Directors, Corporate Boards and **MSMEs**

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At this year's International Conference on Corporate Social Responsibility in Mumbai a new micro, small and medium enterprise (MSME) division was launched by IOD in partnership with the Government of India's Ministry of Micro, Small and Medium Enterprise. Why should this development be of concern to many IOD members, especially those who are directors of larger businesses and major corporations? What scope might there be for building mutually beneficial relationships with MSMEs? What could be learned from the enterprise of their owner managers?

The activities and problems of MSMEs could feature on board agendas for a variety of reasons. They could be customers, channel partners or a significant element of supply chains. They might provide a range of services to an organisation and its people. Their success contributes to the health of the wider economy. They can be a source of new ideas. The initiative and drive exhibited by their founders can be an inspiration. Many companies are short of people with the entrepreneurial flair to innovate, launch new ventures or manage collaborations with smaller businesses.

Consequences of Maturity

Most large companies were a small business once, yet their entrepreneurial origins may now be long forgotten. Many would benefit from the energy, creativity and entrepreneurial flair displayed by the founders of MSMEs. Too often people in larger companies fear and prevent change. They seek to preserve the status-quo and protect their own vested interests. Many managers are reluctant to introduce new approaches and business models and activities at which they may not excel.

Trust in larger businesses and their leaders is at a relatively low level in some countries and among certain groups. Young people in particular are sometimes cynical and wary in their views of business. They see a gulf between the rhetoric of concern for the environment and widespread practices such as built-in obsolescence, shortening the life of products and withdrawing servicing and support to force disposal and replacement purchasing rather than repair and reuse.

People also see many current business priorities, practices and models continuing largely unchanged, while the actual and potential costs of coping with the consequences of climate change and other maturing risks rise exponentially with every year of delay. In many fields, carrying on at present is not a sustainable option for the longer-term, and in some cases immediate action is needed before it is too late. Complacency and resting on laurels sometimes rules where there should be a search for more sustainable alternatives to current offerings and activities.

The Requirement for Regeneration

The tendency of so many people and organisations to stick with what they know creates a multitude of opportunities for entrepreneurs who think differently. Incremental improvement of current practices and models may not be enough to address many of the challenges facing people and organisations. It may not enable us to seize related opportunities. We need “get out of jail” cards. Creativity, innovation and entrepreneurship could be the answer if we embrace them.

Directors, boards and management teams may need to look beyond the usual suspects and those whose views of what is possible derive from a previous era. Throughout history some of the biggest breakthroughs have come from outsiders who are not constrained by groupthink and conventional wisdom. Business leaders should actively inspire creativity, encourage and enable innovation and support entrepreneurship and social entrepreneurship.

Actively trading companies often have resources and capabilities that are not available to early stage MSMEs. They have premises, accounts and HR departments and - very importantly- direct access to potential customers. Established companies hold licenses to operate and they have a trading history. They may have all of the things that most start-up entrepreneurs lack. At the same time, within many MSMEs there is restless energy and drive in abundance.

Rebooting Enterprise

Given the need for more imaginative responses, why don't more directors of established companies explicitly appeal for ideas, including ideas for alternatives to current offerings and ideas for more sustainable and less environmentally damaging business models? They should call for both internal and external ideas. They could offer to work with selected entrepreneurs to help them commercialise promising ideas. In some cases this could be done on a collaborative basis with a large company taking an equity stake in one or more smaller businesses.

Enterprising spirits who spot opportunities sometimes leave large companies to set up their own businesses. Some corporate head offices resemble semi-retirement homes for expensive smooth talkers who lack the drive to take the plunge. Many boards might benefit from considering what could be done to help independent entrepreneurs in a related field or with complementary interests. They could then contact former as well as existing employees. Maybe among their ranks are people with promising ideas and potential customers, but who are also frustrated by the time consuming grind of securing support, finding premises, recruiting staff and 'doing the books'.

