

# GOVERNANCE

= VALUE CREATION  
+ MASSIVE BUSINESS  
GROWTH

“Introducing governance to the business and distinguishing the roles of shareholder, director and manager has resulted in the development of a business that is now able to work without the founder. This not only means it’s sustainable, but it also makes it more saleable in the future.”

- Carl Bates, chief executive, Sirdar

South African biotechnology company Deltamune, launched by Hannes Swart and three partners after a management buyout of the in-house laboratory of Golden Lay Farms in 1995, more than doubled in size over 36 months – from **R40 million to R90 million**. This growth is attributed to a business transformation exercise that introduced governance into the business and gave it a strategic view of the future.

By Monique Verduyn

Photos by Mike Turner

**AN ANIMAL HEALTH BUSINESS** focusing on veterinary and public health solutions for the production animal sectors, the challenge for Deltamune was one faced by many companies that are started by scientists and engineers: How to turn a business founded on the owners’ expertise into a sustainable enterprise with a structure that will enable it to grow and evolve separately from the founders.

It was a challenge that founder Hannes Swart began to address in 2007, when he brought in HL Hall & Sons Investments. The well known Mpumalanga-based company became the majority shareholder in the business under the guidance of Richard Franklin, who is responsible for the group’s pharmaceutical portfolio.

“As professional investors, we look at businesses from different angles, and with a long-term perspective in mind, unlike a business’s management team and original shareholders,” says Franklin. “With Deltamune, we identified a company run by founders who were passionate about science and laboratory technology. What we needed to do as a team was to introduce business processes and practices that would enable the company to really flourish.” »

Richard Franklin (left) and founder Hannes Swart have put systems and processes in place that allow Deltamune to flourish.



## The path to transformation

It's worth noting that the business was achieving turnover of around R40 million up until 2010, which is not bad in anyone's terms, but it was clear to everyone that a shift in thinking could enable a much more exciting level of expansion.

Swart agreed and the transformation of the business was set in motion. "As scientists, we struggled to find the right business language to enable communication between the investors and the existing management team. We needed to learn investment speak to be able to make more informed decisions."

It was in 2010 that the business had reached a new level of complexity, thanks to its steady growth. That was when Franklin and Swart attended a business summit run by Sirdar South Africa, which helps businesses identify and address the management challenges of growing businesses.

"Our focus is on growing the bottom line through the practical application of effective governance and management," says Carl Bates, chief executive of Sirdar. "We help businesses like Deltamune to set up sound procedures, backed by regular governance and management meetings. The goal is to achieve immediate, increased and sustained profitability and value in the business."

## From craft to enterprise

Bates' fundamental premise is this: Success requires people to recognise that a business is about more than the personalities within it. It's about the purpose it promises. He draws an important distinction between a 'craft' and an 'enterprise'. The existence of a craft depends on the active involvement of the owner because they represent the expertise required to keep the business going. An enterprise is a business with a promise and a structure that makes it sustainable beyond the people who founded or operate it.

"When you hold on to being the craftsman and making it all about yourself, you lose the game," he says. "To achieve success, you must move your passion from practising your craft to creating an enterprise, and understand that the enterprise is separate and distinct from you. It's about keeping your ego in check."

Following the Sirdar Business Summit, the whole Deltamune management team went through a training exercise to equip them all with a common language to enable them to translate scientific ideas into financial reward. Much of what was discussed was stuff that everyone in the business knew, but suddenly it was coming from an independent source.

**"As an entrepreneur, you start a business because you really love what you do. By bringing in the right external shareholders, you can still live your passion, but you can also work towards getting the most out of your investment and ensuring the other parties do the same."**

## How governance enables business growth

Deltamune's journey to its almost R100 million turnover has been built on governance, which Bates defines as "the accountability and responsibility for the performance, conformance and corporate social responsibility of a business at the highest level.

"Governance is often perceived as a dirty word in business, but if understood and applied properly, it's a mechanism for success."

