Out with the old

In 2015, boards must allow for creative discussions that will encourage innovation and challenge the status quo, says **John Barrington**.

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THE LONG SHADOW OF THE GLOBAL FINANCIAL crisis continues to cast a pall over economic activity. The uncertain and volatile environment within which boards have been governing will continue in 2015. But the strategic focus is shifting from one of incremental growth to the realisation that radical new opportunities must be identified to kickstart the growth agenda.

The challenge is how to grow in what are now mostly low-growth markets. Compounding this are the disruptive technologies that are seeing massively low-cost, high-service players entering traditionally stable and even heavily regulated markets, such as ridesharing service Uber disrupting the taxi industry. In this environment, boards need to enable their organisation to become the disruptor, not the disrupted. The earlier focus on risk management, fixing balance sheets and seeking growth in traditional ways is being replaced by calls for creativity and innovation.

But boards can often struggle with this. Some do not see it as their responsibility, many do not have the skills or will not allocate the time to this type of thinking. Added to this, executive incentive plans work against innovation, being oriented to shorter time-frames than innovation typically requires. Executives are not incentivised to disrupt themselves. Without board appetite, the strategic focus of the firm becomes an extension of the status quo.

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THINKING OUTSIDE THE BOX

To catalyse innovation, appropriate processes must be mandated by the board. Just as robust systems are required for risk management, so it is that similarly robust processes are required to identify disruptive growth opportunities. Having the discipline to follow that process regularly is essential to guard against developing a default position of disinterest in new opportunities.

One board we know had identified a major discontinuity arising in their industry from legislative change. Directors were broadly divided: some could see the opportunities; others only risk. In this case the CEO was anxious for growth, but could not effectively engage the board. In another, a board was asking for step-out ideas to address low-growth prospects. Directors were thinking creatively but the executives were resistant.

The point here is not who was right or wrong. Rather, that both organisations lacked a systematic approach to innovation that was seated in the strategic context of the firm.

In times of volatility the tendency can be to narrow the focus to the immediate issues at hand. Think cost control. But opportunities can only be exploited from a long-term perspective so the board's view needs to be eclectic, monitoring current performance while concurrently extending the thinking frame beyond the typical five-year planning horizon. This is not about trying to predict the future. It is about imagining the future.

This may be counter-intuitive in challenging times but it is not about betting the business on a single play. It is about creating space for new thinking and deploying management time and capital to experiment with options. This is beyond the age-old conformance-performance debate. The strategic board will make space in its agenda for creative discussions that will challenge thinking in ways beyond the current strategy. If boards want greater innovation within their organisation, they have a responsibility to set the tone from the top, signalling it as a priority. As Steve Jobs said, "creativity is connecting things" and a board's perspective can be a unique value-add.

UPDATING OLD PRACTICES

To enable board contribution, the skills matrix will be updated from the traditional competencies to include a track record of innovation, and boards will deliberately seek out disruptors who can catalyse new thinking at board and executive level. The board will set new performance indicators for innovation that will reflect the longer time-frames required and the need to accept higher failure rates.

Regular reviews of the organisation's opportunity-spawning capability will also form a part of the strategic board's agenda. Directors must interrogate their executive teams on the plans to enhance that capability and the process that will be used to generate and pursue growth options.

To help boards develop their own capabilities, innovation advisers may be engaged reporting directly to the board.

To initiate this, boards may consider the appointment of an innovation task group that will work with executives to establish the process and enabling structures. This may include new organisational units that are separate to business as usual and that are free of the shackles of "horizon one" performance imperatives.

The disruption we are experiencing requires disrupting business as usual. The strategic board will play a leadership role in formalising innovation processes that sit at the other end of the value-creation continuum from risk management. ⓓ