

Brian Weatherly

On governance and growth

Software of Excellence has adapted its governance model to match its rising fortunes. CEO Brian Weatherly explains.

Software of Excellence, Auckland-based international supplier of dental software, discovered the pitfalls of board composition the hard way. For much of the first 12 years of its existence the company was owned and managed by a tight-knit group of entrepreneurs – brothers Brian and Paul Weatherly, and husband and wife team Errol and Clare Kent. The two brothers developed Windows-based software for the dental profession in the early 1990s and it was marketed very successfully by the Kents, especially in the United Kingdom.

In December 2001 they listed Software of Excellence International on the New Zealand Stock Exchange. So when it came to forming a board, it was natural for the Weatherlys and Kents to be on it. To balance their presence, five independent directors were appointed.

“Having four executives on the board is not good,” says CEO Brian Weatherly. “The business becomes unmanageable.”

What happens, he explains, is that management becomes dysfunctional. “Instead of operational decisions being made by the management team, there’s an unspoken understanding that if there is disagreement, they’ll take the issue to the board who will ultimately make the decision.

“This means the board becomes tied up in operational matters, which devalues its role. So the usefulness of both management and board is destroyed. And if operational



decisions are taken by the board, how do you make the CEO accountable? It doesn't work."

When Brian Weatherly was appointed CEO in 2003, he wasted no time in taking up the issue with his fellow executives on the board. "I said to them that they had to go one way or the other. They had to step out of the business or off the board."

Given that these were major shareholders, it took a while for the situation to be resolved. In time, both Clare Kent and Paul Weatherly left the organisation completely, while Errol Kent relinquished his executive role. He is still a board member.

"Once you have only the CEO on the board, both board and management immediately start functioning," says Weatherly. "Management knows if they cannot reach an agreement, the decision will be made by the CEO, so they start to function. Equally, the board becomes free to function, as it does not have to resolve operational detail."

Weatherly describes his rise to CEO of a high profile,

albeit small, international software supplier as fortuitous. On leaving Manurewa High School he wanted to do electrical engineering at Auckland University, but ended up studying computer science.

"Software is a fantastic engineering discipline," he says. "It is the ultimate machine. Anything you can imagine, you can create. There's no manufacturing cost, it's just all in your head."

On getting his degree in 1989, he joined elder brother Paul and entrepreneur Bruce Wilson in a small software business the two had started. Wilson's brother was a dentist, so they tackled a dental application. They decided not to work in the dominant DOS platform of the time, trying first Macintosh and then Windows 3. "That was pivotal for the company's success," he says, "because having a Windows product gave us a competitive advantage in the early 1990s. This wasn't driven by any research, it was just opportunistic."

At that stage he wouldn't have thought of himself as a future CEO. "Bruce and Paul had great aspirations. Bruce

GRIN AND WEAR IT

The story of Software of Excellence is one of drive. At times the road has been bumpy. For the past few years the company has followed an acquisition strategy, buying half a dozen other businesses. These acquisitions, as CEO Brian Weatherly readily acknowledges, have proven to be a mixed bag. "They can be hard to get right," he says. "Taking over someone else's business is like climbing over from the back while someone is driving on the motorway, trying to get hold of the controls and possibly throwing the driver out the door as you go."

The first acquisition virtually doubled the business and was remarkably successful, but it's a success that hasn't yet been repeated to the same degree. The acquisition of United States dental software company GSD two years ago is now being reversed with a programmed management buyout. However, the most recent acquisition – of Australia's Oasis Software – is going well, says Weatherly. While product has been retained, the structure of the business has been changed and marketing expertise added on.

Amidst the buying, there has been a significant sale too. Software of Excellence recently made the strategic decision to sell one of its two divisions. In recent years the professional business, selling dental software to private practices, has been flourishing. The enterprise division, servicing universities and health organisations, has not, as evidenced in

the company's public financial statements.

"There's a fundamental cultural difference between those larger accounts and our high street business," says Weatherly. "The high street business is about product. You get a CD, load it, get four days training and we're out. We send an upgrade once a year and that's the deal. In the enterprise business you're also buying a product, but what you're really buying is an ongoing time and materials service.

"They need a lot of customised software and also they need a lot of process engineering in the organisation. Hundreds of people have to change their workflows, otherwise the software gets rejected. If you're not careful, you're constantly adapting your software to meet their workflows."

Software of Excellence first tried to address problems by bringing in extra expertise. "A year later we looked at the issue again and saw that the outcome was not much different. At that point [I realised] it was not possible to bring the two cultures together. That led us to separate the business."

This major decision, he says, was taken after an ongoing conversation with the board. "It's not the kind of thing you do after a 20-minute PowerPoint presentation. It was quite a process over a 12-month period."

The change has left Software of Excellence in its best shape ever, says Weatherly.



Brian Weatherly: Has weathered some critical board issues.

FLIGHTS OF FANCY

Brian Weatherly recently scooped the big prize in a Lufthansa competition in which support staff were asked why their boss deserves to win luxury flights to and within Europe.

Weatherly won a Lufthansa business class return ticket from New Zealand to Europe and one journey within Germany on a Lufthansa private jet.

Corina Paterson, the executive personal assistant who nominated Weatherly for the prize, wins a local travel experience of her own.

was a true entrepreneur. He set up agencies in South Africa, Australia and the United Kingdom, and we barely had a product. We far outreached what could be delivered. By August 1995 the company was on its knees. At that stage four of us – Paul, myself and the Kents – bought in and obtained the controlling stake. We got out of our short-term issues and started to work on the United Kingdom market. At the [same] time the funding environment in United Kingdom was changing and many dentists started to go private. We knew nothing about that, but found ourselves positioned as the obvious provider to private practice, plus we had a good product.”

