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SECURICARE - A NEW APPROACH TO SHAREHOLDER INVESTMENT AND GLOBALISATION

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The use of investment funds as a conduit for superannuation investment has changed the traditional valuation of the share portfolio. Investment funds are measured/valued on capital growth and this valuation base has replaced the traditional income benefit. In keeping with the desired growth of capital directors are pressed by their major fund shareholders to look at short-term growth to validate the increase in the value of shares.

The extent that fund managers rely on derivative products to maximise fund growth is difficult to judge.

At the same time we have seen unprecedented criticism of the corporation's law, directors freed on technicalities, prospectuses effectively negate the liabilities of the promoters and businesses fail to live up to their market predictions

Can the present system of superannuation, funds managers, corporation law and stockbroker/ advisor driven markets be sustained?

Securicare offers a philosophy, culture and methodology which confronts inadequacies in the existing corporate system and introduces a new approach which seeks to

- o expand upon principles of ethical/values-based investment,
- o sees research and development as a natural extension of the

investment mix

o separates understanding of countries with small market share from the traditional venture capital model.

o protects the valuation of the investment .

o gives an equal representation before the law to all those who seek justice under this system and posits

o a more constructive development of the process of globalisation.

In the text the word service provider replaces director. Service providers will be eligible to be directors but not all directors will be eligible to be service providers. There is a self- assessment test for directors who would like to be service providers. Shareholders, equity, equity holders are synonymous.

Securicare links.

1. A standardised Charter of Responsibilities which sets a higher standard of due diligence than was possible under the Australian corporations law and at the same time slashes the legal documentation to reflect what is intended. The result is that all signatories to the documentation are equal before the law. In the case of a dispute the outcome is no longer dependent on who has the biggest war chest of money for legal fees. The Securicare system protects registered businesses and service providers in dealings within the external business environment including joint ventures, licensing agreements, networks and other contractual agreements.

A system of equity valuation that is as set by the business itself on a formula that relies on a present day value of the business. The Securicare valuation reflects the effective use of human resources and other assets, business risk and a formula for rewarding increased profitability and wealth creation. The method balances the risk of success or failure between the external equity holders and those responsible for the management of the business.

3. Existing stock markets can run a Securicare market alongside their traditional market. Trades are capped at 10% above and below the valuation a business places on it's own stock

Securicare is based on a network structure, vertically rather than hierarchically integrated. A board of directors will protect the interests of the investing public.

Securicare can operate within the current corporations legislation and sets higher standard of due diligence than was possible under existing Australian corporations law. If it is needed to protect Securicare from market 'look a likes' Securicare can be legislated for as a preamble to the existing corporations law.

This paper is designed to introduce the concept of Securicare to all interested parties,

In providing an environment for world trade we needed to look for a business model that recognises the human rights contained in the following.

Savings and superannuation funds invested in equity markets are in the main the product of human work/ endeavour/ personal exertion. To protect the rights of the investor the investment environment must be able to provide a stable environment of investment so that those people who put forward their savings and superannuation can expect to have their savings protected from manipulation. The level of risk in any investment must be clearly stated.

A clearly articulated and simplified legal system. This legal system must have as the reason for its existence the understanding of the intra- relationship of all the following parties,

Business and it's internally employed staff.

Service providers who are external to the business but provide necessary skills

Equity providers

And the expectation that the parties will provide an environment of

Trust

Human values.

Governance.

In this model the legal work is standardised. Each document will be registered and contain terms and conditions that are special to that legal document. Such terms and conditions are to describe the spirit of what is intended rather than to spell out every possible contingency.

Intellectual property to be protected from within the country of origin. This protection is given regardless of whether it is part of the collective wisdom of the community (research institutions, universities, etc), businesses, or, in some cases, the individual. Those who are licensed to use the technology/ joint ventures etc in any country have a duty to the individual/ business or institution in the country from which the technology developed. The legal agreement entered into must be sufficiently simple and cost effective for the parties to the agreement to be able to enforce their legal rights.

