

INNOVATION: ROLES AND RESPONSIBILITIES OF BOARDS OF THE FUTURE



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“Innovation distinguishes between a leader and a follower”

- STEVE JOBS

In this dynamic world with high degree of competition, global companies are always looking for ways to be ahead of the curve, nudging the leadership and the board to bring 'innovation' on top of their agenda, while ensuring sustained focus on goals for growth and profitability. These developments have dramatically impacted the relationship between the board, the stakeholders / shareholders and the management.

Directionally, there is a clear need for more proactive and farsighted management of innovation. This being the need of the hour, has become a key imperative for today's top managements. It is expected that board also plays an active role in determining the innovation strategy of a company along with the management. For boards to have active participation in governance of organisations' growth and innovation, it is important for them to be more than just the 'observer'.

Complicating this enhanced expectation are the increasingly onerous and complex regulatory frameworks and director's accountability, which has already been in existence in several other countries earlier. The trend is catching up in India now. Boards are expected to have an understanding of changing business landscape with knowledge of new emerging concepts like machine learning and AI, block chain, services aggregators, etc., besides delivering their fiduciary responsibilities. Questions to be asked are:

- Whether the Board is equipped to understand these dynamics?
- Is there an acknowledgement of question 1, whether there is a gap; and also how this can be bridged?
- Whether the existing methods would continue to facilitate them to deliver their oversight responsibility?
- Does the board have a nominee who has strong credentials along with a history of driving innovation? Competence mapping of board members has to be done beyond identification and appointment of financial subject matter experts.

While above questions are for boards to rethink their focus, composition, and skills, they should consider below aspects to understand and assess the management's focus on innovation.

- Management should have plans to identify the next growth drivers which will keep the company ahead of the curve.
- Innovation strategy should be a key agenda item in board meetings. Adequate time should be allocated to discuss and review the same.

- Boards should not only gain a clear understanding of the innovation strategy, but assess associated risks and rewards as well. A board can challenge management's ideas with constructive feedback. Some areas to deliberate upon include customer expectations, competition's innovation strategy and new products/technology on which they are investing their resources, among others.
- Periodic reports on performance of innovation projects should be presented to the board. The board should encourage management to accept short-term setbacks, if any, to take timely corrective action.
- Risk management programme of the organisation should be proactive than reactive. The business should be geared to handle unexpected events and crisis. Risks associated with innovation should be part of the Enterprise Risk Assessment.
- Innovation should be a key KRA for CXO positions. Their compensation should be aligned to drive innovation in the organisation. Compensation structure should facilitate recognition of efforts than just being outcome-driven.
- Companies should have policies and procedures to support openness and innovation across all functions.
- Companies should set right culture for everybody to develop and share ideas. Adequate initiatives must be taken up to encourage collaboration among people.
- Diversity in an organisation is key to driving innovation. Recruitment procedures should take innovation into account when appointing new leaders. Compensation policy should encourage innovation.
- Social media tools can be implemented to crowd source ideas.
- Innovation projects should focus on breakthrough innovation than addressing only traditional areas like cost efficiency, incremental customer satisfaction, efficiency and quality. Innovation projects should be a combination of long-term and short-term projects.
- Due measures should be implemented to identify projects for execution. Project milestones and outcomes should be well-defined.
- Adequate budgets should be allocated for innovation projects. People with passion for innovation are ideal choice for innovation projects. Deployment of resources who are engrossed in day-to-day activities may dilute the focus.
- Companies should benchmark their innovation strategies against the

competition.

- For better outcome, partnerships with research centres and academic institutions should be considered.
- Boards should meet innovation project leaders to understand the progress.

In this endeavour of reviewing execution of innovation strategy by the company, its board can take support of internal auditors. The board should mandate internal auditors to review and report on the above mentioned areas.

"In times of drastic change, it is the learners who inherit the future. The learned usually find themselves equipped to live in a world that no longer exists." - Disney Great Leaders Strategy

If given a choice, we would add **"learners and innovators"**. ■

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A REPORT

Cyber Security - Board Responsibility

16th March 2018 at Chennai



Cyber Security is going to play a major role and can no longer be the concern of just the ITS department and it needs to be everyone's business.

In Corporate Segment, Board of Directors are expected to safeguard Information and ensure Cyber security and it takes a high precedence in the Board Meetings and in Security Audit.

With the Introduction of latest ITS Technologies like Cloud & Mobile Computing including Social Media reports on loss of data and major breaches like IT Infrastructure, leakage of data both Internal & external threats, increasing on the higher side on a regular basis, thus converting the IT risk landscape at a fast moving pace.

Institute of Directors, Chennai organized Cyber Security Program for the benefit of IOD members at Chennai on Friday, March 16, 2018 at Hotel Regenta Central Deccan, Chennai at 6.30 p.m.

Mr. Srinivasan R, Regional Director – IOD Chennai initiated the program and Mr M.S.Sundara Rajan, Chairman of IOD Chennai Chapter gave the inaugural address. Mr. Rajanikanth .B – Executive Director and Mr. Ganesh Narayanan – Director of IARM spoke at length on Cyber Security issues.

Mr. Ramesh Bhashyam introduced the speakers to the Members in brief.,

Mr Rajanikanth dealt in depth on the cybersecurity strategy which should protect the assets that it deems critical to the successful operation

and that there are no shortcut or simple solutions to solve cybersecurity vulnerabilities within critical infrastructure. It requires a layered approach known as Defense in Depth namely an Outer layer (for instance policies, procedures and awareness), an inner perimeter (Data / Critical Information) and protected zones (e.g. Internal Networks / Firewall).

Mr. Ganesh Narayanan highlighted that only there are two types of Companies existing in this world, namely **those that have been attacked** and **those that don't know yet!** He enlightened the Members, about the types of Cyber Risks and the Board's Responsibilities.

The vote of thanks was delivered by Mr R. Srinivasan, Regional Director and culminated with the Members networking over dinner. ■



(From L-R : Mr. R. Srinivasan, Regional Director – IOD Chennai, Mr. B. Rajanikanth – Executive Director- IARM, Mr. M.S. Sundara Rajan, Chairman of IOD Chennai Chapter and Mr. Ganesh Narayanan – Director -IARM)