There may be unused ideas and/or intellectual property that other people with fewer constraints and lower overheads could run with. Exploitation rights could be licensed out to existing and/or intending entrepreneurs. Franchise opportunities feature in the business models of both small and larger companies, depending upon whether they are franchisees or franchisors. Management development and advancement in some companies could usefully involve spending some time in an MSME, whether this is a customer, supply chain or channel partner, licensee or a franchisee.

MSME Directors and Boards

For some individuals, including corporate executives, there could be opportunities to mentor owner managers or serve as an independent director on the boards of one or more MSMEs. However, many MSMEs do not have a properly constituted and operating board. As a consequence, some people confuse the separate roles they may have as owner, director and manager. Many owners of smaller businesses that are incorporated do not believe that a board would add much value for the additional costs involved in operating it. The latter can represent a higher proportion of overhead costs than would be the case with the boards of larger companies.

Some boards of larger companies may see service on the board of an SME and/or providing other forms of support as useful in the development of corporate executives and the next generation of directors. Too often however senior managers in large companies, especially those in head office roles, have specific briefs and manage budgets. They do not themselves interact with customers or people in the front line. They may not have to think holistically, worry about cash flow or take tough decisions on allocating resources between competing claims.

The directors, managers and other staff of many larger companies need to better understand entrepreneurs and entrepreneurship in order to learn from as well as collaborate with those who are building businesses as opposed to presiding over them. In some cases, boards should take steps to create a more entrepreneurial spirit within and across an established organisation. Increasingly, companies need people who create opportunities rather than those who are looking for employment.

Learning from Entrepreneurs

Successful entrepreneurs treat colleagues as business partners rather than as dependent employees.

Established companies need people who are restless and who recognise that they have more choices than any generation in history. Increasingly, we can earn and learn - and purchase and consume - at times and places that suit us. There is also unprecedented scope for innovation and enterprise.

The more talented individuals that many companies need to regenerate as well as grow current and new businesses are increasingly mobile and able to live life on their own terms. MBA and other programmes have never been more accessible. Those enrolled on them increasingly aspire to running their own businesses rather than climbing a corporate bureaucracy. Enterprising people no longer ask companies for jobs. They view them as potential business partners. Entrepreneurship - either alone or with corporate backing – could become the norm for those with ambitions to create. In time, there may no longer be such a stark divide between start-up enterprises and established businesses. Collaborative enterprise could be for the many rather than the few.

Many restless people, and especially those from younger generations, are less enamoured with the fruits of consumerism than their parents. Some would rather breathe fresh air than sit in a polluting vehicle in a traffic jam. Many people would like to change direction and lead more balanced lives. They see issues they would like to address. Rather than implement, they would like themselves to build, develop and discover. They desire greater personal satisfaction as well as material rewards.

Recognising Entrepreneurial Spirit

The boards of established companies can ignore or embrace restless spirits. They can restrain or unleash them. Restructuring and retrenchment may sometimes be necessary in tough and uncertain times, but they are essentially negative and concerned with survival rather than growth or the adoption of a more sustainable business model. Entrepreneurs and entrepreneurial spirit may be needed to switch the emphasis from downsizing to innovation, and complement cost cutting with corporate venturing and the generation of new income streams.

Some companies find that their customers are becoming increasingly restless. Giving them standard offerings may not be enough. They demand distinctive and bespoke responses. Customer facing employees who deal with them have to make choices, take risks, consider alternatives, manage expectations and be imaginative when crafting products and services to meet particular requirements. In short, they must think and act like entrepreneurs.

In future, creative people that have options will increasingly join businesses that promote enterprise, support entrepreneurship, give them greater freedom and help them to build new ventures. Confident companies can establish units that become catalysts and supporters of new ventures and/or wider enterprise colonies that tap, build and release latent and entrepreneurial potential. Ambitious individuals with ideas will want to work with them rather than for them.