Part of the development of the any business and of their ability to trade relies on the people of their own country having collectively provided for

- o The infrastructure of the society from which they trade
- o The collective wisdom of the learning and research institutions.

Business in this context is seen as being advantaged by using the facilities of their own country.

The development of wealth in the community comes from the growth of old businesses, research and development and subsequent commercialisation and from business agencies etc brought from overseas. This business investment mix sees each category of business as being a valuable. It is of practical benefit to the whole community if in developmental stages the individual business is part of a larger collective investment fund.

Business that are suitable for registration will be funded through all phases of developmental growth.

5. A business or research unit etc requiring the registration in this proposed model will be responsible for setting it's own present day value of equity.

a) Calculate it's present day value. This will be a multiple of the values placed on organisational governance, sustainable competitive advantage and financial advantage. Equity trades to be within a 10% range.

b) Contribute ½ of 1 % of their equity to a central Foundation. Apart from administrative expenses the income from this fund is for designated research purposes on behalf of the world community.

I have called the system that understands and provides a suitable environment for the above Securicare.

Securicare. What does it promise?

a) Simplifies the legal work in businesses that adopt the Securicare method and makes all parties equal before the law. Businesses have increased opportunities for licensing and joint ventures as all Securicare businesses have adopted the same philosophy and principles.

b) Gives a focus to those businesses that have either adopted management by values as a path of operational growth within their business.

c) Advantages businesses and equity investors so that they are not affected by the market variances to their share prices. This provides them with the opportunity to engage in stable, longer term, investment relationships;

d) Builds on the market cry for ethical investment by setting certain standards of probity, transparency and trust between investors and companies.

e) Allows the present market mechanism, the ASX to run a Securicare market alongside it's other markets.

f) Advantages the research and development by giving them a conduit to management and investment which by passes the 'vulture capital' industry.

g) Allows all businesses that adopt the Securicare philosophy and principles to be part of the Securicare Foundation. Membership is ½ of 1% of capital. Beyond running expenses the monies collected by the Securicare Foundation is to fund projects for research into the natural elements, human endeavour

and third world economies.

We will examine this in more detail.

A. Simplifies the legal work.

In 1992 I had stepped aside from consulting to understand and to reflect on

Consumer based cultures which had increasingly become orientated to the needs of self

Legal systems inadequate to the demands of the arbitrating and the resolving of commercial disputes

Unduly complicated legal documentation and linking of legal firms internationally.

Lack of a stated common and effective value system where businesses both nationally and internationally can work together.

Inadequacy of the culture of service providers who negated their own liabilities when giving investment advice.

Increasing problems of world equities market where stock brokers, derivatives traders, market hedgers and superannuation funds managers are effectively the same conglomerate groups.

In trying to bring an understanding of this development work to the Australian Government I set out a Charter of Responsibilities (or Mission Statement) Then the thought came.

Could such a Charter of Responsibilities be a central document to bind a business, its service providers and investment capital (equity)?

With terms and conditions which personalised what was intended could such a Charter of Responsibilities be the core document for joint ventures, licensing agreements, prospectuses, work contracts, contracts between directors, service provider?.

The original (SCR) shown here was specifically for SME's (small and medium sized businesses which include the smaller public companies)

SECURICARE

Charter of Responsibilities

The responsibilities of the parties to equity investment in small and medium sized businesses (SME's) is to be as follows:

The management of the SME's to the management of the equity investors is to be parents to adult children/adult children to parents depending on their circumstances.

In the management of these SME's and of their equity investors we include banks, lawyers, accountants, research institutes and other consultants.

In this way, openness to what these categories of people do not know and to what these people need to know becomes a two-way responsibility.

This two-way responsibility is the only viable way to provide a starting point and develop a new commercial environment of mutual trust and human values.

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It is believed that SC of R. enables:

- a. A clear understanding of the intentions of all parties involved in a transaction using the Securicare philosophy;
- b. Use's language which is understood in all cultures; and
- c. Is simplistic in it's approach, whilst embodying a philosophy that enhances the understanding of care and due diligence.
- d. The wording parent and adult child have been used to denote a standard of care and due diligence. This wording can be changed if a more appropriate language is required.

