

Many hats

Conversations that matter for non-executive directors

The last sustainable advantage

According to Soren Kaplan, there's only one sustainable competitive advantage available to companies today.

It's innovation culture.

Soren, one of the world's top thought leaders in business strategy and innovation, argues that in our disruptive world, companies must nurture a culture of innovation that continuously generates disruptive new business models, breakthrough products and services, and amazing customer experiences if they want to survive and thrive.

Sounds easy, right? Unfortunately, there is no magic formula for developing an innovation culture; often derided as a 'soft' skill, culture is anything but.

Speaking to an audience of NEDs across Australia, Soren explained how boards could help create an environment that promotes free thinking, an entrepreneurial spirit, and sustainable value creation at all levels across all functions of an organisation.

Based on his latest book, *The Invisible Advantage*, his approach involves asking the right questions across six key domains:

- **Leadership:** What can our leaders do to more explicitly promote innovation? What symbols, stories and assumptions should leadership reinforce?
- **Structure and Processes:** What current organisational structure and processes get in the way of innovation and need to be reinvented? What structures and processes should be created to foster greater innovation?
- **Metrics:** How can we best quantify and measure our innovation success? What metrics can we use to inspire innovation-focused behaviour?
- **Rewards and recognition:** How can we formally recognise the type of innovation we want more of? What formal and informal rewards can we provide that reinforce the value of innovation.
- **People:** What mindsets can we instil in our staff, and what skill sets can we develop to drive innovation? What tools, frameworks and resources can we provide to get greater levels of innovation?
- **Technology:** What tools and technologies can we use to engage people in the innovation process? How can we best use technology to obtain external insights and ideas?

The key is to focus on these areas holistically or systematically; addressing one or two in isolation won't work.



Soren Kaplan is the author of the best-selling and award-winning books *Leapfrogging* and *The Invisible Advantage*, and an affiliated professor at the Centre for Effective Organizations at USC's Marshall School of Business. He formerly led the business strategy group at HP in Silicon Valley and has been recognised by the *Thinkers50* as one of the world's leading experts in disruptive innovation, business model innovation, and innovation culture.

Here's a snapshot of the discussion between Soren and non-executive directors.

Q: What are the levers that organisations can pull to kick-start innovation? What's the migration path?

If you're an organisation with low levels of innovation, then perhaps it makes sense to start small. Find a sub-culture or area in the business that's more innovative than others, give them the tools and the scope to innovate and try something out. Alternatively, you can double down on innovation and make it a primary driver of renewal. For example, CSAA Insurance Group, an insurance company affiliated with the 55 million-member American Automobile Association, put innovation – both incremental and disruptive – at the heart of its business strategy and rolled out a comprehensive innovation culture program across the 110-year-old company.

Q: What's the role of leadership?

Support for an innovation culture must come from the top. If people are confused or put off by the term 'innovation', perhaps refer to it as continuous improvement. Either way, the executive team must be committed and aligned. Executives need to be telling stories about innovation, promoting it and funding it. They need to walk the talk. Also, remember that people take cues from both formal and informal leaders, so think about who the influencers in your organisation are and how they too can be aligned around the innovation agenda.

Q: What's the role of the customer in innovation?

Steve Jobs was famously sceptical about trying to discover what customers want. He said that a lot of times people don't know what they want until you show them. I think this is true for major, disruptive innovations, such as the personal computer or the smartphone. But the fact is that the majority of innovation in business – about 70% – is incremental innovation. And for that, it's essential to have the customer involved in co-creating the changes that they want, such as improved usability and functionality.

Q: When some people read innovation, they think "A robot's going to take my job". How do we address these concerns?

This is a big topic right now, particularly in the US. Some are predicting that driverless cars will force 3.5 million truck drivers out of work, for example. While the jury is still out on the full extent of automation, people are understandably anxious. But what's not being discussed as much is the new job opportunities that innovation can generate. It's important that companies communicate not just the 'how' of innovation, but the 'why' as well. We need to tell stories about innovations that have led to new opportunities, new businesses, new industries, and then talk about what we're doing to create the future for all of our employees. Don't forget the vision.

Q: How do we get investor support for innovation investment?

Capital markets can be quick to stifle big-ticket innovation, particularly if they don't believe the value proposition. So it's up to companies to explain their innovation story. And to have a story, they need a track record of innovation, which includes successes and failures as well as what they've learnt from their failures. They need to position innovation in relation to their long and short-term strategy, their vision and their values, and then they need to back their story up with real data.

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