board had the skills to be able to advise or critique me," he says. "Another issue I quickly realised I needed to resolve was how I could supplement my board with external advisers who were able to take on a pseudo-director role. I needed to be able to present ideas to them so they could offer a rigorous critique that would help my growth and potentially pick up blind spots in the way I operate."

Most SMEs do not have the luxury of a full board that is able to bring across a wide range of skills to address every possible challenge an organisation can face in the market. In this way, SMEs are at a significant disadvantage when compared with large organisations that do have access to a wide range of expertise at board level.

It is possible to mitigate this disadvantage to an extent by working with external advisers, but Dr Caroline Hong FAICD, inaugural CEO, Ambassador and Asia business adviser of the SME Association of Australia and a director

for several SMEs, says SMEs need to first understand where their business priorities are and recruit board members who can help meet those imperatives.

"Directors of SMEs do tend to be more hands-on, so finding the right mix of skills to complement management could be a great bonus for the organisation," says Hong.

Usually, the board of an SME involves the founder and perhaps some trusted colleagues and even family members. Small companies can be reluctant to bring on external members who are not family members, especially if the organisation has a long history.

For instance, I am brought in because I have experience, skills and connections on a global level that are of interest to the particular company .

"A company intending to expand to Asia or China, and wanting links to Asia from Australia, may look at someone like me to add value to that board as it engages in the Asian century."

Bringing complementary skills into the organisation via board recruitment is vital, but it is equally important for SMEs to understand the limited time and resources their boards will have.

Dr Francis Linnane GAICD, general manager of product strategy at XRF Scientific and a non-executive director of privately held No Bolt Operations, says boards need to develop a list of priorities based on the needs of the organisation and then execute on these as top priorities before moving on to the "nice-to-haves".

Linnane's advice to small business owners is to ensure they have a good board structure in place, a standard agenda and a regular calendar. "You've got to balance what you do inside and outside the organisation and you have to prioritise. From a governance point of view, there are certain things you are never going to get to, but there are things you can't avoid. For us, health and safety is always

the first thing on our board agenda and something we're always paying a lot of attention to. There are some other issues that perhaps we don't pay as much attention to."

Managing uncertainty

As an organisation in the IT industry, Thomas Duryea has also had to manage through some dramatic changes to the way business is done. Where once revenue streams for IT companies came through the selling of equipment and services for an up-front price, the advent of subscription services, such as cloud computing, has shifted entire business models towards annuity billing. For large organisations, this is simply seen as a period of transition. For an SME like Thomas Duryea and other small technology companies, this has been a major issue in terms of cash flow.

"For us, it's real money. People coming into our business see a culture of watching pennies. In a big organisation going over budget, this is less of an issue; there's a far bigger pot of cash that can absorb hits. When bringing people into a smaller business you need to make sure they understand the decisions they make they are making with real money," says Thomas.

"Our challenge is to coach new people in the organisation that an \$100,000 overrun for us on a project is bottom-line money that needs to come from somewhere."

One of the challenges Thomas faces when reporting to his board is being able to articulate the transition in business models in such a way that reassures the board that the company remains financially healthy.

It's a common discussion that the managing directors of SMEs across Australia are having with their directors, along with talks about cash flow and exposure to the broad economic conditions in the country. But just how these affect each company depends on its individual circumstances.

Directors of SMEs that rely on imported goods need to be formulating contingency plans for the fluctuating Australian dollar, while SME boards in Western Australia are having discussions on how to diversify to lessen the effect of peaking investment in the mining sector.

Openet managing director Andrew Monteiro GAICD is, as the head of a Western Australian SME, having very different conversations than Thomas at Thomas Duryea Consulting, despite both organisations being at core IT-consultancy organisations.

"Being based in WA, most sectors of the economy, especially in the SME space, are somehow linked to the resource sector. With the slowdown in the resource sector

and a shift from construction phases to operating phases, there's a significant shift in focus to cost reduction and cost management," says Monteiro.

"We're certainly very conscious of that and look to diversify our client base to mitigate some of that risk."

Diversifying any business in WA away from the resource sector is a significant challenge.

To do this, Openet is leveraging the contacts and the ethical standing of its management team, and how to make best use of these advantages is presently dominating discussions.

