



Innovation ON BOARD

As 2012 unfolds before us, many companies scramble to devise and formulate new strategies for growth. Some continue on the same path by increasing efficiency and cutting cost, while others divest their non-core businesses or acquire other companies to increase their scale or gain access to new markets. The more daring companies such as Apple Inc **AAPL NASDAQ**, Google Inc **GOOG NASDAQ** and Facebook opt for innovation as their source of growth. Innovation as a growth strategy is very risky, but the returns are substantial. At the end of 2011, Apple was named the most innovative company and the most valuable technology company in the world. Apple, which has constantly been challenging Exxon Mobil Corp **XOM NYSE** for the number one spot as the highest-valued publicly traded company in the US, garnered the title from delivering innovation after innovation; the kind that changed people's lives, created paradigm and lifestyle shifts, and turned conventional industries upside down.

In Malaysia innovation is still at its nascent stage, as our companies are still efficiency-driven instead of innovation-driven. The level of attention and investment into innovation is still very low compared to companies from developed countries. Many still associate innovation with creativity, R&D and technology, and less with processes, culture, design and risk. The lack of willingness

of our companies to embark on risky ventures means lower chances of Malaysian companies growing through innovation and being in the same league as Apple, Google or Facebook.

Innovation push and pull

In Malaysia, we only have one company that can proudly walk in the shadows of Apple; AirAsia Bhd **AIRASIA 5099**. It is the only Malaysian company which has ever been included in Fast Company's 'World's 50 Most Innovative Companies'. The accolades for AirAsia run a mile long, the latest being the 'World's Best Low-Cost Airline' for customer Product and Service Quality at the 2011 World Airline Awards, one which they have won for the 3rd consecutive year. True to the ethos of business model innovation, in March 2011, AirAsia announced a new joint venture with Expedia Inc **EXPE NASDAQ**, the world's largest online travel company. This is the first partnership of its kind between a low-cost carrier and an online travel agent anywhere in the world.

Even though established just a decade ago, AirAsia has been key in transforming the Asian airline industry. Among others, it changed the skyline by introducing the region's first long-haul low-cost airline; AirAsia X. Their attempt to disrupt the market has not always been easy, as early this year AirAsia X announced the cancellation of the London, Paris, New Delhi and Mumbai routes. In

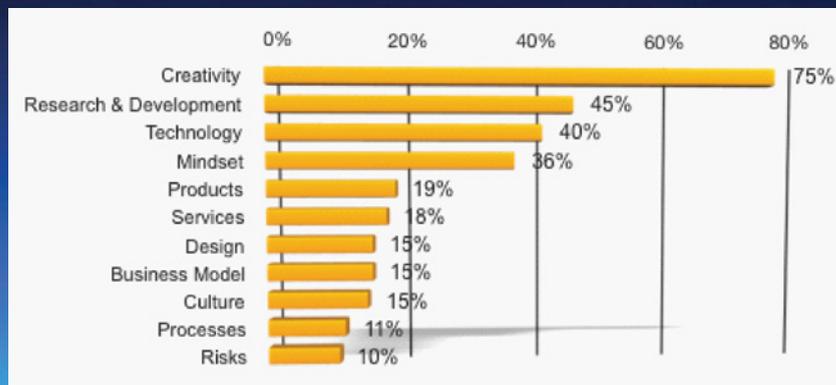


Figure 1: Elements innovation is most associated with
 Source: *Leading InnovAsian - Embedding Innovation Culture in Malaysian Organizations (2010)*