While not an outcome of either the Wallis Inquiry or of CLERP we were given sufficient confidence by the administration of

these bodies to proceed.

B. Gives focus to those businesses that have adopted Management by Values.

1. The early psychology and management academic Abraham Maslow was the pioneer behind the hierarchy of needs and the concepts of self-actualisation. A published work of the early 1960's 'Eupsychian Management' was a series of notes written to himself from a summer posting to the Non Linear Production House. He was out of his university environment and into the real world. To quote from the editors of a reprint of the Maslow notes

" Learning, creativity, fairness, responsibility and justice come naturally to people according to Maslow's theories. Why is it that we often design organisations as if people naturally shirk responsibilities, do only what is required, resist learning and cannot be trusted to do the right thing. Yet most of us would argue that we believe in the potential of people and that people are our most important organisational assets. If that is the case why then do we frequently design organisations to satisfy our need for control and not to maximise the contributions of people"?

Much has been written since Maslow and the names Drucker, Peters, Meister, Covey and Blanchard convey a development in thinking as well as the development of management practice through the quality cultures, re-engineering and leadership training until we reach the present day.

From the Australian Centre for Organisational Governance I quote the following

“ My (his) work is related to how you develop the values or even more broadly

intangible success factors including things like trust ,commitment and

competitive advantage

I have come to the conclusion that these success factors are not created

by one process, task or activity or directive e.g. three weeks

from now

everyone will trust each other.....

My view is that most of the current directions in governance impose more

processes for scrutiny More plans, policies, procedures and traditional

auditing does not mean more control as they do not create trust - if

fact governance processes and disclosure requirements are typically

imposed due to a lack of trust.”

To this I add my own meaning of values.

Values- the basic understandings that we all have of what is good in our lives, that gives us pleasure, delights us, gives satisfaction, makes life worthwhile. It is a value that puts meaning into our lives and how we relate to others. In the workplace if we cannot be our true selves, if we have to hide from the truth we feel used. To the positives and the negative experiences of life the individual's response will depend on their values system.

From this we can explore the aligning of company and individual values which enhance productivity, profitability, team work, congruency, future focus, commitment, passion, empowerment, learning, customer focus, loyalty, success consciousness, innovation, happiness, energy. We can start to realistically understand the aligning of our own values and the workplace, management by values and how through focus groups we can start on the management by values process. To align businesses that have not contemplated this procedure/ have management practices that are out of alignment allow two to three years.

For businesses that are committed to management by values all stakeholders are involved. Experience has shown that the alignment of values is 80% of the effort in stewardship, ethics, corporate governance, organisational governance and the most efficient way to achieve lasting change.

It may be that the aligning of Securicare with this management by values movement will decrease the amount of time to achieve effective change.

C. Advantages business so that they are not affected by market variations.

A business that seeks Securicare registration will be valued at present day by the business. The method of valuation gives a balance right across the enterprise and there is no incentive for a business to overvalue its chance of financial success.

This Securicare valuation will reflect the effective use of human resources and other assets, business risk and a formula for rewarding increased profitability and wealth creation. The method balances the risk of success or failure and the resultant stock ownership between the external equity holders and those responsible for the management of the business.

Businesses that are in the process of becoming profitable will be part of Securicare based collective fund and will not be available for flotation until they have a proven track record of profitability.

It is hoped that this will eliminate the following

Historical underperformance of stock as against their IPO documentation or prospectus;

The new dot com wave of investment which leaves effective control loaded against the external investor;

The underperformance of well-established blue-chip stocks in a market obsessed with IT stocks.

The increasing awareness among a broadening shareholder demographic that the 'Cliques' network controlling most public company listings is becoming unproductive and therefore redundant,

Slash the present upfront fees of 10-15% traditionally paid to those who are the service providers whether in IPO's or in venture capital.

Securicare is well structured and conceptually attuned to provide the impetus for a re-assessment of investment and an opening up

of the SME sector in keeping with investor demands.

