

In today's, volatile, global business environment, boards need to identify and focus on their essential activities – the ingredients for success. Innovation is one of those important activities.

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2016 Directors' Alert  
Ingredients for success:  
Striking the right balance

## Developing a resilient, innovative organizational culture – Considerations for the board

With fast-evolving advanced technologies already digitally disrupting business models in almost every industry, innovation has increasingly become a focus area of the board. While boardroom discussions may have once viewed innovation solely from a risk perspective, many boards understand that their organizations must anticipate and harness the opportunities that innovation and technological disruption create to expand their market share and enhance their brand value.

### Organization-wide innovation

Organizations can approach innovation from two perspectives. They can look at how implementing new technologies or different processes would enable them to do more – such as entering new markets or growing market share. Or they can look at what might happen to the organization, its products and market share if it does not innovate. To fully understand the opportunities and risks, organizations need to view innovation from both perspectives.

To be effective, innovation should be derived from the core purpose of the organization and contribute positively to building value. Empathy-based innovation, for example, begins with a focus on the organization's customers and looks at creating new ways to reach them. Other innovations are inspired by social issues.



**Kendra MacDonald**  
Deloitte Canada

The risk of disruption is nothing new – automobiles, for example, disrupted the horse and buggy market. What is different today is the speed of change and technological advancement. That, combined with the changing buying patterns of globally-minded consumers who have large amounts of information at their disposal, makes an organization's approach to innovation an important on-going conversation at the board table.





**Marc Van Caeneghem**  
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Innovation needs to be a proper process within the organization – it is not just about developing new ideas and approaches, it is also about the way the company organizes itself and innovates on a day-to-day basis. The board members should have oversight of this process and the way in which management is building an innovation culture within the organization.



Having a solid understanding of and being aligned with the company's long-term vision and objectives enables organizations to more effectively make short-term decisions around capital, talent, innovation and the pace of change. It is also important for the organization to have an externally oriented culture so it can anticipate and respond to external disruptors.

While some industries, such as automotive, have long invested in research and development (R&D), innovation is something that organizations in every industry need to focus on. And while innovation may have once been the responsibility of the R&D department, innovation today needs to be part of an organization's culture. A resilient, innovative organizational culture – one that promotes, encourages and provides incentives for all members of the organization to engage in innovative behaviours and practices – can help organizations withstand disruption in the future while offering important benefits immediately.

To develop a culture of innovation, management and the board must set the tone at the top, communicating the importance and value of innovation, aligning it with the organization's business objectives, and tracking, measuring and rewarding innovative performance. Innovative organizations need to be prepared for some failures; not every new approach will work out as planned, but failures should still be celebrated, provided that the organization learns from them.

Innovative organizations possess:

- **Awareness** – It's impossible to prepare for something you're not aware of and don't understand. Highly innovative companies ensure they are aware of the forces that have the potential to disrupt their businesses and their industries, enabling them to better position themselves to take action today to face the impact of disruption tomorrow.
- **Organizational agility** – When disruption occurs, organizations need to be able to rapidly redeploy systems, assets and people to address external opportunities and threats. By embracing new ways of working and making decisions, companies can avoid becoming mired in the bureaucracy that brings change to a screeching halt.
- **Effective resources** – Investing in advanced technologies and using resources effectively can increase an organization's resilience in the face of change. By acquiring and deploying the best people, technology and financial resources, companies can improve their competitive position and prepare for future disruption. Developing effective research strategies and learning how to enhance the organization's in-house capabilities by taking advantage of crowd sourcing are also important.



**Takeshi Fujii**  
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The board should have an innovation management system with its own key performance indicators (KPIs) that exists in parallel with the business management system and allows the board to monitor innovation KPIs – new business ideas, proof of concept projects, the organization’s innovation budget and the key innovation projects that the organization invests in – and understand how those innovative ideas create value for the organization and contribute to achieving its business objectives.



### **Innovation and the board**

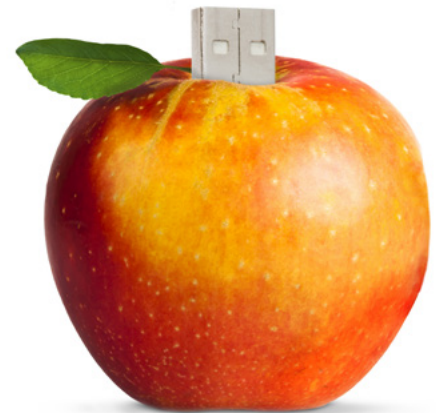
Boards need to have innovation on their agendas, not just in terms of new technologies, ideas and projects, but also in the way the organization’s innovation process is managed on a daily basis. Boards should clearly understand the organization’s performance drivers – beyond operational performance – to assess how the organization could continue to deliver value.

Boards may also wish to set out an innovation appetite that defines the board’s expectations for management around the way innovation is nurtured and rewarded in the organization. Boards also need to be aware of the organization’s customers and their preferences and behaviours – and whether those preferences and behaviours are changing. They should also have an awareness of trends occurring in the organization’s industry that may provide insight into where disruption may occur. To facilitate this understanding, directors should consider exponential learning opportunities, such as attending technology or industry events, meeting with experts, key customers and suppliers as well as taking the time to visit the organization’s own business units.



## Questions for directors to ask

1. Does the board understand how innovative technologies could disrupt our organization's business model? Are we looking at adopting innovative technologies and approaches that can better create value and capture greater market share for our organization? Do we track innovative developments occurring in the industry?
2. How often do directors meet with the organization's business unit leaders to gain their perspectives? Does the board meet with suppliers and others in the organization's ecosystem? Does the board have a strong understanding of what is happening among our competitors?
3. Who "owns" innovation in our organization? Is it the responsibility of an R&D department or do we have an innovation culture where everyone plays a role in developing and implementing new ideas and approaches? Has the board formally set out its expectations of management around innovation?
4. Does our organization have a set of defined innovation KPIs linked to our key growth objectives and if so, how do we track those KPIs? Does the board receive regular reports on these KPIs?



### Resources

Want to dig deeper? We've selected the following Deloitte Points of View to help you better identify potential risks and opportunities these issues present for your organization:

- Age of disruption. Are Canadian firms prepared? (Deloitte Canada, April 2015)
- Case studies in funding innovation (Deloitte University Press, October 2015)
- Deloitte Directors' Series – Disruption and innovation (Deloitte Canada, October 2015)
- Deloitte on Disruption (Deloitte & Touche LLP in the US, June 2015)
- Directors' Cut Survey 2015: Board Effectiveness (Deloitte Australia, August 2015)
- Disruption in the mid-market: How technology is fueling growth (Deloitte & Touche LLP in the US, September 2015)

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