



ISSUE 141

BOARD PERSPECTIVES

LESSONS FROM THE PANDEMIC: CRISIS AS A CATALYST FOR INNOVATION

Creating a work environment that encourages creativity and innovation is paramount to a company's agility and longevity. A crisis such as the COVID-19 pandemic is a time when these attributes, latent or not, are put to the test.

A facilitated discussion with active directors at a recent National Association of Corporate Directors event in the United States focused on the significance of agility as an important driver of success in a mercurial environment — and how, for many companies, digital maturity and future readiness correlate with the ability to innovate.¹ We summarize eight key takeaways from this discussion below:

A crisis can be the ultimate determinant of who is resilient — and who isn't. In many industries, the pandemic turned the fundamentals upside down. But future-ready companies with digitally enabled capabilities and tools for innovating

processes, products and services were prepared. Remote and flexible work arrangements, “click and collect,” online channels, 24/7 video healthcare, online shopping, home delivery, and automation in all its forms are just some examples of digitalization in action.

However, these aren't new concepts or bleeding-edge technologies. “Born digital” companies have been doing all these things for many years. Now, amid a pandemic, the value of these digitally enabled ways of doing business have been highlighted and, as a result, they're being deployed more broadly.

¹ This session, “Using Crisis as a Catalyst for Enhanced Innovation,” was facilitated on December 14, 2020, by Jonathan Wyatt, managing director, Protiviti, and Daphne Jones, board member, AMN Healthcare Services Inc., Barnes Group Inc., and Masonite International Corp.

The COVID-19 crisis has spawned an openness to new ideas and approaches and a willingness to fail. In many industries, the pandemic introduced a window to innovate more. The crisis has accelerated the use of technology by companies to do things they never considered before. A key element of innovation is having the latitude to fail.

During the crisis, companies had no choice but to take risks to survive and thrive. In effect, they adopted a startup mentality — a mindset organizations typically embrace when they're at their most disruptive. There's a willingness to fail, largely because there isn't much to lose.

Often, it's about cutting costs. But the pandemic forced many companies to rethink, even reinvent, how they do business. All industries should keep a watchful eye on whether the forces of innovation will be unleashed in the post-pandemic new normal. Companies that innovated the most during the crisis may outperform when the pandemic is in the rearview mirror.

A crisis spotlights innovation, but innovation should also shine in less turbulent times. When a business struggles, it is easier to push through change, yet change is often harder for companies in good times. Boards should not allow the reluctance to pursue change to stifle innovation during the good times. In a rapidly changing environment, the organization should think big and set bold, audacious, innovative goals.

For example, when Satya Nadella became Microsoft's CEO, he shifted the organization's focus, competencies and skills from the PC (Microsoft's comfort zone at the time) to enable

greater innovation in the cloud. What followed was the development and launch of the now highly lucrative Microsoft Azure cloud services business.

Boards need the right skill sets and experiences to understand their organizations' market opportunities so that they can add value to the strategic dialogue around innovation. The key is to have a strong focus on innovation in the wake of game-changing inflection points to prepare for and capitalize on the resulting market changes.

“You can't fight gravity.” Andy Jassy, Amazon's new CEO, imparted this four-word bit of wisdom during a recent interview.² Amazon's original business model emphasized selling products it procured and stored. Twenty years ago, with its stock plummeting over 80% and eBay and other online marketplaces taking market share, Amazon launched Amazon Marketplace following an intense debate about whether to allow third parties to sell on the Amazon site. The rest is history. Jassy summed up the lesson like this:

If something is going to happen, whether you want it to happen or not, it is going to happen. And you are much better off cannibalizing yourself or being ahead of whatever direction the world is headed than you are howling at the wind or wishing it away or trying to put up blockers.³

Boards should be mindful of the trap of “fighting gravity.” How important was Amazon's decision to innovate and change? Today, roughly half of Amazon's retail business consists of products sold by third parties.

² “Amazon's New CEO Andy Jassy Says This 4-Word Lesson Is the Most Important He's Learned,” by Minda Zetlin, Inc., February 5, 2021: www.inc.com/minda-zetlin/andy-jassy-new-amazon-ceo-aws-marketplace.html.

³ Ibid.

If everyone is thinking alike, then someone isn't thinking. In a dynamic world, it's essential to challenge the status quo continuously and think outside of the box on everything the company and its competitors do. In short, companies should strive to rethink industry business models and not merely copy their competitors. Just because every player in the industry does something a certain way doesn't mean it's the best way to do it. The board should encourage management to empower talented people throughout the company to ask tough questions and constantly seek and achieve better outcomes. Continuous improvement and innovation are a mindset.

A strong customer focus is where it starts. Innovation stems from thinking about how to change the customer experience. This is about more than just monitoring the data and analytics around evolving customer preferences, needs and wants. It is also about recognizing that technological advancement is the primary driver of the rapid pace of change in today's marketplace.

