

Why boards must innovate

By Iain McCormick

Without relentless innovation, success will be fleeting, management guru Gary Hamel argues in his 2012 book *What Matters Now*. Less than one company in 100 makes innovation everyone's job, every day. In most organisations innovation happens "despite the system" rather than because of it. That's a problem because innovation is the only sustainable strategy for creating long-term value, writes Hamel.

How many boards can take credit for their organisation's innovation or even vigorously support and champion it? In my experience, both here and abroad, boards are better at reviewing the financials, ensuring regulatory compliance and challenging business plans than they are at contributing to innovation or fostering an innovation-led culture.

Boards everywhere have battened down the hatches. But despite these stringent financial times, innovation is critical to survival. Our ability to adapt and innovate delivers both progress and prosperity. Global per capita income rose just 50 percent between AD 1000 and 1820 according to the OECD. In the next 120 years it grew 800 percent. Innovation leads to full stomachs, warm beds, effective waste disposal and an array of digital delights.

It's also a vital issue for the country. New Zealand ranked 24th in this year's IMD Global Competitiveness Index. The index specifically noted New Zealand's lack of innovation as one factor determining its poor ranking. This is a critical governance issue.

How do boards contribute to innovation and foster creative, smart, risk-taking cultures? Hamel offers some fascinating ideas.

Listen for trends that whisper. Innovators are individuals who observe the little things that constantly change but go unnoticed or are discounted by 'experts'. Innovators look for small trends they can integrate into new products and services.

As an example, I chair the board of Nexus6, a local company that produces devices that remotely monitor inhaled medications. This great little company, founded by Garth Sutherland in 2003, is a global leader in an area of disease that directly impacts 500 million people worldwide.

Challenge orthodoxy. Directors can foster innovation by challenging beliefs that others take for granted. Ways of doing things and their associated mental models converge over time. Ask your fellow directors what newspapers they subscribe to, what trade magazines or websites they read, what conferences they attend, what cars they drive and what suburbs they live in?

Consider how diverse your intellectual gene pool is. Has success shrunk divergent thinking? When did the board last appoint someone who is not a lawyer, accountant or former senior executive from the sector? How many directors on the board are under 30, members of a minority group or could be described as zany? When did the board last ask whether the business was offering a product or service that is unique or rare in its market? Has a customer ever described your products or services as insanely great? Has the business strategy been totally re-invented in the past five years?

Mainfreight is an example of a great New Zealand company that challenges the orthodoxy. It's 100 years old, has sales of almost \$2 billion, a market capitalisation of more than \$1 billion and 214 branches operating across New Zealand, Australia, the US, Europe and Asia. Yet it has no written strategic plan and no budgets and prides itself on constantly reinventing its business.

Underutilised skills or assets. Redeploying neglected competencies and resources in new and different ways can produce innova-



tion and growth. Hamel thinks innovation gets stymied when organisations define themselves by what they do rather than what they know or own. Innovation flows from deploying core competencies and strategic assets not simply modifying existing products and services.

Disney successfully redeployed its competencies. It has used its menagerie of Disney characters to revitalise and re-energise English language lessons, a cruise ship line and hotels, to name a few examples.

Unarticulated needs. Successful innovators understand inconveniences, unnecessary hassles or customer headaches. Innovation amazes customers with breathtakingly beautiful products or intuitively easy-to-use services. It is about developing offerings that, once experienced cannot be done without.

TradeMe founder Sam Morgan apparently started his hugely successful website when, despite searching online, he couldn't find a heater for his flat. So he built an online auction service that was better than eBay, in this country. He sold the business in 2006 to Australian media giant Fairfax for more than NZ\$700 million. A stunning result generated by a frustrating hassle on a cold Wellington day.

Boards are critical to developing and supporting innovation. The first step is for directors to start viewing the world through a new and rather more optimistic lens. ●



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