

CREATING PATHWAYS FOR INNOVATIVE GROWTH INSIGHTS PAPER



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INNOVATION IS KEY TO OUR SUSTAINED PROSPERITY. HOWEVER, YEARS OF THE MINING BOOM HAVE HIDDEN SIGNS THAT WE HAVE AN INNOVATION GAP AND THAT BRIDGING IT WILL BE ESSENTIAL TO MAINTAINING LIVING STANDARDS.

A recent speech by Dr Martin Parkinson, Treasury Secretary, noted that “sustaining reasonable growth in living standards in the context of our declining terms of trade and ageing population will require significant improvement in our productivity growth performance”.

Traditionally, improvements in labour productivity have driven growth in real wages—wages adjusted for goods and services.

However, the increased terms of trade and high currency that have helped real wages out-pace labour productivity since 2004 have been created by the mining boom. As this starts to decline, improvements in real wages will once again become dependent on productivity gains.

What’s of most concern as the effects of the mining boom ease is that multifactor productivity—which broadly measures improvements or innovation in the way of doing things, i.e. technical progress—has shown negative growth since 2004. This implies that as a nation we have not yet taken advantage of the potential for process improvement that digital technologies could realise.

Boards must foster innovation to bridge the gap. This paper, developed from presentations and conversations at the Company Directors Conference Directorship:14, Igniting the Growth Agenda, develops a framework for fostering innovation and entrepreneurship within organisations.

There are four points to consider:

- How boards can develop models for innovation
- Leadership and innovation in non-hierarchical structures

- Creating an environment for innovation and growth
- Working with entrepreneurs as CEOs or on the board

Innovation models

While management drives strategy and innovation, boards do need to take some responsibility for both. As one experienced director noted, the use of consultants to create an innovation strategy can lead to execution problems. “When you pull innovation out of a company and then try to re-insert it you can get organ rejection,” the director said.

In the current environment of rapid, technologically driven change, the board must take a hard look at its capability and skills.

The challenge is to keep the heritage and expertise of a board but to apply those capabilities through a lens that is relevant to the modern economy. It is a fine line, however, as boards must resist the temptation to get involved in the operations and instead remain focused on the strategy of the company.

Boards have often struggled to deal with innovation and strategy at meetings where significant time is devoted to reports and historical numbers. One response has been to develop off-sites or special strategy sessions. However, it may be that boards have to meet more often, have strategy on the agenda more often or decide that they are comfortable with what the management team is telling them.

It may be worthwhile here for boards to look at the Sigmoid Curve as a model to spur innovation. Senior executives with deep digital experience warn that companies need to innovate their model every few years before they reach the peak of the Sigmoid

Curve, rather than wait until they are at the bottom of the cycle. They warn that “if you reach inflexion point, where the current model falls down, it can be very difficult to pull the company back up”.

Another challenge is to balance the requirements of running the company on its current model with innovating and developing new models.

The end of hierarchy

The current era of digital technology has given the individual, as consumer and employer, more power than at any other point in history.

Individuals can influence the bigger picture in a way that they could never do in the past. We are in the midst of a consumer-led revolution where years of value built up in an established brand can be quickly eroded by consumers voting with their feet.

Technology—and new models such as social media—is the enabler of this revolution, putting consumers at the centre of decision-making.

The power of the individual makes it difficult for organisations or leaders to use command-and-control as a technique for leadership. Consumers and employees are no longer prepared to be constrained in a hierarchical structure.

Instead, boards must be prepared to harness the power of individuals and delegate decision-making. One digitally experienced chief executive believes: “Innovation doesn’t come from boards or the C-suite; it comes from people close to the market. Let them innovate and push the responsibility to the board to develop a governance framework that is responsive to the speed of the market.”

Creating an environment for growth

Growth cannot be generated from process and policy; instead, calculated risk taking and a reward framework are required to encourage and foster growth.

This is a challenge for directors who, under pressure from regulators and in fear of reputation risk, have tended towards defensive, rather than offensive, positioning.

But a board needs to be aligned around innovation-based growth and this vision needs to drive the

company. Directors may find the work of Simon Sinek* useful. His book, *Start with Why: How great leaders inspire everyone to take action*, talks about developing the company’s purpose.

That purpose is more than a mission statement, it is the fundamental belief as to why a company exists and sets the dynamic and framework for all company activity. It is “why we do what we want to do,” according to one director.

The personal touch

Chief executives of all shapes and sizes say they would appreciate a more personal approach from the board. It is vital in a period when the C-suite is innovating and under pressure that the board check in with the C-suite and let them know that they are supported in driving a growth agenda.

“It’s a job where you come under a huge amount of pressure and yet in all the time I was chief executive the board never asked me how I was feeling,” one chief executive reports.

With entrepreneurial CEOs, who may have been brought in to ignite the growth agenda, boards need to be particularly attune to the challenges they face. Entrepreneurial leaders who have built their own businesses can find it challenging to go from having the ultimate flexibility to being governed by a traditional board.

Once strategy has been approved, CEOs want to be supported. “If you sign off on the strategy on the page, there has to be a trust there to empower the CEO and the leadership team to act on it,” one CEO said.

Another CEO gives these four points for working with entrepreneurial leaders:

- Give oxygen
- Allow space
- Allow measured and calculated risks
- Embrace diversity and inclusion

When entrepreneurs join the board, it’s important to remember that there can be a steep learning curve for them. One entrepreneur and board members says: “It’s about balance. As an entrepreneur you are surrounded by a wealth of experience in the room and you need to be able to sit down and listen to that.”

Growing your business

Owners and directors of mid-size organisations have a particular set of challenges when trying to take their businesses to the next level. With tighter resources and a tough competitive environment there is pressure to find smarter ways to harness and manage the levers of growth and constantly refresh the business agenda.

To address these challenges Company Directors, in conjunction with KPMG, has created the new Directing Growth Program designed for business owners and directors of mid-sized businesses. This year-long program, brings together the latest thinking, an expert business owner panel and a community of owners and directors to explore the spectrum from governance to growth strategies.

Are you ready to break through the mid-size growth barrier?

Join our Directing Growth Program

To find out more

w: companydirectors.com.au/directinggrowth

e: directinggrowth@companydirectors.com.au



Sources and further reading

**Start with Why: How Great Leaders Inspire Everyone to Take Action* – Simon Sinek

“The 2014–15 budget and sustaining broad-based growth in living standards” – Dr Martin Parkinson, speech to the Australian Business Economists

In May 2014, over 400 directors gathered in Hamilton Island at the Company Directors Conference. With ‘igniting the growth agenda’ as the theme, the directors discussed both organisational and economic growth. This paper ‘Decision-making for growth’ is the third of five papers created from these discussions.

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