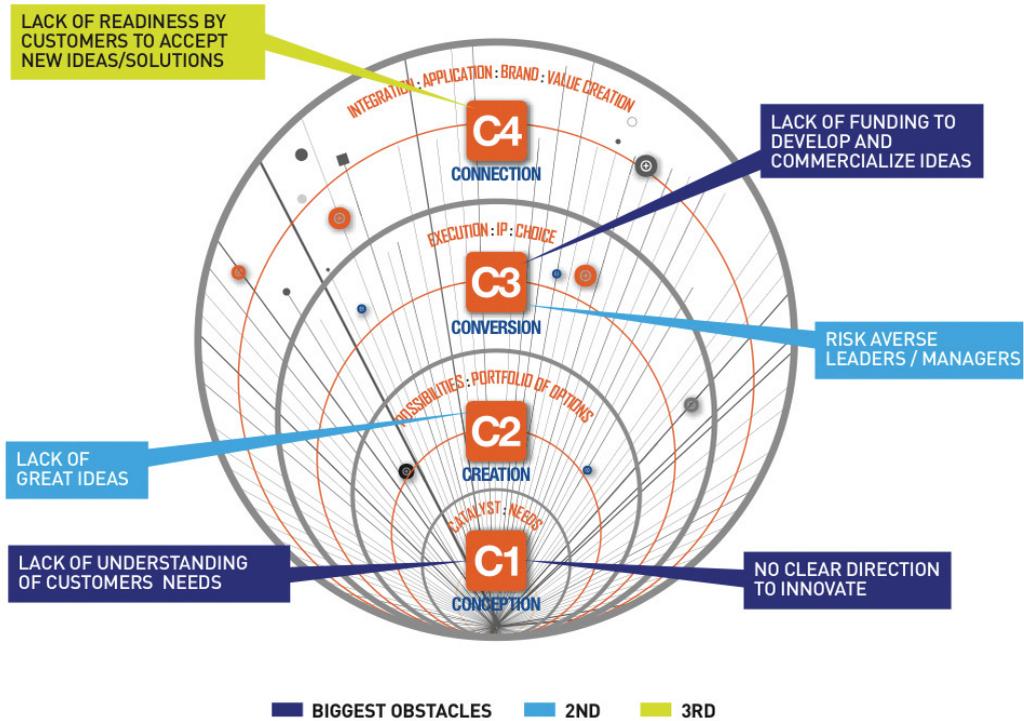


Figure 2: The Barriers to Innovation within Malaysia
 Source: *Leading InnovAsian - Embedding Innovation Culture in Malaysian Organizations (2010)*

a report by a local newspaper, the withdrawal of the London route alone would affect 14,000 students. What then would the impact be on their brand and investors; present and future? In this instance, what is the role of the board of directors? Should the board tone down AirAsia X's appetite for risk and ask them to focus only where they have proven to be successful, or should the board allow them to be bolder and take on more risk, especially with the rise of competition from Singapore's budget long-haul airline, Scoot?

Innovation is now a permanent agenda for companies operating in Malaysia with the launch of the New Economic Mode (NEM), 10th Malaysia Plan (10MP), the National Innovation Act 2010 and many other related initiatives. In 2012, the Environmental, Social and Governance (ESG) Index will be introduced by Bursa Malaysia to attract more socially responsible investment (SRI) funds into Malaysia. Surely, this in itself is a sign that companies need to start thinking about their processes and business models and possibly even about social innovation. The Companies Commission of Malaysia Training Academy (COMTRAC) is also introducing their 'Triple Helix' concept, weaving elements of corporate governance, corporate responsibility and innovation to spur companies to achieve a higher growth. The question lies, are the board of directors of our public-listed companies ready to take on the role to drive innovation in their respective companies? Do they have the capability

and courage to make innovation part of their company culture and source of competitiveness?

Role of the board

With the demise of Steve Jobs in October 2011, Apple's board has the gargantuan role to keep up the momentum of innovation and continue to grow the company. The board and its directors, who have so far been in the shadows of such a visionary man who was both chief executive officer (CEO) and chairman of the board, will now have to question their strategy, their role and possibly even their competency. If Malaysian listed companies are expected to innovate too, do they have the mix of visionary board members who fully understands innovation and can ensure that their company is creating value through innovation?

