



Modern examples of combinatorial innovation include the self-driving car capability of Tesla cars (left) (enabled by digital mapping, GPS and artificial intelligence) and Dyson's 360 Eye robot vacuum cleaner, shown above without its cover. PHOTOS: BLOOMBERG, REUTERS

Making innovation a priority at board level

Boards which do not promote innovation might end up destroying value rather than creating it. BY THOMAS MENKHOFF AND ONG GEOK CHWEE

SHOULD boards hold themselves accountable for making innovation work? According to IMD Professor Jean-Philippe Deschamps, innovation needs to be part of a board's governance mission. For him, innovation governance is a "top management responsibility and preserve that cannot be delegated to any single function or to lower levels of an organisation."

Boards which do not promote innovation might end up destroying value rather than creating it. This risk is indirectly echoed by experts such as the EY Centre for Board Matters which has argued: "To stay ahead of the competition, it's important to focus on innovation."

Who wouldn't agree? One of the top priorities for board members is digital transformation (besides corporate compliance, tax risk or geopolitical risks). EY's "Five key questions for boards" under the category of digital transformation (for example, "Does your board have a designated digital expert who focuses on technology issues?") are highly relevant for business leaders in the East and West. In Asian firms, in particular, the chairpersons of boards should ensure that board members and audit committees make a conscious effort to make innovation work for long-term success and continued viability.

To stay in business and to be ahead of the competition, it's important to realign business models with the new opportunities that digitalisation has created. This is easier said than done as the disruptive phenomenon of combinatorial innovation demonstrates.

MORE VALUE FOR STAKEHOLDERS

An early example of combinatorial innovation is the invention of the printing press by German blacksmith, goldsmith, printer and publisher Johannes Gutenberg based on recombining existing and new components such as the screw press (originally designed for making wine), movable metal types with punch, matrix and mould as well as oil-based ink for printing books. His mechanical movable type printing innovation triggered a printing revolution in medieval Europe, disrupting the existing system of monks writing out books by hand in monasteries. Gutenberg's invention played an important role in Martin Luther's Reformation and catalysed the scientific revolution.

Modern examples of combinatorial innovation include the self-driving car capability of Tesla cars (enabled by digital mapping, GPS and

artificial intelligence), Dyson's 360 Eye robot vacuum cleaner or IOT-enabled connected homes powered by Schneider Electric.

How prepared are our boards to deal with the challenge and opportunities of combinatorial innovation? A "good" strategic response would depend on deep knowledge about how best new digital technologies can be combined to create more valuable offerings for stakeholders.

Applying "digital lipstick" is certainly insufficient. How many board members are trained and educated in the science of innovation and knowledge management, and governance (ie determining the who, what, where, when, how of knowledge creation and innovation efforts), AI or edge computing?

Empirical research on the role of boards with regard to value creation through innovation in Asia is hard to come by. Anecdotal evidence suggests that some boards are rather antiquated and that the wisdom of digital natives (who know a thing or two about hackathons) is not utilised due to the valence of hierarchical relationships (reverse mentoring might help), face or lack of intergenerational trust.

Furthermore, it is questionable that the board's own connectivity to the ground (and thereby access to first-hand knowledge about bottom-up activities of "innovation champs") is high due to "more important" priorities, lack of time or ignorance on the part of the CEO who could arrange for novel "Staff Meet Board events".

While consulting firms do offer specialised advisory services for Asian boards, for example, with reference to innovation governance, there is a possibility that the conceptual frameworks on which these services are based such as "agency theory" or "the resource-based view of the firm" are not fully aligned with the institutional logic of the Asian family enterprise with its greater emphasis on "trusted insiders". Whether there will be a rapid convergence of Asian and non-Asian corporate (innovation) governance approaches as proclaimed by some observers is everyone's guess.

We believe that there is indeed something unique about "good" and "bad" innovation governance in local businesses which has yet to be unearthed. A shared view among several interviewees we talked to recently in the context of an ongoing study on boards and innovation is that while innovation is deemed of great importance for the sustainable growth of an organisation, the boards of directors are not actively driving innovation governance.

Key reasons behind the lack in focus at board level with regard to innovation governance include: (i) lack of clarity of board's roles in driving innovation, (ii) insufficient number of board members with expertise and/or experience in driving innovation, and (iii) lack of motivation at board level to drive innovation that is deemed as more "risky" and difficult to measure.

A beacon for many Asian companies keen to innovate is DBS, whose board decided in 2013 to move decisively into a digital future. As CEO Piyush Gupta emphasised in an interview with McKinsey senior partner Joydeep Sengupta (which makes great reading for any business leader interested in the mechanics of making innovation work): "We felt that if we didn't lead the charge, frankly, we might die."

CULTURAL CHALLENGES

The key challenges of innovating are usually cultural – can board members and the CEO create an organisational culture that is adaptable and nimble, and where employees are truly passionate about the change imperative and the intrapreneurial, more innovative way forward?

Building a solid foundation for being continually innovative requires numerous pillars. One is to encourage employees to try and to accept that they can make mistakes, according to Kenny Yap, CEO of integrated ornamental fish service provider Qian Hu. In a radio interview about innovation, failure and the pressure of being number one, he said: "If you can have a culture of people making mistakes with the intention of learning, you have to encourage them. You cannot punish them."

While there is very little empirical knowledge about the innovation management and governance specifics discussed in the boardrooms of Asian family-based companies – whether big or small – both CEOs interviewed in that radio programme sent an important message to latecomers in the innovation governance journey: "There is a very urgent need to embrace and master innovation!" Whether (more) boards here will take heed remains to be seen.

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