

# Corporate Governance: Innovation & Entrepreneurship thrive or die!



By Paul A Zaman MBA, MSC

## ***Paul A. Zaman explores the essence of entrepreneurial activity and innovation ... or more simply thrive or die!***

Entrepreneurship is key to survival and growth of both small and large business. Therefore the owners of a small business can regard themselves as the Board of Directors. Good governance is primary role of the Board. A key aspect of corporate governance is setting the corporate goals, setting the strategic direction and steering the business towards achieving those corporate goals. Within this framework there will be products and services to be sold by the company that brings in cash. The amount, sustainability and steady growth of the cash income must exceed the cash used by the business in innovation, producing and selling the product. When the cash income exceeds the company's cash consumption, then the strategy is creating shareholder value. In a large or small company this is easy to see and monitor, by watching the cash flow or even more simply the ebb and flow of the bank account balance. If the cash at the end of a period, as shown say by your bank account balance for a small business, is growing, you are doing well. If it is decreasing period by period, then you are losing money, which means destroying your start up investment funds and destroying shareholder value. Monitoring a business really is that simple.

Peter F. Drucker suggests that any business must be entrepreneurial and that this means doing well in just two things, innovation and selling.

Corporate Governance is focussed at Boardroom issues so what is the connection between corporate governance and entrepreneurship? The role of the Board is to look after shareholder interests of whom the key interest is to increase long term shareholder value however increasingly with the eye to the triple bottom line of caring about shareholders, society and the environment.

Investors assess a company's ability to increase shareholder value based upon just three aspects. The first is: the formulation of a sound strategy, the execution of the strategy, and the measurement and monitoring to keep on track. The second is having the right mix of debt and equity investment. The third is the operational and financial track record of the management team.

If we expand upon entrepreneurship being the two aspects of innovation and selling. We understand that the company must have a strategy that leverages innovative technology to develop and deliver innovative new products and services. These products and services must meet a customer demand at the right price and performance level such that customers recognise the value and buy the company's products and services. To achieve this the company must make profitable product & service sales. If this does not happen then slowly yet surely the company will have less and less cash in the bank and DIE. Therefore the Board in being entrepreneurial, or simply directing the business for survival must embrace innovation and sales.

The Board must understand the business model, understand the products being sold and the customer segments buying the products. On a regular basis, monthly or quarterly the Board must receive a report that provides enough detail so that they can see and understand the selling and cash flow story. If the cash flow is too lean, then questions must be asked about the quality and performance of the sales function and/or the quality and performance of the products. The products could be sold into new markets or additional new products are needed for the existing markets. It is the CEO and Sales Director to execute the sales plan, yet the Owners and the Board of Directors must provide a check and balance to ensure the sales and cash are being delivered.



If new products are needed then innovation is required. Innovation needs investment cash, takes time to achieve and has risks attached. Modern R&D and innovation is focussed upon serving known and perceived customer needs. Very little R&D activity is now focussed upon fundamental research that may or may not have any commercial applications and payback of the cash invested. Even the largest of companies like Hewlett-Packard have very well managed R&D and innovation management processes. So what are the lessons for a small business? To manage the R&D risks and investment cash.

Again Peter F. Drucker in his 60 years of business management wisdom can give us guidance. Innovation must be connected strongly to fulfilling customer needs and generating cash from sales. Drucker also suggests that

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innovation is best done with simple low risk products and then product development done with an active customer base and listening to their feedback. Yes every business must innovate, yet innovation without a careful eye on the bank account balance and real customers lining up to use your new innovative solutions invariably means disaster.

Is Drucker a 90-year-old management guru correct? Well a consulting firm, Innovaro (<http://www.innovationleaders.org/>) specialises in assessing successful innovation. They have demonstrated that the top innovative companies, that are innovation leaders, are rewarded with share market out performance of around 30%. The innovative leaders include corporations like: Virgin Atlantic, Toyota, Samsung, IKEA, Apple, Google, Addidas, Canon and Nokia. These large firms exhibit several common traits.

- A recognition that innovation is key
- Ongoing intelligence gathering and making insights about their marketplace, customers and changing the products to meet emerging needs.
- Active collaboration with customers and suppliers to innovate together.
- A simple approach to conceiving, qualifying, developing, and then quickly launching, new products.
- An innovation and selling organization with roles, culture and performance measures of success.

These successful traits can also be easily replicated by the smallest of business.

Back to the Board room. These traits can easily be formulated into a check list to be used by a Director or owner. Overseeing technology innovation does not need an understanding of the core technology, just checking that the development process is strongly connected to customer needs and there is customer involvement and feedback. No active customer involvement means additional unnecessary risks. The Directors or owner can ask meaningful and probing questions. Asking such questions, listening to the answers and making a considered response will influence if the innovative company thrives or dies.

*Qualvin Advisory was founded in 2003. We provide advisory services to the Board, CEO and CFO of listed and unlisted companies in S.E.Asia. Qualvin facilitates the Board in areas such as formulating corporate goals & strategy and governance & CSR. Qualvin also formulates and executes the financial investor relations strategy to: increase shareholder value and institutional following; firm the share price and raise new capital. Contact Paul Zaman at email [pzaman@qualvin.com](mailto:pzaman@qualvin.com).*