Governance is essentially the practice by which companies are managed, controlled and driven to perform. It encompasses:

- Putting a focus on the measurable performance improvement in the company's results by ensuring management is held accountable for the strategic and business objectives
- Providing a broader reference point for debating and agreeing strategic objectives and issues to ensure independent perspectives are considered in guiding the company's long-term performance
- The creation and ongoing monitoring of a system of checks and balances to ensure a balanced exercise of power within a company
- The implementation of a system to ensure compliance by the company with its legal and regulatory obligations
- The implementation of a process whereby risks to the sustainability of a company's business are identified and managed within agreed parameters
- The development of practices which make and keep the company accountable to the broader society in which it operates.

It's essentially about the responsible leadership of companies. This is leadership that is transparent, answerable and accountable towards the company's stakeholders.

Bates stresses that without effective governance there is no way a business owner can measure and manage their business effectively, or achieve outstanding success.

The reasons are simple. No governance results in:

- Lack of accountability for their actions to each other and the business
- A limited view of the vision and purpose of their business, often due to the myopic focus on day-to-day operational issues
- Operational needs limiting the time spent reflecting objectively and developing the business accordingly
- Not setting standards and sticking to them or setting standards too low
- Lack of awareness of their legal and corporate social responsibilities as directors
- Having skills and abilities incongruent with the

life stage of the business

- Avoiding the difficult decisions that sometimes need to be made for business success
- Effectively operating in a silo as a 'craftsman' rather than effectively being an enterprise.

To implement effective governance at Deltamune, the leadership team, along with Bates who came in as independent, non-executive chairman, and one other independent director, were provided with monthly board meeting papers and clear minutes of meetings. All actions and resolutions of the board are now recorded and the team is held accountable by the board to effectively implement those at a management level. "We don't get the CEO's PA to do the minutes," Bates adds. "The minutes are independently recorded and they are detailed and professional, ensuring that everyone is held to account. That is a critical part of the governance process."

## THE RESULTS OF EFFECTIVE GOVERNANCE

- Profitability (increase in net profit before tax)
- Business value growth
- Other specific quantifiable measures identified in agreement with the client
- Business works without business owners/founders
- Business becomes either saleable or more saleable
- Personal growth of business owners and team
- Learning from other external parties
- Maximum and effective use of all resources and assets
- Growth in intellectual capital.

## Wearing different hats

Looking at the growth of the business over the past 36 months, Swart recalls one of the most valuable lessons: Learning how to keep the three hats of business separate and distinct. "SME owners generally do not treat their businesses as they would if they were big corporates," he says. "Most SME owners get stuck working in their businesses and forget their strategic responsibilities as a director and their investment goals as a shareholder. What has enabled us to grow at such an amazing rate is defining roles for shareholders, directors and managers. A shareholder focuses on their investment return, a director focuses on setting strategy and ensuring performance, and a manager ensures the job gets done. You can be all three, but if there are no other independent

non-executive directors in the business, there is no physical way to separate roles."

Bates explains: "When one person owns all of the company's shares, is the sole director and the manager responsible for the day-to-day running of the business, the company can never become sustainable. For Deltamune, introducing governance to the business and - as part of the process - distinguishing the roles of shareholder, director and manager has resulted in the development of a business that is now able to work without the founder. This not only means it's sustainable, but it also makes it more saleable in the future.

## Personal growth

Swart says that the biggest benefit for him has been his own personal growth and the access he has gained to other people's expertise in various management disciplines. "This has led to an overall increase in the intellectual capital of the business, and it has also enabled the management team to maximise all our resources and assets."

Franklin adds that this level of growth is only possible if the founder of the business is willing to relinquish some control. He applauds Swart for being ready to do so. "It really is about recognising that if you want to grow the business beyond your own capacity as a founder, you have to bring in external controls. If you are not willing to stop being the sole decision-maker in the business, this process is not for you."

