

# Creativity in a crisis: a boardroom map for innovation

Whitepaper produced by *Board Agenda* in association with Diligent



# Preface

IN THE UNCERTAIN times at the height of any crisis, business leaders need to demonstrate their agility and ability to adapt to new, unrecognisable environments. Board directors will play a key role in enabling this spirit of leadership, not just through securing the business but empowering a platform for innovation beyond which the business not only survives, but thrives.

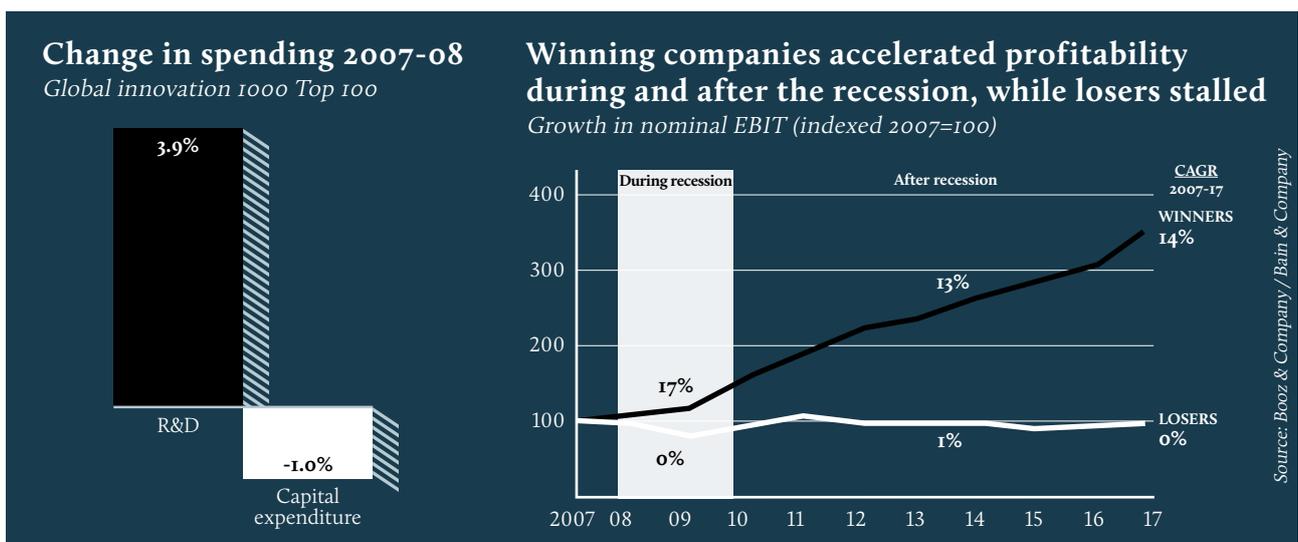
Diligent, the leading global board portal software provider, has teamed up with *Board Agenda* to provide a roadmap that focuses on the importance of innovation within the continuity and recovery process, providing both clear insight and actionable advice.

Some businesses will not survive the current crisis. Others will, but through unwise retrenchment will face future difficulties. But there will be those that seize the opportunities for future growth and demonstrate how, through innovative thinking, agile leadership, empowerment and a will to succeed, they can create a map that will lead to a new business landscape.

# Overview

Research shows there is a clear link between innovation, value creation, resilience and long-term business purpose, with investors looking to the board for a roadmap to long-term sustainability. And today's business environment shows this has never been more true.

