



December 2012

Tylee+Co welcome you to another edition of its newsletter. In this edition we outline:

- Some recent assignments we have completed;
- Advisory boards, and how they can help your business reach its full potential;
- Tylee+Co advisory board services and experience; and
- Strategies to attract, incentivise, reward and retain your employees.

Recent Assignments

Strategic & Financial Advisory Services



AgInvest / Myfarm

Valuation for internal purposes.



Environmental Challenge

Strategic planning services.



Right House

Financial model development to link operational drivers to financial performance.



Tararua Veterinary Services

Valuation for the purpose of introducing new partners.

Tylee+Co also:

- In conjunction with Shoreline Partners, prepared a **business case** to assess whether to further develop a new software product for the construction industry; and
- Assisted a company prepare an **information memorandum**.

Advisory Boards - How They Can Help Your Business Reach Its Full Potential

In many privately owned SMEs the owners are also the directors of the company. Board meetings can take place infrequently or not at all, which ultimately means the business suffers from a lack of governance.

In broad terms, governance means thinking about strategic issues, rather than operational day-to-day issues. Governance ensures there is accountability and oversight of a company's operations, and that opportunities and risks are identified and managed. Governance is also about performance, reputation and sustainability. It is the board of directors' role to govern a company.

Whilst SMEs have the potential to benefit from enhanced governance through having a full board with independent directors, a lot of growing SMEs don't want this due to the time commitment, a lack of resources, a perceived loss of control and for cost reasons.

An advisory board is an excellent alternative for SME business development and improvement and can greatly increase the probability of your business reaching its full potential. An advisory board can also be an excellent interim step towards having a full board.

What is an Advisory Board?

An advisory board is a body that provides advice to the board of directors and / or the senior managers of a company, but does not have authority to govern.

The primary role of an advisory board is to provide objective advice and contribute towards strategic planning. Good advisory boards will give fresh insights and thinking on emerging or unfamiliar issues, respond to ideas from management, play devil's advocate and supply high-quality objective advice to support board decision making.

How Can Your Business Benefit from Establishing an Advisory Board?

An advisory board gives the owners and/or senior managers of a business the ability to consult with external trusted advisors while maintaining ultimate decision making control.

A key benefit of an advisory board is that it can assist a business reach its full potential through strategic planning. The advisory board can assist you define a clear vision, the strategies to achieve that vision and what KPIs need measuring along the way. The implementation of the plan can be monitored and adjusted as necessary through having regular (say quarterly) advisory board meetings.

Advisory boards can also assist business owners (who are also directors) develop and implement a well thought out exit strategy over time. A lot of baby boomer owners of New Zealand companies are looking to reduce their involvement in their business within the next few years, or sell altogether. However, many have little idea of how they are going to reduce their influence on their businesses, and still have something of value to sell. An advisory board member with relevant expertise could assist you navigate a business exit.

An advisory board provides you an opportunity to get a pair of objective 'outside eyes' on your business, and to fill any capability gaps. They are a vehicle for healthy discussion and an independent sounding board to assist you make robust decisions.

Businesses can benefit from having advisory board members who:

- Have specialist business skills and knowledge e.g. in strategic planning and business exits;
- Have experience in your industry, or in a particular discipline;
- Are well networked and willing to leverage their networks e.g. to facilitate introductions to potential customers, suppliers and other stakeholders; and
- Are held in high regard in business generally, or in your industry – your business can benefit through brand association.

An advisory board can also provide business owners and managers confidence in having 'independents' providing input on their business, before establishing a full board.

What's the Difference between an Advisory Board and a Board of Directors?

Advisory boards can either work in conjunction with boards of directors, or by themselves. They are less formal and have more flexibility in how they are set up and managed. They can be created to deal with a specific matter, or can be ongoing but are generally created to focus on the big picture.

A board of directors is responsible for company performance and complying with legal and regulatory requirements. Directors are appointed by shareholders, pass company resolutions and are legally required to act in the best interests of the company. They provide recommendations and directions for a company to follow, and are ultimately responsible for the success of the company. Directors can also be held liable for not fulfilling their director duties.

An advisory board is not bound by fiduciary responsibility and do not represent shareholders. They have no power to veto, instruct, or direct. An advisory board provides advice and support, but the advice is non-binding i.e. directors and/or senior management can choose whether or not to act on that advice.

Advisory board members need to be careful they don't put themselves in a position where they become 'deemed directors' under Companies Act legislation. There are a number of steps that can be taken to prevent this occurring, including documenting the role of the advisory board on establishment and being clear it has no power to veto, instruct, or direct.

Tylee+Co Advisory Board Services

Tylee+Co provide advisory board services for small and mid-market companies.

Tylee+Co's principal, Dougal Tylee, has advisory board and governance experience. Dougal is an owner and director of several SMEs and understands what makes them 'tick'. He was recently involved in establishing an advisory board and identified advisory board members through his networks.