One of the key roles of the board is to help overcome the barriers to innovation. The Malaysian Innovation Climate Report (2010) disclosed that the biggest obstacle that many companies face is that they don't have a clear direction on where to innovate, secondly, they don't really understand the customers' needs and thirdly, many lack the funds (or risk capital) to develop and commercialize their ideas (Figure 2). In our personal encounters with top management, some blame the middle managers while others blame their board members for being too conservative.

Based on our analysis, the board can add value at four stages of the innovation process, based on the Catalyst for Change® Innovation Framework.

C1: Conception

(where the strategic need and direction for innovation is identified)

Here, the board must ensure that innovation is part of their board meeting agenda. In a majority of organizations, where the CEO's tenure typically lasts only a couple of years, they would be more inclined to focus on short-term gains rather than invest in long-term innovation projects. The board therefore needs to make certain that there is a balance of long- and short-term growth. Think of the risks of remaining the same and also of not exploiting emerging opportunities. To be able to do this, the board members need to be **innovation ready**. Frequently, the board of directors in Malaysian companies comprise of retired senior officials from the government or private sector who bring with them 'status', or financiers who only look at the bottom line. In both instances, they undeniably bring with them numerous years of experience however the question is how apt are they at digesting the new needs and demands of the market? Do they have the relevant functional experience? Can they understand and relate to the customer base? The Malaysian Directors Academy (MINDA) has, since its inception in 2006, been exposing directors to new skill sets and mindsets required by the board. In the recent years, this has also included innovation and the new role of the board. However, how much of this new information has been transferred into practice in the boardroom?

As with other things, performance is key. The board should be no exception. There should be clear and transparent evaluation criteria for all directors. In a survey conducted by Stanford University's Rock Center, more than half the directors interviewed thought that the board turnover is too low. What is the rate of no re-election or removal of a board member? Are any companies managing the succession planning for board members to ensure sustainability beyond the current CEO and board members?

C2: Creation

(where a portfolio of breakthrough/radical ideas are generated)

At this stage the board needs to encourage their company's management to provide a portfolio of breakthrough ideas. Different voices and diversity of ideas within the company should be allowed to emerge. If absent, the board should question and push the management to do things differently and think of fresh

solutions. However, in an Asian environment, how many directors would be willing to speak up, out of the fear of being labelled as a troublemaker or upsetting the chairman or CEO of the company?

C3: Conversion

(where the selection of projects are made)

The board needs to provide the mandate for the CEO to take on risks and allocate risk capital, and be willing to approve risky projects and accept that out of 10 projects, maybe only two shall be successful. As business environments become more and more challenging, board members need to help organizations distill their strategic direction. This is again where **diversity of the board is an advantage**. When venturing into new territories, the board can play a role in evaluating risks. If too risk averse, the company will find moving forward an arduous task and if the opposite were to happen, the company may find itself spread too thin.

C4: Connection

(where the project is released into the market)

Here the board needs to be prepared to support management in case of failure due to unexpected market circumstances as the project rolls out. Failure in such situations should be viewed as an investment into innovation. Both Apple and AirAsia X have had their fair share of failures. If boards are more supportive of failure, it is easy for companies to move ahead into innovation. This is when company culture comes into the picture. Innovation has relentlessly been publicized as going beyond R&D and technology and instead has been touted to include mindset and culture. Booz & Company also shared, in their 2011 Global Innovation 1000 Report, that the most crucial factors in driving innovation are strategic alignment and a culture that supports innovation. How then can the board display and ensure transcendence of an innovation culture throughout the company? What characteristics should they exhibit? How can the board inject innovation into the broad spectrum of governance?

Conclusion

Innovation is critical for Malaysian companies, however we don't have many success stories as yet. We need to start somewhere and, within organizations, people look to the top for signals that its time to change. Hence to ensure that Malaysian companies can continue creating value, its time for innovation to come into the boardrooms.

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