Sales skyrocketed, giving Software of Excellence a sound base from which to work. Asked to explain his success, Weatherly says it boils down to good fortune. “We’ve struck luck in a number of ways. I’ve stuck it out since 1989 and we’ve certainly worked hard, but a lot of things came together for us, particularly the English piece.”

It is significant, however, that this level of success came in only one of the six markets the company had entered. If Software of Excellence had failed, it wouldn’t be for want of trying. The company is now firmly established as market leader in three countries: New Zealand, Australia and the United Kingdom.

“I wish we had put more energy into growing a second geography earlier. It would have been good to grow faster, to have another European country in there. At the same time it needs to be said that we really lived on the edge. I’m not sure we could have done much more.”

After those heady early years, having a board to take care of governance and give input on strategy is very welcome. “We have an excellent board and we leverage these guys a lot.”

When Software of Excellence had to put a board together, the management in conjunction with ABN Amro Craigs, who handled the float, went about it very deliberately.

“We had an ideal makeup in mind,” explains Weatherly. “We felt that Jim Syme would bring a strong element of gov-

ernance, with his public business experience. Kerry Gleeson brings more hands-on expertise with his background at Oral-B. Clive Ross is a dentist who is very well connected through the global dental business. John McCaulay has the marketing and PR experience for the promotion of the company and also for guidance internally. Paul Hargreaves has a successful background in software.”

The role of the board is changing over time. “In our early days when we went public, we needed more governance. We had the strategy internally, though not all of it right. We had a lot of work to do in terms of getting good systems built throughout the company. Now the systems are built and we’ve been happy with governance for quite a while.”


Weatherly foresees moving to a smaller board in future, as the original board number was set at nine to balance the number of executives on the board at the time. He believes five or six directors should be ample for a company as small as Software of Excellence.

The five independent directors, as well as the non-executive directors that make up the current board, all have a reasonable grip on the business, says Weatherly. They are presented with 200 to 300 pages of information every month. This is compiled in fair detail primarily for the management

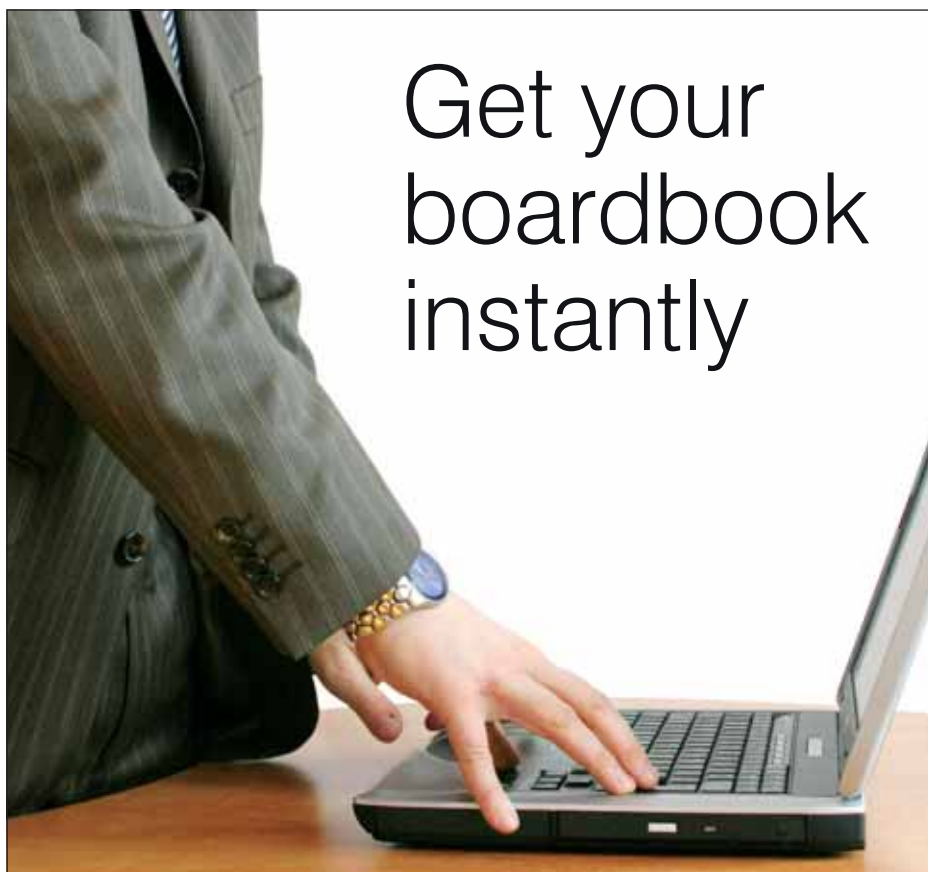
of the business, but is shared with the board.

“To make strategic decisions, the board needs to know enough to judge if the research was adequately done,” says Weatherly.

He doesn’t have a lot of personal contact with the board chairman Jim Syme. “Our relationship is pretty formal. We’d meet briefly prior to a board meeting and a little more often if he’s concerned about something,” says Weatherly. “Occasionally I’d go to him and ask for assistance with particular issues. He isn’t the kind of chairman where you suggest guiding the meeting down a certain path. You can have a conversation with him, but God knows what will happen in the meeting.”

He sees his own contribution on the board as the driver for the business and bringing strategy proposals to the table. The board has a vetting and development role. It cannot say no. It can say yes or ask for more work to be done on a particular issue. “Significant pieces of strategy are deliberated and questioned by the board, but I drive it. Otherwise you seriously have to ask who’s running the business.” 

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