Lessons From the Pandemic: Crisis as a Catalyst for Innovation (An Expanded Discussion)

The discussion below is more complete coverage of the topic addressed in Issue 141 of *Board Perspectives* (available at www.protiviti.com/US-en/insights/newsletter-bp141-crisis-catalyst-innovation) and on NACD/BoardTalk (see blog at https://blog.nacdonline.org/authors/42).

Creating a work environment where creativity and innovation are encouraged 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 (NACD) 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] Boards must position themselves to help their organizations not merely survive, but also compete and thrive, through a strategic approach to cultivating innovation and enabling that innovation to scale, whether during a crisis or when times are good.

Below, we summarize eight key takeaways from this recent discussion:

A crisis can be the ultimate determinant of who is resilient — and who isn't. For many companies, it has been a tall order sustaining operations during the pandemic. In industries not relying on the concentration of people, the irony is that companies have been forced to embrace disruptive technologies to overcome the obstructive developments stemming from the pandemic itself. Consumer behavior shifted, the workplace went remote and long-range supply chains collapsed. For sectors dependent on gatherings of people, the crowds disappeared.

[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.

In many industries, the pandemic turned the fundamentals upside down. But future-ready companies with their digitally enabled capabilities and tools used to innovate 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. And in many cases, they've been laughed at by laggards and established incumbents. No one is laughing now, though, amid a pandemic in which the value of these digitally enabled ways of doing business have been highlighted — and, as a result, they are being deployed more broadly. The companies already using them were able to embrace the new business realities imposed by the pandemic almost overnight with minimal impact. The only challenge they faced, in some cases, was an inability to cope with demand spikes and accelerated growth.

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. Consider banking, for example. Historically, innovations have happened to banks, rather than the other way around, forcing them to play catch-up constantly. Financial services is among several conservative sectors that have been resistant to innovations in the past. But amid the COVID-19 pandemic, organizations in these and other industries have been willing to innovate more than during pre-pandemic times.

A key element of innovation is having the latitude to fail. Often, it's about cutting costs. But the pandemic forced many companies to rethink, even reinvent, how they do business. During the crisis, companies had no choice but to take risks to survive and thrive. For example, many accelerated their technology use to do things they never considered before. 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.

In normal times, executive management must set this tone as the organization strives to innovate. But patience is needed. While most organizations don't reward failure, it's important to experiment in the innovation process. Unfortunately, there is a perceived low return from failure in terms of career development. If that's the case, the board should be aware of it and monitor the actions set in motion to change perceptions.

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 crisis 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. When operations cease, revenues are cut off and no one can work in the office — and it's all hands on deck to reimagine processes, products and services. The elapsed time to innovate compresses from months and years to days and weeks. It's a matter of survival.

But when times are good, there's a reluctance to pursue changes that can affect core revenue streams, shift the focus away from what's working well, and cannibalize existing products and services. While understandable, boards should not allow this hesitation to stifle innovation.

Many companies organize teams, working groups and departments, separate from line operations, to focus on innovation and bring new ideas to fruition. Ultimately, organizations must allocate sufficient resources to support the ideation process and translate promising ideas into fresh innovation. More importantly, the culture should encourage innovation and allow room for failure while establishing accountability for results.

But even more is needed in a rapidly changing environment. The organization should think big with 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.

Large incumbents are often seen as laggards in innovation compared to smaller, nimbler "born digital" competitors. But when a crisis manifests itself in a manner that impacts their shareholders, incumbents start thinking differently. Necessity becomes the mother of invention. Inflection points may not always result in immediate change, but they often lead to massive shifts over time. That's why innovation should be a priority in good times and bad.

"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 intense debate about whether to allow third parties to sell on the Amazon site. Amazon weighed the pros and cons and introduced Marketplace — and the rest is history. As Jassy summed up the lesson:

> 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]

[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.

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.

If everyone is thinking alike, then someone isn't thinking. In a dynamic world, it's important 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.

Sometimes, innovations may be small, resulting in incremental process changes. Other times, innovation entails thinking about how to do things differently. Innovation can also involve major transformations, resulting in fundamental changes in business models. With advances in technology primarily driving the pace of change, companies are forced to reinvent themselves.

The board should encourage management to empower talented people throughout the company who have the curiosity to ask the tough questions and the creativity and persistence to 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 pace of change in today's marketplace. In essence, innovation is about preparing the organization to be an important 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. Keeping up with the pace of change is a challenge every organization will face over the next several years.

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. People always have great ideas about what can be done. 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. But more importantly, the right organizational culture and mindset are needed to ensure skills are continuously refreshed to sustain transformative innovation and reinvention as the world and technology continue to change. The board has an important role to play in strengthening and nurturing this culture and mindset so that good ideas are pushed around the track to the finish line.

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, rather than developing new ideas and approaches? In other words, is the reward system incenting people to play it safe? Who is being rewarded and promoted — the people driving the business forward and creating the future, or those riding the wave that someone else created?

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 inquire about the culture that sustains innovation initiatives throughout the organization:

- Are there forums for innovation at *all* levels? How is the organization set up to "listen from within" for new ideas and approaches?
- Are there robust data and analytics on customer preferences and behavior and other relevant external trends that are being used to inform the innovation plan? Is the organization learning at the speed of change?
- How should board members look at data differently to understand and assess the right risks to take in terms of innovation, ideas and approaches?
- What obstacles get in the leadership team's way when it comes to driving innovation?
- Is the organization pursuing innovation-driven ideas and processes from the past that may not work in a post-COVID-19 environment?
- Should projects and programs in which the organization has invested heavily be abandoned in favor of alternatives that best serve the organization's long-term outlook and opportunities?

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, whether or not a director comes from a technology-oriented background. To help guide the organization's innovation mindset and activities, boards need at least three digitally savvy members[4] 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.

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 maturity 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 on 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? Does every leader 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 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 to 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.