Shareholders of publicly listed businesses will have to face a price adjustment if they decide to go the Securicare route. The long-term value of the stock will nevertheless be attainable if the original investment was prudent and did reasonably reflect the future value of the market.

D. Builds on the market cry for ethical investment by setting certain standards of probity, transparency and trust between companies An article published by me earlier this year in the Australian Financial Review shows how farcical the present situation is. Referring to the Corporations Law --- in the words of one High Court judge recently "is indeed so complex that it falls under its own weight"

The impractical nature of the current legislation stems from its gradual mutation into a largely irrelevant, convoluted document which, despite the best intentions, has been proven to not act in the interests of the general society, let alone the investing public.....

As it currently operates, the corporation law has two broad agendas. The first is to set rules and regulations that have to do with the administration of the law, such as the filing of documents, listing officers of a company, or registering a business name. The second goal is to regulate the expectations of the rights and obligations of the persons who are part of the corporations themselves.

It is this second area that presents the most problematic issue before legislators and the public. Those who have watched the operation of the courts over the last ten years know this to be so. The ----- case may be the freshest example, but we have all watched as corporate giants have stalked forcefully away from the court hearings when the best that can be said that they were simply able to put insurmountable barriers before the proper enacting of the law.

At a time when Australians are now leading the world in stock ownership, when, through such developments as compulsory superannuation, employee share plans and a diminishing welfare sector, the relationship between corporations and the public is closer than ever. Improving the channels of communication between corporations and investors via more adequate corporations legislation is, therefore, vital.....

I believe that ASIC has done whatever it can to be effective under the current system, but it can only give advice on the operation of the law through a properly constituted government inquiry..

The case in Australia is not isolated. In democratically elected governments there is an obligation that the government call upon the existing leaders in the business community and the professions as the delegates to any government inquiries

I understand very clearly the current system. I have conceptualised and set up projects for new industries in Australia. been at the receiving end of professional indemnity claims that have not been paid. been in a business when the managing director failed to tell me when all the market on which we relied disappeared. had a university accuse me of incompetence when I demonstrated the university had no ownership of the research my investors were buying. traded stocks in intelligent industries since the early 1980's from the ' what is in it for me ' interest of those who make money.

In Australia we have had two Government Inquiries, numerous Centres of Excellence, Research Institutions representing the face of the legal system business and professional associations. To date the serious issues of the current investment system as it relates to equity value / superannuation have not been addressed.

My knowledge of the ethical business model is that in giving the advice they have all presumed on the dependability of the corporations law and the investment markets. There is no sense that this industry advisor understand with small domestic market Australia has a need for a corporations law which gives businesses that seek to expand their markets the greatest possible protection against the multinationals with which they form alliances. current equity markets may be subjected to manipulation. we will not have equity investment for the money that will come into the system from the aging Western Communities. an aging population may reduce the market for goods and for some services Understand why research and development developed as a segment of the investment pie may provide the increase in commercial activity needed to provide for the economic growth of the aging population.

For completeness the suggested investment pie might look something like this. We need actuarial calculations for correct percentages for investment.

Preserve the capital /buying for value. Shares at today's value which have a prospect of developing it's market/ increasing market share.

research and development / commercialization equity investment through collective funds. -10-15% These monies could be increased through government incentives.

An annuity to protect against long life

Preserve capital without interest. Keep pace with CPI adjustment but not increase in buying value.

The exact mix to be worked out with the appropriate professional advisors.

E. Allows the present market mechanism , the ASX, to run a Securicare market

A Securicare market can formed using the existing market structure. It is not appropriate to discuss whether if the existing market mechanism was used Securicare would be classed as an exempt stockmarket under current legislation or that it would fit within another part of the legislation. In this section we look at likely outcomes.

Given the interest in stakeholder value it could well be that the present ASX market does not fulfill the Business Judgment Rule. I put forward the following against which to judge the present market mechanism.

Who are the key stakeholders? This is to include equity, loan funds, service providers, employees, customers, suppliers of products and services. How can we meet their needs and preferences in terms of their own business goals and our own business goals? What relationships have been established and are they appropriate to their commitment to our business and our commitment to their business.