Bates offers a pertinent example: "In 15 years of heading up the business, Hannes had never had a performance review. He's now gone through that process as an employee of the business he started. It's a critical development in the life of any business founder." Remuneration structures and performance bonuses have been introduced for all employees, including the CEO.

Swart agrees. "As an entrepreneur, you start a business because you really love what you do. By bringing in the right external shareholders, you can still live your passion, but you can also work towards getting the most out of your investment and ensuring the other parties do the same."

He points out that the journey was not always an easy one. "It took commitment from everyone to develop a way of understanding each other better, and it was tough at times," he says. "Now, things take much longer than they did when I was the sole decision-maker, which is something you should bear in mind as an entrepreneur. If you want to bring shareholders on board, you have to be prepared to let go."

Bates is more candid. "The first six months of this process can be awful. But if you are able to get through that, the benefits are amazing. It changes your perspective as a business owner when the board disagrees with you. Yes, it's tough, and every entrepreneur has an ego to some degree, but handing over some of your »

Carl Bates' role as a non-executive chairman is to see profitability and shareholder returns increase.



## READY TO TAKE THE NEXT STEP?

A good board will challenge the perspectives and attitudes of the owners and managers... in a good way.

If your business is in a holding pattern, and you need more than passion to push it to the next level, having the ability to call on a team of experts can make all the difference.

To do that, you have to be prepared to let go. In the case of Deltamune, that meant introducing governance and distinguishing between the roles of directors, shareholders, and management.

The role of directors is one of stewardship. A director's duty is owed first and foremost to the company, and it is in their interest - and yours - to ensure accountability, growth and profitability.

A properly appointed board will result in a more effectively run company, and a more profitable company, with everyone's efforts more tightly focused on matters that will propel the company to the next level.

**“Governance and processes pave the way for growth in any size company. Most importantly, directors are there to add value, not to whip people into shape. In Deltamune’s case, they have enabled the company to double in size.”**

original authority can have major benefits, as the Deltamune experience has shown.”

Swart says he and the team spend much more time dissecting ideas and analysing decisions, but the result is that they make more considered, better decisions. “We now also speak in a common language. On the financial side, we are very clear about the responsibility to investors, and monitoring financial performance every day is now par for the course.

“Added to that, we have really tackled the skills side of the business, and we provide coaching and mentoring for employees to help them grow with the business. It has equipped us to deal with expansion and helps to ensure we are better able to manage the size of the company now.”

“As the non-executive chairman, among other key activities, my goal is to see profitability and shareholder returns increase,” says Bates. “When we started working together, we analysed the natural abilities of the directors. It was clear that the team’s strengths were strongly scientific, but there were several areas of business that were lacking, including sales and marketing, which are disciplines that I am particularly interested in, so I put a strong emphasis on that. One of the other independent directors has a particular interest in stakeholder relationships and employee wellbeing. These elements did not come naturally to the original team and the benefits of integrat-

ing these aspects into the business have been enormous.”

### A promising outlook

Looking ahead, Swart says the company is focusing on formalising its acquisition strategy and is actively looking to acquire complementary businesses. Having opened offices in Oudtshoorn, Western Cape, expansion into the rest of the continent – where there is a big market for its products – is also on the cards for Deltamune.

“We are realistically bullish about the market for veterinary health products in South Africa and beyond,” he says. “Several South African companies are expanding up north to take advantage of the growth potential on the continent.”

“Businesses have processes for a reason,” Bates concludes. “I’ve heard people say, ‘My business is not all about money,’ but if you want to be a master baker, you actually have to be a master business person too. The fact is that whether big or small, businesses are not all that different from each other. Governance and processes pave the way for growth in any size company. Most importantly, directors are there to add value, not to whip people into shape. In Deltamune’s case, they have enabled the company to double in size.” **EM**

## THE WEALTH DYNAMICS PROFILE TEST

Part of the Sirdar process is the practical application of Roger Hamilton’s Wealth Dynamics personality test, which can help companies to choose the right people for their governance and management teams. The test helps to ensure that the natural energy and focus of the team is balanced and related to the profile of the business. The idea is to do what you enjoy most and make money from it.

