



ROBERT MUIR

The right direction

Getting the appropriate directors and board members in place and keeping them there is imperative for a company to run smoothly.

It should have been a recipe for an Australian success: a world-beating light magnesium alloy technology, a team of world-class CSIRO scientists, and a potential sales agreement with the world's second largest automaker driven.

A \$200 million capital injection from Federal and State governments to seed the construction of a manufacturing facility and well-known investment bankers to list the company. It was all topped off by the appointment of a close-knit mix of Board directors - some 'names', some 'knowns' and a couple of 'on everythings'.

And yet in March 2003, the ASX halted trading in Australian Magnesium Corporation as the company reported continuing financial cost overruns and technical problems with scaling up the technology. Ultimately, AMC sold off most of its assets, was restructured by its main shareholders and became Advanced Magnesium Limited, a technology developer with a very different business model.

This sort of recurring story raises the question: do we appoint the right directors at the right time? Do high-profile names, quasi-professional Board employment or shared old-school ties ensure the right mix of skills needed to propel Australian businesses across the 'chasm' of commercialising innovation?

From the outset, the early-stage Board has to add talent and leadership to the enterprise to complement the 'founder's vision', which can be long on energy and enthusiasm but short on the necessary management skills and industry experience to get across the chasm, particularly for science and technology-related businesses.

Usually, this is achieved by recruiting non-executive directors (NEDs) who, on an early-stage Board, should provide three kinds of capital - 'network' capital, 'intellectual' capital and 'interpersonal' capital.

While the first two are self-explanatory, 'interpersonal capital' includes the capacity to mentor the management team and, on occasions, to plug gaps by serving in interim executive roles.

The Board, and the roles of its NEDs, evolves with the enterprise through three well-recognised stages: start-up/seed, commercialisation and expansion. Typically, the

start-up phase sees a 'real' Board established as soon as outside capital is invested. Its first task is to recruit an appropriate management team and define roles.

Here the required NED skill-sets need to encompass forms and phases of business start-ups as well as corporate finance 101, including typical sources of capital (grants through angel funding/venture capital), terms sheets and valuation models.

As the company starts to implement its R&D in the commercialisation phase, even more active participation is required from its Board. Financial and operations management experience comes to the fore together with skills in organisational development, legal and accounting requirements, and sales, marketing and distribution.

Committees may form on an as-needed basis, covering strategic review, compensation and audit, and management integration. If the company has aspirations to go overseas, the compensation and audit committee will take a crucial role in ensuring that financial statements comply with jurisdictional requirements. For example, if the US is a target, compliance with the 2002 Sarbanes-Oxley (SOX) Act, set up in response to major corporate and accounting fraud, is mandatory.

The compensation and audit committee will also hire a CFO in preparation for the expansion phase.

Typically three to five years after inception, the company will have successfully launched its product(s), attracted customers, and built a large income stream as it moves into its expansion phase. While the management team will be focused on building a sustainable business and improving financial performance, the board is now looking to secure expansion capital and possible exit options, including a sale, an IPO, or a merger. The Board is also looking for its own replacements - the skill-sets needed to operate the larger company are significantly different to those of the fledgling enterprise. If a potential IPO is on the table, now is the time to consider recruiting a higher profile NED - a 'name'.

Whatever stage the company is at, inviting a new NED to join the Board can improve the company's leadership. In the early phases for emerging technology businesses, there is no substitute for 'been there and done that' experience!