A Bird's-Eye View on Innovation

What should a board do to ensure innovation can thrive in an organisation? **Joshua Tearney** reports from Tata Consultancy Services' European Summit

Managing risk and allowing innovation to flourish are two sides of the same coin. Today's board directors must understand the value of both and create an environment that rewards them appropriately.

Sir Howard Davies, Chairman of the Royal Bank of Scotland, explains that while directors clearly should not be relied on for new product ideas, they have a key role in setting the right tone. "The board should be able to create an environment in which innovation is valued, supported and where people feel self-confident enough to take appropriate risks," he says.

It's a point shared by **Andrew Minton**, Managing Director at Criticaleye. He reasons: "It's becoming increasingly clear that if a business wants to develop an innovative culture, the board has to create an environment within which people can experiment.

"As a result of increased transparency, non-executive directors must be cognisant of their role in setting the right culture and attitudes. If NEDs don't appear to value innovation and fresh thinking, the rest of the business will follow suit."

For **Rita Clifton**, Non-executive Director at ASOS and Nationwide, this goes beyond simply saying the right things. The modern boardroom must have vibrant, curious individuals who symbolise the behavioural standards and values that they expect from the wider organisation.

She says: "When I started sitting on boards 15 years ago, I would hear many chairmen, chief executives and directors talking about how the business needed to be more innovative; that it needed to move faster. I would look around the table and think: 'Guys, you're the problem, you don't look as though you want to be innovative'.

"In my view, the board directors need to symbolise the best of your organisation. The standards and expectations they set are so important; people pick up cues from what the board appears preoccupied with. Regardless of what you say about culture, if your staff know that your main driver is profit you're going to encourage fearful and short-term behaviour."

Complaining About Compliance

The challenge for boards is to find the time for strategic thinking when the immediate focus needs to be on regulatory compliance, corporate governance and effective risk management.

Sir Howard, who has sat on FTSE 100 boards for over 25 years, has seen a shift in the board's approach to governance. He believes that time, which would otherwise be spent looking forward and assessing growth opportunities, is being eaten-up by "the pressure to demonstrate a robust control framework".

What can you do to redress the balance? **Sir Howard** answers: "You can make better use of the risk committee, which should take a lot of the heavy-lifting off the main board. However, be careful that you don't create two classes of director, one who is focused on risk and the other who can ignore it".

"The key thing is that the board isn't dragged too far into the detail and can afford to pull itself into more strategic thinking. You could also ensure that >

there are board and off site meetings in which risk and control are banned topics and you focused on innovation."

For **Guy Elliott**, Deputy Chairman at SABMiller and Non-executive Director at Royal Dutch Shell, boards need to embed their obligations into strategic discussions.

"Often compliance and risk are segmented as a special discussion on the board. Board members may think they tick that off every six months, and if the audit committee has said that the processes are fine, they feel they've done their job," he says.

"You have to go further than that. What you should be doing with risk, a lot of the time, is integrating it with strategy and futurology. For example, one might think about what's going to happen to consumer habits; what rate of growth you'll see in emerging markets compared to a developed one. Integral to that is exploring how you are going to chase an upside risk or mitigate a downside one."

All-Pervasive Technology

The nature of innovation in the digital age means that directors require a much deeper understanding of technology. **Natarajan Chandrasekaran**, CEO and Managing Director of Tata Consultancy Services (TCS), says: "All of us, in every industry, are going through a transformation, and the biggest change is that earlier technology was supporting business, now it is leading business.

"It is no longer the case that once the business model is decided you deliver the technology to support it. Now it is absolutely essential that you have an appreciation of the power of technology so that you are able to define the future of the business."

This sentiment is echoed by **Stine Bosse**, Member of the Supervisory Board of Allianz and Chairman of BankNordik. "I would argue that you can't talk about anything in the future without considering technology. Last year, it took up about 30 per cent of board time. That included educating the board – we have to go into the machine room and understand the technology, then we can think about its impact strategically," she comments.

"At Allianz, we have just had a full day looking at where disruption is likely to come from – a full day for the board is a lot of time. We were thinking about driverless cars and the implications for insurance."

Even with this level of education, **Stine** believes that the composition of the board room will change. "The average age will fall because boards will need to have age diversity. Intuitive knowledge of technology [needs to] enter the board room. Of course, [everyone] has to be able to satisfy the regulators' requirements, but let's not be too frightened about that; you can educate yourself to that end."

Ultimately, it's a case of developing a board that has the confidence to invest in change and encourage the business to move forward. **Guy** says: "We have to have more discussion about technology and disruption in the boardroom. That doesn't necessarily mean that a CIO needs to sit on the board, but they need to be there, talking the language of the board. It is important that what they say actually means something to everyone around the table. It's difficult to make that linguistic transformation, but it can be done."

Of course, the other side is that to ignore market disruption is a dereliction of duty. **Rita** notes: "Risk management can be seen as putting a brake on proceedings and trying to stop things from happening. With the speed at which most markets change these days, a key risk is not to innovate. If we're not careful, the board will be seen as trying to stop things from happening." ■

These comments were made during a panel discussion at Tata Consultancy Services' European Summit in Berlin.

Featuring Commentary From:

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Member of the Supervisory Board
Allianz

Natarajan Chandrasekaran
CEO & MD
Tata Consultancy Services (TCS)

Rita Clifton
Non-executive Director
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Sir Howard Davies
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