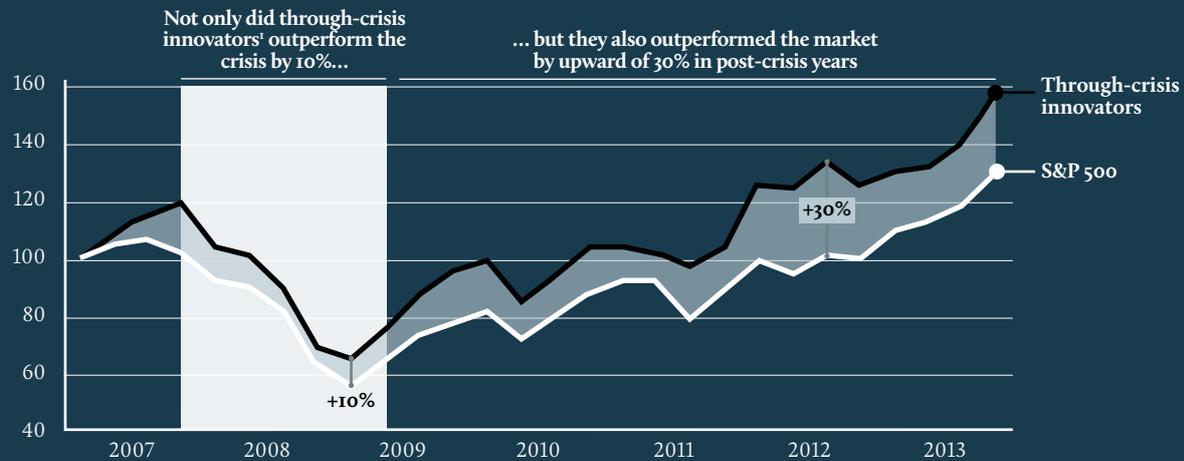
It is often said that crisis and innovation go hand in hand—and history demonstrates this: studies by Bain & Co, Strategy& (now part of PwC) and Gartner have all shown that the companies that grew the most during and after the 2008 financial crisis were those that invested in innovation.



McKinsey & Co found that organisations that maintained their innovation focus through the financial crisis emerged stronger, outperforming the market average by more than 30%, continuing to deliver accelerated growth over the subsequent three to five years.

## Normalised market capitalisation

Index (Q1 2007=100)

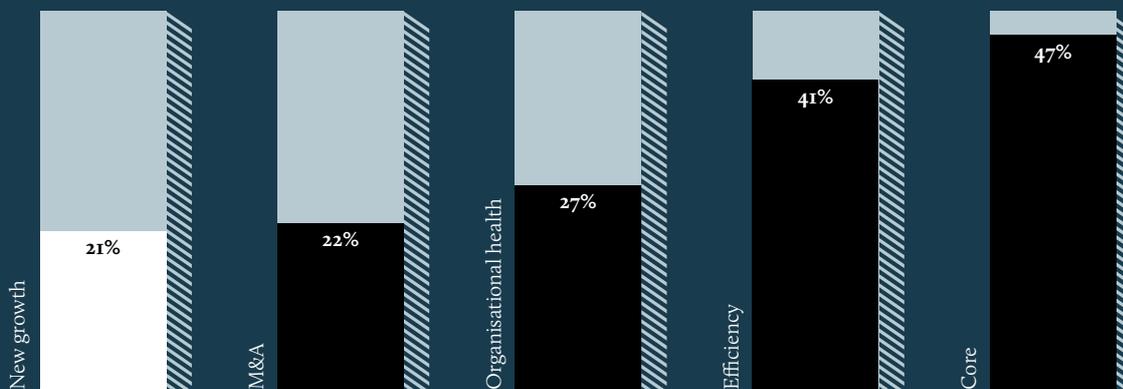


<sup>1</sup> Identified as companies on the Fast Company World's 50 Most Innovative Companies list for  $\geq 2$  years through a crisis, normalised to 2007.

Source: McKinsey Innovation through Crisis Survey, April 2020

However, McKinsey also found that while three out of four executives agree that today's crisis will create significant new opportunities for growth, only 21% feel they are prepared to capture these new growth opportunities.

## Share of executives who strongly agree that they have the expertise, resources and commitment to carry out the following actions successfully in the next 12 months



Source: McKinsey Innovation through Crisis Survey, April 2020

Innovation needs to be supported, valued and nurtured, but also vetted against the organisation's long-term priorities and enterprise risks. Boards themselves need to be innovative, and able to respond quickly, evaluate and take the right supportive action.

Still in the throes of Covid-19, organisations not only face the task of opening up again following a period of lockdown—they now need to navigate a wholly new economic, social, cultural, technological and political landscape.

And central to this will be innovation.

# Building blocks: creating the environment for innovation

Now is the time for boards to ask themselves how they are building an environment that fosters innovation. This will help them create the right foundations to move forward from the crisis and towards future growth.



## Agile leadership

During times of volatility, true board adaptability and agility is highly valued.

The crisis has shown how business conditions can turn on a dime. Those businesses with agile leadership—both in the boardroom and the C-suite—have shown innovative ways to respond and identify new opportunities. Think of those that took the strategic decision to pivot their manufacturing to supply much-needed personal protective equipment (PPE), or those that moved their operations online to continue service to their customers.

