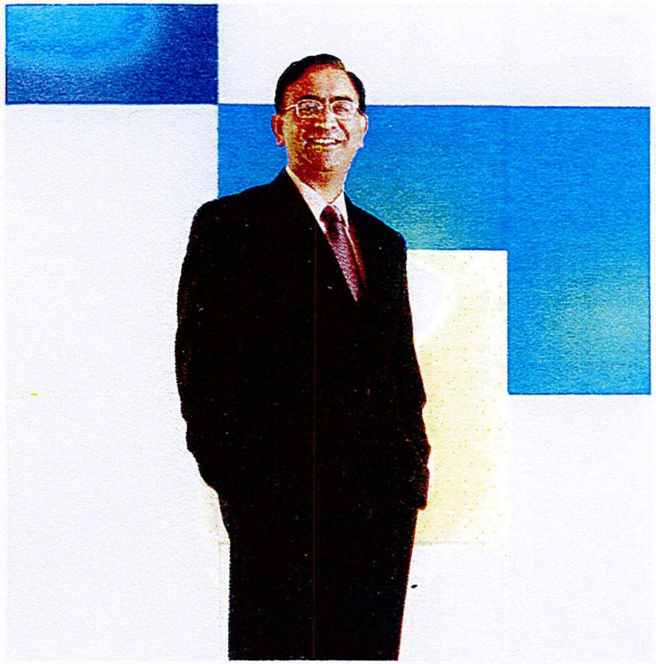

James Davies

Respect investors: Azurn International chief executive Ananda Rao

CORPORATE GOVERNANCE

BEST SEAT IN THE HOUSE

Growth companies want chairmen who understand their markets as well as ethics and corporate governance.
Report: Leo D'Angelo Fisher

Ananda Rao was determined that his young online publishing technology company, Azurn International, would have an independent chairman when it went to the market in March to raise up to $3 million from a share float.

To have done otherwise, the chief executive and managing director explains, "would have compromised our integrity, and I don't think the market would have appreciated that".

Floating in a flat market may be against the trend but sensitivity to investor expectations of good corporate governance is not. Azurn plans to list on the Australian Securities Exchange later this month. "Once you seek money from the public, it is no longer your company – you are a part-owner," says Rao, a co-founder of the firm in its present form.

Azurn's technology enables publishers to convert audio, video and other data for transmission over the internet, telephone and wireless protocols. Based in Melbourne, the company employs 370 people, 90 per cent of them in India, and has small sales operations in the United Kingdom and the United States.

Azurn recorded a loss of $8 million last year but Rao is bullish about the company's prospects and says the capital raising will fund growth. Education has been pinpointed as a big growth market.

Rao decided against going to the market as chairman and chief executive. Having an independent chairman of Azurn – company director and former investment banker Peter Jermyn – is important for investors who want to be sure that the company's growth plans are properly overseen, he says.

However, the company decided it was too soon to have any non-executive directors on its five-person board. This will change, Rao promises.

"We're a small company but we're going to grow very rapidly. In the next 12 to 18 months, we'll be looking to bring in a good balance of independent board members," he says.

The chairman of Melbourne corporate governance consultancy Board Benchmarking, Nicholas Barnett, believes the time for a growth company to bolster its corporate governance is when it seeks money from investors.

"When you're accountable to someone other than yourself, that's when it becomes absolutely vital to have the appropriate checks and balances in place, and that also applies to private companies seeking funds," Barnett says.

The ASX's corporate governance guidelines state that independent directors should hold the majority of seats on a board, the positions of chairman and chief executive should not be held by the same person, and the chairman should be an independent director.

But what if a company feels it cannot afford a full complement of independent directors? Who comes first, the chairman or the non-executive directors?

"It's got to start with the chairman," Barnett says. "The chairman has a very powerful and influential role in an organisation. Then it's up to the chairman to ensure that he or she has the right board in place."

The founder and executive chairman of listed Perth sandalwood grower TFS Corporation, Frank Wilson, says he is prepared to relinquish the chairmanship – if he can find a suitable successor. "I certainly don't covet the position of chairman," he says.

TFS listed in 2004 and is expecting its first harvest of Indian sandalwood in 2012. In the meantime, Wilson plans to add oil distillation and the manufacturing of new products to the company's business model.

Jim Rice

Power and passion: TFS Corporation executive chairman Frank Wilson

Sandalwood oil is an important ingredient in perfumes and fragrances and it is also used in the manufacturing of incense and mouth freshener for markets in the Middle East and the Indian subcontinent.

"I want to move the company up the value chain from simply being a timber grower to developing and producing products and I believe there's a realistic opportunity to move into a joint venture with a local manufacturer in the Middle East, India or Pakistan – particularly given that sandalwood is becoming increasingly scarce," Wilson says.

The company's plans to break into new markets heighten the need for a new chairman, he says. "We are looking around at the moment for an independent chairman but it's not easy finding a chairman who's passionate about the business and can add value."

Wilson insists that whoever succeeds him as chairman will have "considerable experience in the world of cosmetics, the fragrance market or body-care market" and the ability to "open doors" for the company as it embarks upon its global game plan.

"I personally don't think that having an independent chairman who boasts 'I don't know anything about your market but I do understand corporate governance', would bring value to the company."

TFS won't be the only company searching long and hard for an ideal chairman. A director of Melbourne corporate advisory firm GRG Momentum and a former chief executive of the Bendigo Stock Exchange, Geoff Green, says small companies that want to build strong boards are being hampered by a shortage of experienced directors.

Increased individual liability for directors and a market more intent on looking for people to blame for plummeting shareholder value has made many potential directors "gun shy" about joining the boards of small, untested companies, Green says. "It's a growing issue and it's going to be a bigger issue over the next few years."

He recommends that private companies that are planning to list should make themselves more director-friendly by planning their transition to public company status sooner rather than later.

Small companies that can establish a history of having audited accounts two to five years from listing are likely to be considered a more attractive prospect by potential directors.

"Directors are going to feel more comfortable if they can see that a company has a history of operating with the disciplines of a public company," Green says.

"Companies in the private sector who know they will be listing in [a few] years should be involving independent directors now rather than six months before listing.

"It can be in an advisory role, but what's important is that potential directors get to know the company and the company gets used to a level of oversight that prepares it for being a public company." BRW

APPOINTING YOUR FIRST CHAIRMAN

01 Choose wisely: the most important relationship in a public company is that between the chairman and chief executive.

02 Investors won't be fooled: ensure that the new chairman is not just a mouthpiece for the founder-chief executive.

03 Ensure the skills, attributes and experience of a candidate for chairman match the strategic needs of the company.

04 To improve board recruitment prospects, private companies expecting to list within the next five years should introduce public-company disciplines and structures well before listing.

05 Advisory boards are an effective way of introducing potential non-executive directors to the company.