Rekindling the Spirit of Enterprise

Many boards still live in a world of codes, standards, compliance and top down direction. Directors who ascended corporate ladders in a previous era think they know best. Too often corporate cultures stifle initiative, inhibit innovation and suffocate enterprise. Companies that fail to champion entrepreneurship risk being shunned by smart investors and those with bright ideas. Their most capable people and most valuable customers may go elsewhere.

Given the need for more imaginative and innovative responses, the interests of investors, employees, customers and companies are increasingly, and in some sectors rapidly, converging. We have an historic opportunity to reconcile and align individual and corporate goals. Increasingly, boards could take steps to enable people to be true to themselves and realise their personal aspirations while they create customer and shareholder value for others.

The unifying factor – and the key requirement - is the spirit of enterprise. Successful companies will become incubators for new enterprises. In order to make entrepreneurship an integral part of the DNA of a company, boards should recognise the desires of many people to create something new, have an impact and make a difference. They should provide opportunities for personal growth, and give them the inspiration, skills and support tools to become more effective and create new options.

Unleashing Latent Entrepreneurs

Unique contributions should be recognised. People should be supported when they take risks and try out different and better ways of doing things. They will be more willing to innovate and commit to customers if they know they are trusted and that a company and its management will back them.

Wherever possible, people should be allowed to do what they feel is most appropriate but affordable for each customer. They should be enabled to play a more creative role. Their 'solutions' might contain unusual elements, unique features, novel approaches or new know-how that could be used more widely and/or licensed to others.

Boards should ask for new business ideas and suggestions for generating additional revenues. Companies should help employees with compatible aspirations and complementary skills to form venture teams. Arrangements should be put in place to assess their proposals. Concept development and venture capital support, access to central services and sales and marketing resources could be devoted to the more promising ideas. Boards should ensure that those seen as a threat to the status quo are not blocked by vested interests.

Employees and other stakeholders should be encouraged to be open to new ideas. Those with staff responsibilities should ask people what they would really like to do and what they are especially good at. Maybe they have interests or passions that could be turned into moneymaking ventures.

Companies should tolerate diversity, and allow people to be true to their inner selves and play to their distinct strengths. Ideally they should be allowed operate in ways that best enable them to harness their particular energies and talents.

Building an Enterprise Culture

Corporate cultures and working environments should encourage initiative, innovation and enterprise. Contracts, facilities, processes and systems should allow and enable resourceful and inventive individuals and business partners to question, explore and create. Corporate training and work experience should build entrepreneurial skills and support business development.

Practical advice could be offered on securing family backing; assembling a venture team, winning business and getting started. Where required, counselling could be provided on overcoming inhibitions, pitfalls and constraints. Boards should ensure that people are fairly rewarded for successful innovation and entrepreneurship. They could consider bonus, option or profit sharing schemes for enabling knowledge creators, energetic innovators and talented individuals to benefit from the value that they create.

Confident directors and life's winners often help other people to achieve their dreams and both personal fulfilment and commercial success. They are usually realists. They ensure personal and corporate aspirations are explicit, aligned and focused upon winning new business, establishing partnerships, benefiting customers and continuing innovation.

Responsible Business Leadership

Responsible business leaders recognise that a healthy MSME Sector can make a significant contribution to employment and self-employment. Each year in India millions of young people look for activities to join the workforce. Business leader rhetoric stresses how important and valued their people are. Their actions sometimes automate current activities, replacing people with machines and/or AI and other applications rather than enabling new possibilities for them.

As responsible business leaders we need to engage with younger generations upon whom the future of India depends. We need to open up to them and engage, involve and trust them. We need to inspire them by articulating challenges and opportunities in terms of causes that capture their imaginations and motivate them. We should be role models of socially responsible leadership. We should pass on the batons of creative enterprise, inspired entrepreneurship and more inclusive capitalism. We must put in place the cultures, working and learning environments, mechanisms and models that enable younger generations to use innovations, their time and natural resources wisely. ■

Prof. Colin Coulson-Thomas holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.

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