The Entrepreneurial Board

The boardroom is not generally thought of as the 'nerve centre' of entrepreneurism within a company, particularly a company trading on the ASX. The role of a typical director is often more about audit, risk reviews and compliance, and directors may see 'entrepreneurship' as a risk element. Often this means keeping one or even both eyes on the rear-view mirror, and yet maybe the biggest threat is ahead and not yet fully visible in the headlights.

Most directors have little experience or understanding of the risks posed by disrupters and technological changes. With many directors of ASX200 companies being recruited from large and established companies, few of them can boast about any entrepreneurial experience. This raises a number of questions: Do boards need to be more entrepreneurial to detect and counter modern-day risks? Could a board that is more diverse in terms of experience, age or culture help address this?

We live in a fast paced and rapidly changing world. Even just a decade ago, changes to markets and business challenges were slower paced. However, since the dawn of global connectivity, big data and the maturing of the World Wide Web, companies are encountering threats at a much faster pace and competition is global. Companies face modern-day risks associated with the 'Sharing Economy', cybercrime or even the IoT (Internet of Things). The threat posed by disrupters can be catastrophic and quickly bring down what was a very successful company. The board needs to anticipate changes and be innovative in relation to these modern day risks; that is, it has to become more entrepreneurial.

Yet, though the environment in which companies now operate is constantly changing, the behaviours of directors and the majority of boards are not. Boards spend significant time on compliance and on examining historical data on company performance and comparisons to budgets, yet the strategic role sometimes remains an annual event – completed, printed and filed away for 12 months. Directors spend limited time considering strategy at a typical board meeting, and may regard innovation as a change of state and, therefore, a risk factor.

Directors have a duty of care to their shareholders and are responsible for determining the company's growth and survival strategies. But do boards spend enough time discussing competition, or new developments in technology, or even possible changes to regulations that may in the future impact the business? For many boards, these areas are never discussed.

In the not-for-profit sector, there is scope for innovation in fundraising. The crowd-funding model has been used for many years to help fund events and activities. The first ever known Internet crowd fund was undertaken by fans of British Rock Band, Marillion, to raise $60,000 to pay for a tour of the US in 1996. It has been estimated that the global crowd funding market will hit $1 trillion by 2025. However, how many not-for-profit organisations consider such funding methods as part of their fundraising mix?

An essential function of every board is to ensure the future of the business. In days long past, a company could quietly continue doing what it had been doing for years and meet that 'longevity' requirement. These days, however, the need to embrace change and innovate is critical to every business in both the for-profit and not-for-profit sectors.

Will we ever forget Kodak and its amazing collapse, after being a highly successful business that neglected the need to change when digital photography was first introduced? The irony is that the technology was originally developed by Kodak in 1975 and was effectively discarded because Kodak feared it threatened its photographic film business. The digital and, at the time, much smaller companies took it on, and everything else is now history. Although this is a classic example and a tragic one for Kodak's shareholders and staff, there are many other examples and are likely to be increasingly many more to come.

The new disruptive technologies of the Sharing Economy such as Uber and Airbnb are having a significant impact on the market value of companies in transport and hospitality. We should also consider the changes that have occurred in print media, including the retrenchment of many journalists because of the impact of digital media and resulting drops in advertising revenue. Also consider the decline of Blockbuster video and the rise of Netflix. These types of disruptions in other industries could have staggering implications across many markets. In the area of banking and finance, for example, people are starting to collaborate to exchange money and bi-pass the banks' foreign exchange departments.

Directors need to better understand threats and also assess more innovative growth strategies if their companies are to compete in the rapidly changing world in which we live in. This means a different set of skills are needed at board level, in addition to the more traditional skills.

Business survival requires boards and directors to be more agile and predictive, particularly in relation to disrupters that could be catastrophic for their business. Technological advances and customer behaviour can turn the business fortunes of companies around very quickly.

For the modern day director, it is necessary to be constantly aware of the external environment so that potential disrupters can be quickly detected and countered. As a result, more effort is needed to create an entrepreneurial approach at the director level through properly managed processes and structures. This may include extending the current standard board committee structure to include a standalone innovation committee, providing leadership in innovation, and to bringing in a structured process to manage and assess opportunities and threats.

With the growing need for businesses to fend off disruptions, as well as to create their own disruptions, it is time to consider how board meetings can evolve so that instead of spending so much time on backward looking and historical data, boards do a little bit of creative forecasting and consider the future of the business and the market. Some suggestions are:

- Create an Innovation Committee. Increasing the time spent considering innovation will make an enormous difference to many companies.
- Spend some time discussing 'what if' scenarios to facilitate innovation discussions.
- Develop an opportunity management focus at the board level, instead of just a risk management focus.
- Place on the board's agenda an item for competitive trends and behaviours and possible disruptions to the business model. Look to other industries for examples of how disruptions have been addressed.

- Encourage management to look to untapped knowledge in the staff pool (e.g. users of the 'sharing economy' might have a good understanding of disrupters).

- When it comes to funding a company, maybe consider other innovative methods. Later this year, laws will be introduced provide access to Equity Crowd Funding in Australia. This will change the way companies raise funds and may result in a disruption to the current model for major equity exchanges such as the ASX.

The future is bright for those who direct their gaze to the headlights and away from the rear-view mirror. Being forewarned of an impending risk or threat may provide the opportunity to develop strategies and so mitigate that threat before its impact is catastrophic. Keeping an eye on what is coming may help enable your company to *be* the disrupter, not the disrupted. Maybe we all need to reflect on that 'Kodak Moment' to see how quickly things can change.

Quick Bio on Nigel Hennessy

Highly experienced international CEO, company director and chairman having founded several start-ups in Australia and USA. In depth corporate management and marketing analytics experience, managing large international engineering and communications companies - private, public and ASX listed.