There are eight paths to wealth. We each have one natural path. The test helps you to find out who you are and which of the eight is your natural path.

Select the description that most accurately describes your personality, and then compare it to the business personalities alongside see which wealth type you are:

**1. Are you great at starting things and terrible at finishing anything?**

Do you find your head is often in the clouds and this is where you create the most value?

**2. Are you at your best when thinking on your feet?**

Are detail and analysis your weaker points? Are you an extraordinary promoter who is more successful when promoting other people’s creations than your own?

**3. Do you believe you are a great leader and have no problem connecting with others?**

Do you question where it’s all leading to?

**4. Does meeting people come naturally to you?**

So why is making money so challenging? Is it because you are spending your time on things that feel like hard work?

**5. Are you more sensory than creative?**

Do you have your ear to the ground and not your head in the clouds? Are you so grounded that you sometimes get stuck in the mud?

**6. Are you cautious and collected?**

Do you take time to consider and decide? Are you the type of person who does not like to be pushed by others? Are you wondering how you create wealth in this fast paced world?

**7. Are you looking at this summary and saying to yourself that it’s nowhere near enough information?**

Do you generally need all the details before being comfortable in making a decision?

**8. Are you great at finishing things, but not so good at starting things?**

Are you constantly perplexed by the chaotic imperfection in others? Are you wondering how can you master something as imperfect as wealth?

Are you a Creator like Bill Gates, a Deal Maker like Donald Trump or an Accumulator like Warren Buffett? Each follows a different path and each has different winning formulas.

### THE EIGHT PATHS TO WEALTH

Once you know who you are and the path to take, the next steps become far more obvious:



Steve Jobs

**1 THE CREATOR**  
Builds innovative products

They began their enterprises and then others ran them as they continued to add more value through their innovation. Your winning formula is the same.

**Other examples:** Walt Disney, Richard Branson



Oprah Winfrey

**2 THE STAR**  
Builds an influential brand

They have created a strong brand for the customers they know and love, turning a spark into a sparkle. **Other examples:** Paul Newman, Bill Clinton



Steve Ballmer

**3 THE SUPPORTER**  
Builds high performance teams

They are at their best when the game is set and the score is being kept. Their winning formula is leading from the front, one play at a time, instead of trying to hold onto the creative process or number crunching. **Other example:** Jack Welch



Donald Trump

**4 THE DEAL MAKER**  
Brings deals together

They spend all their time connecting the existing opportunities in their market instead of trying to come up with something new. That’s a big deal. **Other examples:** Rupert Murdoch and Japan’s richest man, Masayoshi Son



George Soros

**5 THE TRADER**  
Buying and selling commodities

They don’t try to start businesses, but master a market and their own sense of timing in trading what’s already there. Only once they find flow in the safety of others do they step out on their own.

**Other examples:** John Templeton and Jim Roger

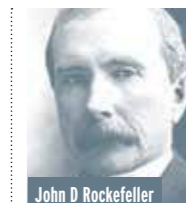


Li Ka Shing

**6 THE ACCUMULATOR**  
Buying and holding assets

They choose their area of expertise and project manage their way to owning appreciating assets. Patience is your greatest asset.

**Other example:** The co-founder of Microsoft, Paul Allen



John D Rockefeller

**7 THE LORD**  
Controlling cash flow producing assets

Like a Landlord, you don’t need to come up with the idea or go networking. Others can do that for you, while you make sure there is profit in constant cash flow.

**Other examples:** JP Getty and Sergey Brin from Google



Sam Walton

**8 THE MECHANIC**  
Creating a duplicable system

They focused not on the product, but the system, so everyone with great products will come to them. That’s your winning formula.

**Other examples:** Ray Kroc and Amazon.com founder, Jeff Bezos