



Innovative Innovation

All boards are usually well-attuned to the speed of change in the worlds in which they're operating. It's difficult to imagine a market where the means of design, production, communication and delivery are not under relentless assault from developments in technology and customer expectations. Often "innovation" is identified as a business driver, sometimes even as a core value of the firm. But how many boards have a well-considered and structured approach to overseeing how executives are dealing with change and "innovation"? It can often get a bit lost amongst broader strategic plans (such as acquisition-led growth or new geographical markets) or as a result of non-executive unease or lack of understanding of technological change. So what can boards do to make sure this doesn't happen?



INNOVATION: THE BOARD IS TRYING HARD

Good practices to consider...

Include "innovation" as a distinct, identifiable part of the board's strategy and risk appetite discussion. That means considering how important innovation is to the future of the business, and consequently deciding how much appetite for innovation you need to have if you are to achieve your goals. And it means balancing the threat from external developments with the risks and constraints related to investment budgets, change management, ownership and availability of know-how, and many other things.

Look well into the future. The next few years matter – but a board needs to try to look well beyond that, especially as the investment cycle can be very long. Ten years might be enough, but that will depend on the market – some will need a longer view.

Have "innovation" as a standing item on the annual awayday agenda. For sure the market and technology will have changed since the last time. And that invariably will mean explicitly considering the impact of digitalisation on products, customer needs and delivery channels.

Things to avoid...

Thinking of "innovation" as something that naturally happens in the course of business development and growth. It might do – and that's all well and good if it's going in the right direction. But it's up to the board to challenge management on this, making sure that they aren't just waiting for something to happen and have the right "innovation-focused" resources in place. The board must investigate whether any perceived obstacles are genuine, and then help management look for ways to overcome them.

Taking refuge behind "it's too difficult to tell" or "it's not the board's job to speculate about the unknown". This is debatable (scenario planning, anyone?) but what's not arguable is that the future is going to arrive one day whether we're ready for it or not. Being prepared takes constant vigilance and it's part of the non-executive role to help management keep looking up from immediate issues to the longer term.

Picking up on change only every other year (or worse). Or not putting it on the agenda because you just assume it will get picked up in the discussion – in might do, but often people find it easier to talk about the familiar rather than "the unknown". Innovation is likely to be a major change factor, with implications for anything else on the agenda, so it needs picking up specifically early on.

Good practices to consider...

Things to avoid...

Use a "template" to make sure the board thinks through the strategic angles: what does "innovation" mean for customers? suppliers? distribution? markets? – both in terms of what others expect from you and how they will interact with you. And what technological developments are emerging that might render all your incremental improvements valueless? In other words, asking exactly the sort of fundamental questions that the NEDs should be raising to help avoid an executive ostrich "head in the sand" situation.

Supposing that innovation is a technical matter and that it's enough for the geeks to emerge once a year at the board's strategy day. Real business innovation comes when knowledge of technology meets knowledge of customer needs and markets. Executives, salesmen, service teams...all need to be part of the innovation discussion – and the non-executives need to know that it's organised and happening.

Making sure that from time to time, an outside specialist comes in to provoke forward-looking thinking and to give the board a "fresh pair of eyes" view of what's happening outside. The strategy awayday is the most straightforward occasion for this.

Simply relying on management's thinking. They might be as expert as anybody, but even experts benefit from external validation and challenge. And it gives the board both assurance and additional insight.

Put "innovation" as a standard item on the "principal risk" list, so that board discussion is about whether it's sufficiently low risk that you can take it off. There's the risk of slow decline from not innovating as well as the potentially catastrophic risk coming from outside developments and disruption. Very few companies don't have to manage the risks from digitalisation and emerging alternatives and challengers so keep it front of mind as a potentially fundamental issue.

Assuming that "innovation" gets covered enough in the strategic discussions. Or that it's enough to bear it in mind under "competition". Or even that it's not a risk at all, as the amount being spent on R&D shows that management is on top of it. Of course it's a core consideration when formulating the strategy, but there are also numerous risk angles – upside and downside, and coming from multiple sources. This is a big enough deal to make it worth giving it air time in its own right.

Make sure that management is continually refreshing its understanding of the ultimate user experience and how customer expectations are changing. Sometimes it's hard for management to admit that the market's moved on from the model that they were able to mine successfully in previous years. NEDs have to help them face up to it.

Just assuming – or letting management complacently argue – that our present understanding of the product/service will match future end user needs. We can have a good new idea based on the last twenty years of working with customers, but still fail completely to meet their expectations in next year's conditions. NEDs are better placed than management to question whether the enablers of past success have lost relevance.

Assess the board skill set to identify who has particular experience in innovation and change, and then discuss with them how this can best be brought to bear. And if "innovation" is a core driver and principal risk – as it probably will be – and the board isn't highly qualified in this respect, then think through how to best fill the gap and how quickly.

Working off the assumption that all NEDs have been through change and innovation in their executive careers and so will naturally know what to focus on. That's true to an extent – but is it enough, and recent enough, for them to make sure the right questions are being asked?

Appoint an "innovation champion" (or two) from amongst the NED ranks – assuming "innovation" is strategically important. That's not absolving others of responsibility – but it does help make sure that the questions are being raised and there's a director in contact with management outside the boardroom and specifically keeping tabs on product and market developments.

Hoping that there's enough up-to-date, in-depth knowledge somewhere around the board table to raise questions and to push on the innovation agenda.

Check that the other non-executives are comfortable enough with their knowledge of the main products and services to understand the scope for innovation – and the potential threats. Where not, organise briefings and get the non-executives out into the business learn first-hand from talking to front-line staff, customers and suppliers.

Simply assuming that all the board understand how we make widgets or deliver whatever it is we do. They might have a good idea of the end product – but do they know how we get to that point? When was there last a discussion on how far the main features of our core products/services are fully aligned with what buyers want?

SAVE THE DATE: CULTIVATING CULTURE REPORT LAUNCH

Dispensing with the clichés, what does overseeing how people behave actually mean in practice for the Chairman, the non-executives and the executives on the Board? What are their respective responsibilities? And what are they doing in order to ensure the employees in their companies are “doing the right thing”?

The results of our unique and in-depth research into this area is being published on 21 July 2016. To receive a copy of the report please register your interest at info@independentaudit.com.

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BOARD REVIEW