Dougal has strong strategic and financial skills and experience across a wide range of industry sectors. He has assisted numerous companies develop strategic and business plans, and uses a robust and easy to understand strategic framework to assist companies through these processes.

Dougal has implemented growth strategies for various companies including via mergers and acquisitions, and equity capital raisings. His experience extends to working with software and performance monitoring tools, and implementing strategies to attract, incentivise, reward and retain employees (refer article below). Dougal has also assisted numerous business owners develop and implement exit strategies, including via management buyouts.

Dougal's specific advisory board and governance experience includes:

- Director – Environmental Challenge Ltd (www.tec.net.nz), a multi-disciplinary consulting firm operating in the energy, infrastructure, Government and commercial sectors;
- Director – Knowberry Ltd, a software business that has developed LineUp (www.lineup.co.nz), a stakeholder engagement and relationship management application and database for organisations and projects;
- Director - Clearview Rangitata Ltd, a large scale South Island based corporate dairy farm;
- Past Advisor to the d-cyphaTrade (www.d-cyphatrade.com.au) and Energy Market Services (www.ems.co.nz) boards. d-cyphaTrade is a subsidiary of Transpower, and EMS is now a commercial business group within Transpower having previously been a subsidiary. These businesses operate in the Australian and New Zealand electricity markets;
- Past Independent Director of Allied Kiwi Ltd (www.alliedkiwi.co.nz), a mortgage and insurance service provider;
- Independent Assessor for the Massey University Pre Seed Investment Fund; and
- Board of Trustee member for St Matthews Collegiate School, an integrated Years 7 to 13 girls' school for day pupils and boarders in Masterton.

Dougal is also a:

- Member of the Institute of Directors in New Zealand Inc;
- New Zealand Chartered Accountant (CA); and
- Certified Securities Analyst Professional (CSAP).

For a confidential discussion on advisory boards please contact Dougal at the contact details outlined below.

Strategies to Attract, Incentivise, Reward and Retain your Employees

We have all read lots of articles citing employees are the most important component of a business, and that it's very costly to employ and train new employees when old ones leave.

Whilst it's difficult to completely mitigate the on-going risk of employees leaving your business, there are some great strategies that can be implemented to not only retain employees but also attract, incentivise and reward them.

One of the most important strategies is to have a well thought through and clearly articulated strategic plan. Employees should play a part in developing this plan. This should make them feel integral to the company and also provide them a clear sense of company direction. Companies without a strategic plan do not usually reach their full potential, and can also create an uncertain environment for employees.

Key components of a strategic plan include Mission, Vision, Outcomes, Strategies, KPIs and Values. There is often confusion about what these terms mean, and companies sometimes find formulating a strategic plan a daunting exercise. It needn't be if a structured approach is taken.

An equally important strategy is having appropriate management and governance structures in place to properly implement, communicate, monitor and revise the plans when necessary.

Another often overlooked strategy is to make sure you employ the right people in the first place. It is very important they fit your company's culture and values. Often many of the employees that have left, in retrospect, should have never been employed in the first place.

Other more direct strategies, besides paying at or above market salaries, include:

Profit Share Schemes

Lots of companies have profit share schemes on the basis they incentivise above average performance. However, most don't clearly link their scheme to company strategies, KPIs, and values. This ultimately means employees don't work in sync with the company's direction.

Shadow Share Schemes

Also known as phantom share schemes. These types of schemes are less common but can be a good alternative to equity participation schemes. They involve providing key employees a share of company dividends (in the form of monetary remuneration after tax) and sale proceeds, if the company is ever sold.

Some employees prefer shadow shares, as there is no capital outlay, zero equity risk (as no 'real' shares are owned), plus there is the upside of sharing in dividends and company sale proceeds. They are also attractive from a company perspective, as they are less costly and complex to administer. For example, no share valuations, shareholder agreements or funding arrangements are required.

Equity Participation Schemes

This is where employees are offered equity in the company. This can be a very effective and common way to retain key employees and can operate in parallel to a shadow share scheme. However, these schemes are typically more costly and complex to implement and administer, and Securities Act legislation needs to be navigated.

Best Wishes

On behalf of Tylee+Co, I wish you all the best for the remainder of 2012. Take care over the Xmas and New Year holiday break and enjoy the summer ahead.

In the meantime, we look forward to hearing from you with your corporate finance queries and assisting your business achieve the outcomes you require.

Dougal Tylee

Director

Tylee+Co provide investment banking and corporate advisory services

Strategic & Financial Advisory Services	<ul style="list-style-type: none">• Advisory board services• Strategic & business planning• Financial modeling & analysis• Business & share valuations• Litigation support including expert witness services
Corporate Finance Transactions	<ul style="list-style-type: none">• Business sales• Mergers & acquisitions• Management buy outs• Equity capital raising

For a confidential discussion, please contact Dougal Tylee: m: 027 326 3965 dougal@tylee.co.nz www.tylee.co.nz