In essence, innovation is about preparing the organization to be part of the digital age. So, the innovation process should consider how fresh applications of technology in the industry will transform the customer experience. If the company doesn't advance its processes, products and services, its competitors will. Worse, if companies have digital-skeptic tendencies and do "digital things" because they think they need to — and not because they want to differentiate their products and services — they're not likely to be successful.

An innovative culture is more likely to complete the cycle and get results. The process of coming up with ideas is relatively easy for many organizations. The hard part is nurturing those ideas beyond the prototype stage to the

ultimate business reality. The full end-to-end process includes not only upfront ideation but also a process that filters, prioritizes, nurtures and develops those ideas into an implementable design. Change enablement skills to act on that design to get measurable results are also a must. The board has an important role to play in strengthening and nurturing the organizational culture and mindset that ensures skills are continuously refreshed to sustain transformative innovation and reinvention as the world and technology continue to change.

The board's role is to push for a sustainable, innovative culture that's aligned with the strategy. Boards should focus on aligning the organization's innovation mindset and approach with the growth strategy. As the market changes, directors may need to encourage management to bring in the necessary skills to support needed innovation. Not innovation for innovation's sake — but innovation with purpose.

Directors should inquire about the organization's incentive structure. Does it reward innovation? Does it accept failure? Or does it reward people for focusing on what they're doing today? Who is being rewarded and promoted — the people driving the business forward and creating the future, or those riding the wave created by someone else?

Board members should understand the company's innovation plans and road map for the business and whether those plans consider how customer preferences and pain points may shift in the foreseeable future. Dashboard reports linked to those plans should inform the board periodically as to progress. The board should also inquire about the workplace culture that sustains innovation initiatives throughout the organization.

Understanding the digital economy, emerging technologies, and relevant megatrends affecting the industry — and the ability to relate this understanding to the business and its strategy — are now critical boardroom skills. To help guide the organization’s innovation mindset and activities, boards need at least three digitally savvy members⁴ and can benefit from greater diversity.

Millennials, for example, tend to experience technology differently than their older peers.

Hearing from as wide a range of perspectives as possible is essential, as organizations will be giving a voice to and relying more on the perspectives of a younger, more diverse group of leaders and employees as they navigate changes in society.

Note: A more complete discussion on this topic, including examples, is available at www.protiviti.com/US-en/insights/whitepaper-bp141-crisis-catalyst-innovation.

Questions for Boards

Following are some suggested questions that boards of directors may want to consider, based on the risks inherent in the company’s operations:

- Does our organization still have digital-skeptic tendencies? If so, how can the board help eliminate them? Does the organization have a clear road map on how to elevate its digital capabilities to a competitive level? If not, what are we doing to obtain that clarity? If we’re a “digital follower,” are we agile enough to pivot quickly so that we don’t fall behind industry leaders?
- Do we have a clear vision of how technology and analytics are likely to disrupt our industry? Are we realistic about the likely pace of change?
- Do we have a vision of what role our business will play in the marketplace and how our value proposition will be framed, say, five years or more from now? Is our leadership team aligned on this vision, and what needs to be done to get there? Do all leaders in the business understand their role in helping the organization deliver on this vision?
- What role does innovation play, and are we fostering a culture that drives it? Does our organization really know what it means to embrace risk, innovate, and accept and learn from failure? Does the board receive a dashboard report on innovation, both the successes and the failures, and devote sufficient time to innovation matters?
- How do we innovate without unintentionally or prematurely destroying our core business(es)? Is innovation left in the hands of a few rather than emphasized across all aspects of the business, including third-party partnerships? Are sufficient staffing and resources assigned to innovation projects with clear accountability for results?

⁴ “Is Your Board Digitally Savvy?” *Board Perspectives: Risk Oversight*, Issue 129, Protiviti, July 2020: www.protiviti.com/US-en/insights/newsletter-bpro129-your-board-digitally-savvy.

How Protiviti Can Help

Protiviti is working with 60% of the *Fortune* 1000 and 35% of the *Fortune* Global 500 companies, as well as smaller companies, including fast-growing technology organizations, both pre- and post-IPO. We have a proven track record of bringing innovative solutions to help companies solve some of their most challenging business problems. Our digitalization offerings focus on:

- **Customer engagement** — Exploring new ways to build strong relationships with customers.
- **Digitizing products and services** — Launching new, enhanced products and exploring new business models.
- **Better-informed decisions** — Enhancing available information to enable data-driven

decision-making that's timely and effective and improve digital propositions.

- **Operational performance** — Using technology creatively to improve processes and underlying performance.

Our online, proprietary **digital assessment tool** is designed to help companies identify issues that may undermine their digital strategy, focus on the decisions they need to address as they advance their digital maturity and measure progress over time. The tool enables multiple people to complete the assessment independently and prepares a consolidated results summary for the organization.

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the **2021 Fortune 100 Best Companies to Work For**[®] list, Protiviti has served more than 60 percent of *Fortune* 1000 and 35 percent of *Fortune* Global 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.