In each case, board support and quick analysis were needed to stay ahead of a rapidly changing environment. Equally important, however, is the agility and adaptability of the executive leadership team, in particular the CEO.

According to Boston Consulting Group (BCG) in its latest survey of the most innovative companies, innovation is a top-three management priority for almost two-thirds of companies. Although this might seem high, it is the lowest level since the financial crisis—perhaps reflecting the uncertain economic outlook amid geopolitical tensions even before the outbreak of Covid-19. BCG stresses the need to move fast: “As we explored the data and interacted with clients, however, it became clear that this year’s core findings—about the advantages of scale and the imperative for serial innovation—may be even more relevant today as innovation leaders need to adapt to rapidly shifting patterns of supply, demand, consumer behaviour and ways of doing business.”

BCG also highlights the role of diversity in senior management, raising the question of whether organisations have the right make-up to support agile and innovative decision-making: “Management diversity boosts innovation. It allows the discussion to move from the realm of ‘whether’ to ‘what now?’”

- Has your board responded to Covid-19 with greater agility? If not, what has inhibited the board in this area? Consider the board culture, leadership and current composition.
- Does the management team have the skills it needs to navigate through the crisis? How well have they kept an eye on the long term while still managing the day-to-day?

## Clear communication

Particularly in times where innovation is needed, the board must communicate its vision and expectations clearly with its senior management, investors and, in many cases, regulators. Setting the right innovative tone is key.

Clear communication ensures the executive team understands the board's scope of innovation, risk tolerance and process for assessing new opportunities. Clear communication also ensures investors will be able to understand the long-term viability of their investments, while regulators can have assurances during these extraordinary times.

For the organisation overall, communication is a delicate balancing act: people will want to know about job security, but also that there are plans in place as the business moves from continuity to recovery. Boards and management teams must make sure they have the right tools in place to communicate with one another securely as prematurely released business plans and opportunities can have a negative consequence.

- Has the board clearly communicated its expectations around innovation to the management team? Has it fostered an environment that encourages calculated risk taking?
- Does the board and executive team have a secure alternative to email when discussing sensitive topics and business opportunities? Consider a tool like [Diligent Messenger](#).

## A people-first strategy

In times of uncertainty, many leaders focus on corporate survival; financial stability, supply chain integrity and cash flow. However, the transformation of the workplace has become the top issue for boards to grapple with in the short and medium term, and one of the most dramatic shifts in board thinking will be an even greater emphasis on the wellbeing of its workforce.

EY's Centre for Board Matters highlighted this issue even before the Covid-19 crisis, suggesting the talent agenda should be a top priority for boards in 2020: "Boards should look to oversee the company's strategy for workforce agility and related cultural initiatives to address broad impacts on business and the workforce."

The social contract between employees and employers is changing. A key priority for leadership teams should therefore be the wellbeing of employees. Leaders must demonstrate and communicate empathy, inclusivity and flexibility, and create rewarding work environments. Without the whole business onside, innovation will suffer.

Innovative companies such as IKEA are well-known for their 'co-creation' philosophy, a business model that seeks input from co-workers, customers and suppliers as it develops new products and services, while companies such as Nestlé have launched employee innovation crowd-sourcing schemes. The scheme is about tapping into the collective intelligence and innovative spirit of thousands of Nestlé employees. "After all, our employees are our consumers," the company observes.

### Eight board priorities in 2020

- 1 Strategically prepare for growth amid increased uncertainty.
- 2 Accelerate the talent agenda and activate culture as a strategic asset.
- 3 Evolve enterprise risk management (ERM).
- 4 Prioritise cybersecurity and data privacy.
- 5 Address geopolitics from a strategic perspective.
- 6 Embrace ESG as a business imperative.
- 7 Redefine and better communicate long-term value.
- 8 Take a continuous improvement approach to board effectiveness.

Source: Eight Priorities for Boards in 2020, EY Center for Board Matters

And it is not just people within the business that matter. Innovative boards will look beyond the business to the wider community—can any of the innovations you are seeing within the business be applied outside as well? People remember who helped.

- Can the board assess how it is building trust and creating a collective sense of purpose among the workforce?
- Is the board looking at innovative ways in which the business can support the wider community, tackle hardship and create an environment of support?

