



# Navigating boardroom's innovation imperative

Board Leadership Center (India)

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In the early 2000s, the telecommunications industry witnessed a seismic shift with the advent of mobile internet and smartphones. Established market leaders, who were slow to adapt to these technological transformations, saw their market share erode rapidly. Meanwhile, agile newcomers, who embraced innovation, soared to the forefront, redefining the industry landscape. Similar disruptions have been seen in other industries as well. Digital cameras revolutionised photography, rendering traditional cameras nearly obsolete. Streaming services have overtaken conventional cable TV and ride-sharing apps have redefined urban transportation, challenging traditional taxi services. These examples underscore a critical lesson for corporate boards: the imperative to innovate and adapt is not optional but essential for survival and growth.

The challenge of spearheading innovation is transforming corporate governance. In an era marked by rapid technological advancements, evolving consumer preferences, and increasing regulatory

scrutiny; it is increasingly pertinent for the boards to include innovation on their agenda, such that they can provide their critical input and oversight to the executives.

As innovation becomes a critical management imperative, boards need to be more than passive observers of the innovation agenda, because the stakes are so high. In a growing number of industries and companies, innovation plays a crucial role to determine future success or failure, or even survival.

While boards do not need to step into the role of executive management with day-to-day innovation agenda, they should integrate a strong innovation focus into their traditional corporate governance responsibilities. To address this gap between knowing and doing, we spoke with directors and leaders from various industries about their boards' ability to support innovation and manage risk. Some were leading the way; many were just beginning to navigate the challenges of asking questions around innovation, with varying degrees of success.



## Why should boards care about innovation agenda?

Embracing innovation, and the inherent risks and also opportunities, necessitates that boards and senior management adopt new ways of collaborating. However, the desire to foster new and different approaches is often not matched by the ability to implement them. Boards may face certain challenges while fulfilling their growing obligation to provide oversight over innovation:

**Traditional innovation and risk strategies:** Boards must encourage transformative initiatives, even when risk-taking is paramount, to stay competitive amid increasing pressures from stakeholders.

**Limited time for innovation discussions:** Insufficient time allocated, or no time allocated to discussion on innovation in board meetings is symptomatic, especially in heavily regulated industries like financial services, energy, and healthcare, or time spent looking in the 'rear-view mirror'.

**Expertise gaps in boards:** Expertise gaps hinder boards' ability to assess innovation proposals, leading management to avoid such discussions.

**Ineffective board-management interactions:** Rigorous questioning of innovation proposals can be perceived as hostile, causing emotional strain for management.



# The strategic imperative of innovation

Innovation encompasses more than just technological advancements; it includes novel business models, processes, products, and services. For boards, understanding the broad spectrum of innovation is critical. The board's strategic oversight ensures that innovation aligns with the company's long-term goals and market positioning.

Boards can play a vital role in championing a vision that prioritises innovation. This involves integrating innovation into the company's mission and strategic objectives. By doing so, boards signal to management and employees that innovation is a key driver of the company's future success. A few suggested strategies for boards to consider and strengthen their innovation agenda:

## Cultivating a culture of innovation and risk-taking

### Open dialogue:

Encourage transparent and constructive discussions between the board and management regarding innovation. Focus on assessing the potential value and impact of innovative projects rather than personal performance evaluations, or just the potential risks.

### Setting expectations:

Establish a vision and ensuing strategic objectives that prioritise innovation, making it clear that innovative thinking and risk-taking are valued and necessary for the company's success.

### Supporting management:

Provide the necessary guidance, support, resources and backing for management to pursue ambitious, high-risk projects. This can include funding for research and development, access to external expertise, and encouragement to explore unconventional ideas.

### Recognising and rewarding success:

Implement recognition and reward systems that celebrate successful innovations and the individuals or teams behind them. This helps to reinforce the importance of innovation within the organisational culture.

### Building trust and strengthen collaboration:

Foster a relationship of trust and mutual respect between the board and management. This helps to ensure that innovation discussions are productive, and that management feels supported in pursuing innovative ideas.

## Enhancing board expertise and composition

### Recruiting diverse talent:

Include board members with varied backgrounds, particularly in areas such as technology, digital transformation, and emerging markets. This diversity ensures a broader range of insights and better evaluation of innovation opportunities.

### Continuous education:

Invest in ongoing education and training for board members on the latest trends, technologies, and innovation practices. This helps board members stay informed and make better decisions regarding innovative initiatives.

### Leveraging external expertise:

Engage external consultants, thought leaders, and industry experts to bring fresh perspectives and knowledge to the board. This can help identify new opportunities and challenges that may not be apparent from within the organisation. Companies can also plan field visits and/or form alliances with emerging startups, academia, and technology labs.





## Focusing on innovation discussions

### Dedicated time for innovation:

Allocate specific time in board meeting for discussing innovation and transformative initiatives. This ensures that innovation remains a continuous priority and is regularly reviewed. Boards may also look to promote 'constructive dissent' to critique the underlying assumptions for innovation projects and long-term strategy of the firm.

### Forming innovation and technology committees:

Establish specialised committees focused on innovation to provide detailed oversight and strategic guidance. These committees can delve deeper into innovation topics and present their findings and recommendations to the broader board.

### Integrating innovation into corporate strategy:

Embed innovation within the company's long-term strategy, aligning it with overall business goals. Regularly review and adjust the strategy based on market trends, technological advancements, and internal performance metrics.



## Implementing robust risk management and metrics

### Developing a risk management framework:

Establish a comprehensive risk management framework that balances the pursuit of innovation with effective risk mitigation. This includes setting clear risk appetite and tolerance levels, conducting regular risk assessments, and integrating risk management into the innovation process.

### Monitoring regulatory changes:

Stay informed about regulatory developments and proactively adjust strategies to navigate the regulatory landscape. This ensures compliance and allows the company to capitalise on new opportunities.

### Establishing innovation metrics:

Develop specific metrics and key performance indicators (KPIs) to measure the success of innovation initiatives. Regularly track and review these metrics to ensure that innovation efforts are delivering the desired outcomes.

### Encouraging data driven decision-making:

Promote the use of advanced analytics and data-driven insights to inform strategic decisions and drive innovation. This involves investing in data analytics capabilities and fostering a data-centric culture within the organisation.



## Questions for the board

- Is innovation consistently included in the agenda of our meetings?
- What are our main innovation goals, and what strategic value do we expect from them?
- Are we investing more in internal or external initiatives to support innovation goals?
- Do we regularly assess high-stakes innovation projects?
- Do we routinely review and discuss the company's innovation strategy?
- Are we regularly evaluating the risks associated with our innovation initiatives?
- Have we set specific innovation targets for management?
- Do we engage in discussions with the CEO regarding innovation management issues?
- Do we mandate regular innovation audits from management?
- Do we expect management to provide regular reports on innovation performance?
- Are we acquainted with our primary corporate innovators, and do we engage with them periodically?
- Do we consider innovation capabilities when appointing new leaders?
- What governance measures are in place to ensure innovation investments are strategically aligned and progress is effectively measured?

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