AMATEUR ERA AT AN END

Small firms must still have solid business practices in place, says Tony Vidler.

{TONY VIDLER}

It has been said many times that New Zealand is a nation of shop-keepers, with about 460,000 small-to-medium enterprises, representing 97% of the business population.

Nowhere is this more true perhaps than in financial services, where the greatest number of business entities would easily fit into the 97%. The average growth in the number, small professional services firms since 2000 is over 30% according to MBIE, so the trend to deliver advice via a small enterprise doesn't appear to be abating.

What we do not know is how many of the small advice firms stay small simply because that is how the owners want it to be.

A proportion of advice businesses are undoubtedly structured this way in order to meet the owners' primary needs, which seem to consist largely of having a boat, a "Beemer" and a bach.

BALANCING LIFE, WORK

Now if that is the objective of the advisory firm owner – work until you have the toys and the cash to run them – then that is a legitimate goal. Finding and maintaining that life-work balance and enjoying the getting out and living in the country we do often make it all worthwhile.

However, the question of how to introduce leverage into the business model is increasingly being asked by advisers. Indeed, how to manage the increasing risks of the business is perplexing many advisers also.

The storm clouds on the distant horizon include changing remuneration models or commission levels; increasingly discerning consumers; the rise of regulatory oversight and intervention; and certainly not the least of our worries would be the increasingly litigious environment with reduced ability for professional to shield themselves and their assets from liability claims.

OVERCOMING HAZARDS

So how does the advisory firm which has dawdled along very nicely for many years delivering just what the owner wanted begin to make the move into becoming a business

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that can withstand and survive the storm, and emerge unscathed?

The answer is to be business-like in mindset and behaviour. And then to be commercial in structure and execution. The amateur era is history. Look back on it fondly.

Adopting a commercial focus doesn't mean that an advisory firm has to become big. Size is not necessarily the answer at all, especially with the very real possibility of collective bargaining groups or collaborative resource sharing entities being able to continue providing many of the benefits of size without the loss of commercial independence for individual business owners.

So the small scale or boutique advisory practice is by no means doomed, and it can continue to exist for the same reason as most other family-run businesses so often are: to deliver those lifestyle objectives.

While the size of an advice firm is not a critical issue for the future (other than the obvious needs to be of sufficient capacity or capability to operate solvently and profitably) its structure and commercial approach are.

PRINCIPLES OF GOVERNANCE

The link that is required for a good lifestyle business to evolve into a practice operating with commercial success is to apply good governance principles. Governance is often dismissed out of hand by small business New Zealand as it is perceived as consisting of rigid structures imposed by a plethora of outsiders resulting in increased costs/reduced profitability, and the loss of control of the business for the owner.

But is that true?

"The fact that the small cap stocks showed significance for all three sub-periods indicates the relationship between good corporate governance practices and the financial success of a company is the strongest for smaller firms"

WHAT GOOD GOVERNANCE DOES TYPICALLY BRING TO A SMALL BUSINESS IS:

- Strategic clarity.
- Improved management knowledge and capacity.
- Reduced wastage/increasing efficiency.
- Greater transparency leading to improved reputation, brand and trust.
- Economic benefits in the form of better financial performance and higher capital values, and therefore greater stakeholder benefits.

Good governance doesn't mean that one has to put together a Board of Directors comprising five independents with 40 years commercial experience each. Such a move would be ridiculously expensive and complete overkill for most practices. Putting together an advisory board which perhaps consists of a couple of experienced and very capable people, however, brings the benefits of good governance to the small firm, but without many of the feared downsides.

An advisory board is exactly what the name suggests: it is a group of advisers.

STAYING ON THE RIGHT SIDE

This group of professional commercial advisers will (if they are astute) stay just on the right side of the line of acting as if they were directors of the company. They are not directors, and should not exceed the limitations of the role by behaving as if they were directors. They are there to lend their commercial expertise on an ongoing basis – but the owner stays in control.

In practical terms, the creation of an advisory board does typically lead to better decision-making processes. It also brings robust and challenging thinking, additional skills and knowledge, better consideration of decision implications, and stronger risk management strategies.

In other words, the formation and addition of an advisory board to the smaller advisory practice is the logical way of introducing stronger management and capability without the owner losing control. The ideal of developing a commercially sound business while ensuring the business continues to deliver the lifestyle objectives can be met.

Good governance does add value to a practice, and can be introduced safely and affordably. And it is time to do so because the amateur era truly is over.

Tony Vidler is an adviser to financial advisers, helping them to grow their businesses via his coaching firm, Strictly Business.