## Adaptive operations

Many businesses have demonstrated remarkable resilience during the pandemic; operations have survived and now there is a real opportunity to rethink operating models and how people work best, building on the best of the existing culture of resilience to create an adaptive operation. Such an attitude will not only see the business through the current crisis but will prepare it for the next one, too.

The shift to remote or flexible working for the long term has come hand in hand with the application of more automation and technology, particularly tools to facilitate communication and collaboration, as well as technical support.

Alongside this, some businesses have seen a swift shift toward a more decentralised operating model with flatter organisational structures, which allow for rapid, localised decision-making. Facilitating a more dynamic network of teams is another building block for an environment of innovation.

Looking ahead, many employees will be thinking about a return to their usual working environment, whether that is the office, shop floor or factory. This can be used as a positive opportunity to remodel existing work practices that not only accommodates the safety issues but improves output and outcomes.

Companies can address the requirements of rebuilding the existing business while preparing for how things might structurally change in the future. The right operational environment will build the right environment for innovation.

- Can the board assess how pre-crisis working models can be upgraded, remodelled and reinvented to create a positive working experience, and therefore foster an environment for innovation?
- How does the board measure its flexibility and ability to accelerate decision-making while maintaining the highest levels of governance?

## A focus on long-term value creation

Boards, CEOs and innovation leaders can focus on innovation as a way to create value and long-term business resilience. The promise of future innovation and continued differentiation can create perceived value among investors. Customer, investor, employee, and other stakeholder expectations of business can be reset by Covid-19 and create the opportunity for businesses to redefine and reactivate their purpose.

“If we can think beyond the short term, we can put ourselves in a better position for the long term,” a board director told Diligent recently [[The Pandemic Agenda](#), p16]. Boards are well placed to focus on counterbalancing management’s day-to-day crisis response with a long-term perspective. This is why many board members are emphasising that Covid-19 has not changed their role so much as heightened it.

As another director told Diligent: “Directors are in a unique position to gain a different perspective from [across] many great sources... [This provides a] higher-level strategic focus to help directors think through the implications of Covid-19 on all aspects of the business, not just the near-term, day-to-day operational response.” [[The Pandemic Agenda](#), p17]

The board can work with senior executives to set out how a short-term gain can create long-term sustainability. Removing costs from the enterprise may work short term, but what will be the long-term impact? Redoubling investment into innovative research and development will have a short-term cost impact, but will the results justify the expense?

- What role does innovation play in the organisation’s long-term sustainability?
- Is the board assessing each business decision through both a short- and long-term lens?

## An eye towards emerging technologies

Digital transformation is already unfolding widely across all businesses and enterprises. Long before the current pandemic, the application of emerging technologies was at the top of the agenda of many organisations.

But Covid-19 has accelerated this process, with leaders now looking at an ambitious digital landscape.

As part of an environment of innovation, boards and their executive teams can look to accelerate existing technology change programmes—this could involve moving more towards cloud services, greater use of automation technologies, a deeper understanding of data analytics and artificial intelligence.

Data can inform possible futures and long-term strategies—fostering innovation in this process could lead to better outcomes for the business, its customers, suppliers and investors.

- How does the board evaluate emerging technology?
- How does the board empower senior executives to move quickly to implement technology change programmes?

# Navigating towards a culture of innovation

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So, what are the steps that boards can take to achieve an environment where innovation flourishes even in the face of severe disruption and uncertainty? Much will come down to empowering senior executives and trusting them to make the right decisions, but the tone comes from the top, with boards seeing themselves as the enablers of change and innovation.

## Prioritise innovation in the boardroom

When boards prioritise innovation in the boardroom, innovation can become a priority throughout the business. Board meetings can be crowded with governance and regulatory issues, financial performance and risk management, especially during a crisis. To heighten focus on innovation, it can be inserted into the board's agenda and become a regular item in strategy reviews.

Formalising an approach to innovation from the board signals the importance of the issue to senior management and more widely throughout the organisation. Quick wins can include the creation of a sub-committee dedicated to innovation, which can bring a lens of innovation to existing board discussions. And the appropriate use of technology before, during and after board meetings will signal commitment to innovation.

### Action points

- Ensure innovation is on the board agenda.
- Apply the lens of innovation to all board matters, and dare to do things differently.
- Introduce innovative technology into board meetings, and demonstrate the power of innovation; if you are reporting on innovations, report in an innovative way.