"People will do business with people they know and trust, and that has to come from the top of the organisation. A company that is acting ethically and communicating to all stakeholders will give people confidence. A lack of communication from business leaders is going to make people nervous and lead to problems," says Monteiro.

"We are focusing a lot on doing things smarter and working more efficiently. What we can do is work on how we can leverage our capabilities for overseas markets. We feel there are parts of Asia that could benefit from our skill sets and intellectual property. We spend a lot of time discussing how we can get overseas and do some more work in international spaces.

"The most important thing for any SME to remember is that you've got to be communicating, and I can't stress that enough. From grass roots right through to the top it is paramount to keep the conversation flowing."

While the general sentiment in the market is one of uncertainty, and SMEs feel the pain of economic and political uncertainty more than larger organisations, it is important that SME boards continue to approach the market with confidence and invest in it, according to Brian Dickson GAICD, managing director of Vitalis Nutrition, a start-up SME that supplies food supplements and meal replacements for the aged-care and medical market.

"Don't be overly negative in this country," says Dickson. The media reporting attitudes tend to be skewed towards the negative and I don't believe we get a balanced view in terms of what is going on and the real economic situation.

"SMEs need to be innovative and stay innovative. Make sure your relationships are bedded down and solid and be prepared to talk about innovation at the board level."

It is likely that one of the key factors affecting the ability of SMEs to do business will settle down in the coming months.

The political environment is causing a great deal of uncertainty in business, making it difficult to attack the

market with the kind of innovation Dickson is talking about.

Following the election this month, it is likely that this issue will be resolved and organisations will be able to start operating again with a better understanding of the policies from the winning political party.

“Politics has certainly been an issue in this country for around five years now,” says Dickson.

It has been something we have had to consider. There has been a lot of flow-on effect from the government in terms of the uncertainty and some of our clients have had more red tape applied to their businesses than in the past, which has made them a lot more cost conscious.

“You can’t resolve these issues unless the government is willing to acknowledge the importance of SMEs in the Australian economy and take steps to lighten the burden on them.”

SMES by numbers

SMEs make up **99.7%** of businesses in Australia

SMEs contribute to **70%** of total employment in Australia

SMEs can have **1-199** employees

Five key pressure points for SMEs

1. Access to capital

“We’re in the start-up phase and find ourselves stuck between a rock and a hard place because we don’t have the financial history to borrow from the bank in significant amounts. And, obviously, we don’t have enough funds to go direct to market launch and do an initial public offering (IPO). But even if we could, investors may not want to invest in an IPO because we don’t have a trading history either,” Brian Dickson GAICD, managing director, Vitalis Nutrition

2. Regulation and red tape

“The Australian Tax Office and Australian Securities and Investments Commission requirements are, in my opinion, set up so large companies can comply because they have the resources; the finance departments, the human resources departments and everything else they need. They have qualified and specialised people to look after this. But in a lot of these areas SMEs just don’t have that sort of access to human resources to live up to all the compliance requirements,” Brian Dickson GAICD, managing director, Vitalis Nutrition

3. Getting information on key business imperatives

“SMEs are still learning about export opportunities and how to engage the Asian century. SMEs don’t necessary have directors who have deep Asian relationships and an understanding of the opportunities and risks in the region. SMEs need directors who know how to guide companies through an Asian engagement strategy,” Dr Caroline Hong FAICD, CEO and director for SME Association of Australia

4. Political uncertainty

“We look at the political landscape and it frustrates us like everyone else in the market at the moment because we are in a service industry. We’re not directly affected by any of the policies in direct discussion, apart from some of the sourcing strategies that get bandied about occasionally, but we look through the eyes of each of the customer sectors and the different government policies. The rapid changes taking place are directly affecting budgets,” Andrew Thomas, CEO, Thomas Duryea

5. The Australian dollar

“Most of our activity is in Australia, but we are very concerned about the effects of a changing Australian dollar on our customers. We are affected by some of the bigger capital projects being put on hold. We deal a lot with blue chip mining companies, blue chip infrastructure companies and blue chip manufacturing companies, and if their budgets are tight or constrained because of an unfavourable dollar, then that is something that affects us,” Dr Francis Linnane GAICD, general manager, Product Strategy, XRF Scientific

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