What is the current and planned performance goals of our business? Is performance effective, efficient, appropriate, maintainable and socially responsible? Are tradeoffs between quantity, quality, time and cost appropriate?

What are the key risks faced by our business? What are the factors that lead you to a conclusion that key activities are high,

medium or low risk?

What should be the roles and responsibilities of service providers? What is the optimum balance of time for those service providers who act as directors between reviewing plans, policies and current operations (conformance) and creating future performance? Is it 40 percent conformance/60 percent performance? 50/50? 70/30?

Thinking within the framework of these questions you might be guided by the following

Is there a governance system established within your organisation cost effective to make informed judgments over performance, resources, assets and relationships? Does it align directing, managing and operating activities? Is the system 40 percent effective? 50 percent? 70 percent? (after allowance for what can be controlled, human error and cost);

Are directors, managers, advisers and auditors exercising due diligence? In the event of performance failures, losses and injury, can stewardship be demonstrated and reputations protected? What due diligence principles have been adopted? Have they been effectively applied?

Valuation of the business for the stakeholders? --Do the present mechanisms for prospectuses, stockbroker/ analyst driven markets, continuous disclosure and capital driven fund management impose a new liability on business for change.

F. Advantages research and development by giving them a conduit to management and investment which bypasses the 'vulture capital' industry

As a student of the venture capital industry since 1982 and having followed the industry from the Espie Report onwards I have had the sad task of seeing Australia and the 'vulture capital' industry of this country feast on the good that has come out of our great CSIRO, Universities and private development..

Until now the venture capital industry has used the overseas model which was specifically developed for the US and it's large domestic market. To date investors in this industry segment have endeavored to match the US return on this investment by either selling the technology or by IPO's.

The flotation process has become an art form. The greatest gap between rational thought and the value of stock exists in the IPO's for intelligent industries. Promoters of IPO's and the accompanying professionals are paid as a percentage of the money raised. 10-15%. The float itself is priced on forward projections for markets that cannot be defined. This makes a farce of the notion of value for money. At risk are the vulnerable who do not understand that the marketing expertise is to stack the floats of these businesses with personages who swiftly sell their shares as the vulnerable scramble for stock.

There has been no concern expressed for the vulnerability of viable new industries for Australia that have been ruined when those involved in connecting research are part of a failed business operation where through a network of major consultancies the intellectual property can be sold within days of a liquidator being appointed.

The alternative Securicare structure is that the funding process for research and development is a continual process with all the development linked so that there can be a crossing of information and expertise where necessary so as to preserve the overall growth of the sector. Research and development that seeks the protection of Securicare will be valued on the first funding at present day value. As the entity reaches/ exceeds its goals as pre-set at the first level of funding the ownership will be varied.

In Securicare service providers will be rewarded by a system of options. Within the Securicare framework there will be a facility to work with existing venture capital managers who have the expertise and entrepreneurial flair needed to grow value in IT industries.

G) Allows businesses that adopt the Securicare philosophy and principles to be part of the Securicare Foundation.

If Securicare is accepted the present practices of complicated legal documentation, lengthy prospectuses, upfront fees and stock market distortions will be on the wane.

Businesses that decide to be Securicare registered will be protected by a simplification of the law used for the express purpose of protecting all the stakeholders.

Business will themselves seek a value to their businesses that

they can sustain.

Markets that trade Securicare investments will have their high's and low's in individual stock capped until the business is revalued.

Service providers to Securicare registered businesses will be registered. In addition to fees they will be rewarded with a system of options that will be tied to the expectations of the business as expressed in their valuation.

Business that are Securicare registered will on registration contribute $\frac{1}{2}$ of 1 % of their capital to the Securicare Foundation. There will be a 'needs payment ' to the O'Bryan Family and payments for running costs. Otherwise the capital value will be used as a low cost bank and income monies used for research into the natural elements and for projects deemed suitable in third world countries.

Securicare will emerge because in our thinking hearts we know it is the right business decision to protect the stakeholders and the investment of their personal exertion savings and superannuation.