## Set and review innovation strategy

Does the company have an innovation strategy? Choices the board makes regarding innovation can have a significant impact on risk and should be reviewed. New business models, new processes, products or services are all components of an overarching innovation strategy.

An innovation strategy can help formulate cross-department involvement and collaboration between R&D, customer services and logistics. There can also be involvement from internal audit to help assess risks. Responsibility can be assigned to a board member to drive this forward. If such a role does exist, check that it remains fit for purpose—many strategies will have been formulated during more certain, less disruptive times.

Reviews and discussions create clear signposting by the board about its renewed commitment to innovation, and a strategy, reviewed and amended as necessary, and responsive to rapid change, will help cement that commitment.

## Action points

- Appoint board responsibility for innovation strategy.
- Review innovation strategy, ensuring it is responsive and fit for purpose.
- Implement innovation strategy, report and monitor progress.

## Review innovation goals for management

Successful implementation of an innovation strategy means setting goals for management—key performance indicators (KPIs) and targets specifically focused on the delivery of innovation projects. As management expert Peter Drucker once said: “Innovation is real work, and it can and should be managed like any other corporate function.” [Harvard Business Review, August 2002]

Boards set management performance goals. These can include innovation, alongside traditional financial, sustainability and diversity objectives. The board and management agree key success factors of an innovation strategy.

Board members can review the CEO and senior management on their performance vs the innovation strategy. Clear KPIs are important—a commitment to measuring innovation can deliver results. Employees can demonstrate how innovative thinking has improved processes and productivity; and senior managers can demonstrate how innovation has opened up new markets and created new opportunities for the business.

## Action points

- Establish regular reviews against measurable targets for boards and senior management.
- Support management in achieving targets.

## Review innovation projects

In some industries such as pharmaceuticals, energy and automotive, company boards often regularly review large, complex innovation projects that are expected to provide future growth. In other industries boards may only be superficially aware of these.

Boards can regularly review innovation projects with R&D leaders and innovators around the organisation and in different global markets. This will provide valuable feedback and insights for board members. It also helps the business and R&D understand how much value the board places on innovation.

## Action points

- Identify innovation projects and ask for regular updates.
- Review innovation projects and check progress against milestones and KPIs.
- When establishing innovation projects check levels of project management and progress reports.

## Communicate positively about innovation and ideas

The board should not only ask senior management to provide regular briefings on innovation projects within the organisation, but also more widely about innovation taking place within their industry sector. Innovation should be given priority in employee and stakeholder communications and in corporate reports.

Celebrate successes, learn lessons from failure, and ask whether the innovation can pivot and be repurposed.

### Action points

- Use outside experience and networks to inform debate on innovation within the organisation.
- Ensure the board is aware of industry-wide developments; highlight those responsible for success.

## Think strategically about talent

The board can reflect on the impact a CEO and other senior executives are having on the company's innovation culture and performance. Are they the right people to drive innovation?

Is now a good time to look at the composition of the board and the management team? If firms are to be innovative, then they should be able to foster inclusive and entrepreneurial leadership at all levels of the firm. Diversity of thought is an important success factor in leadership teams and management when it comes to achieving successful innovation outcomes throughout an organisation.

### Action points

- When conducting board performance reviews, innovation can be established as a key metric.
- Board members can build their own innovative skills ahead of reviews.
- Identify who the innovators are in your team.

# Conclusion

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Crisis and innovation often go hand in hand, with the challenges posed by disruption accelerating innovations. Boards can drive a successful recovery and create long-term value for stakeholders by building an innovation strategy, embedding it in board and management processes and measuring performance against key objectives.

Innovation is not restricted to new products or markets; boards can also think innovatively about the organisation's purpose, the workplace environment and employee offering. This will result in an environment where innovation can thrive at all levels and become part of the organisation's culture.

Adaptability and flexibility are important attributes for leaders in an uncertain business environment. Creating new teams with entrepreneurial leaders, and increasing diversity of thought through inclusive hiring strategies, will help build resilience and enable more agile operations.

Boards can lead from the front—they can ensure they have innovation embedded in their own processes, and this will encourage the enterprise to embrace innovation as well.

The recovery is an opportunity to reinvent organisations, and a focus on innovation is a good way to ensure success in the uncertain post-pandemic landscape. The mountains can be climbed with the right maps.

# Creativity in a crisis: a boardroom map for innovation

## Contacts

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**Diligent**

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