

Innovation, Transition and Transformation Opportunities and Priorities

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Directors and Boards should work for the future success of the companies for which they are responsible, but what might future success look like when uncertainties abound? How might their and stakeholder aspirations, requirements and priorities change? What breakthroughs, discontinuities and/or innovations may occur or could be initiated? What new opportunities, possibilities, challenges or threats could emerge? Will a change of pace or trajectory in various trends happen or new crises and/or issues arise? What other changes of situation, circumstances and contexts could happen? In all these scenarios, how will boards and others respond? Will they be protective and defensive or more adventurous and proactive?

The diversity of plausible scenarios and range of unknowns facing directors is daunting. A board may also have responsibilities to the communities, societies, jurisdictions and eco-systems in which they operate. What might success look like for them and in relation to the legacy we leave for future generations? At a macro level there is greater clarity about what is happening and our future prospects. Many communities and societies are already impacted by climate change, environmental damage, biodiversity loss or the depletion of natural capital. Issues and risks are known. Uncertainty embraces collective responses to shared problems.

The more alert, flexible and quick to re-act board is and aware of what is happening in its business environment, the less disruptive and painful any required responses and forced changes may be. When boards are oblivious to what is happening, wilfully ignore realities and warnings, and/or are not prepared to invest in contingencies, resilience and getting ready, the consequences for the stakeholders of their companies, and the costs imposed upon others, can be much

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more traumatic than they need be. If too many boards look the other way it might not be possible for those that are responsible to prevent dire consequences.

Categorising Challenges and Determining Responses

Many boards find themselves confronted with multiple and diverse issues, challenges and opportunities requiring very different responses over varying timescales. Long-term trends

and developments may require and allow proactive adjustment and/or transition over a period of time to a model of operation and portfolio of activities that is envisaged to be better able to cope with an emerging reality and anticipated scenarios. Some planning and preparation may be possible to minimise the hardship and pain caused by necessary changes and help those who are disadvantaged. What other parties should be involved in discussing what is needed?

Other developments may be unexpected in their severity, timing and consequences. Crises arise. Risks crystalize. Situations can suddenly become critical. Extreme weather events are being experienced with greater frequency. Disruptions, shortages, breakthroughs and breakdowns occur. Invasions, revolutions, wars and such occurrences initiated by others and over which a board may have little or no control can just happen. Whether or not they should have been foreseen, a board might be forced to quickly react and respond as responsibly as it can. When others are also affected, should a board explore joint or collective responses?

Categorisation of both challenges and opportunities should also consider whether innovation, transition or transformation might be required. Due to the long lead times often required to initiate investigations, explore options and assess, plan and undertake innovation related activities, and then develop, test, launch, evaluate, refine and roll out resulting approaches, solutions or other offering, fence sitting, avoidance behaviour and prevarication should be avoided. Many boards need to act and take strategic decisions while there is still a window of opportunity and before certain looming threats become unstoppable. A portfolio of quick measures, short-term changes and longer-term innovations might be advisable.

Vigilance and Increasing Awareness of Challenges and Opportunities

In ever changing and uncertain situations and circumstances, and as aspirations, preferences and requirements evolve, vigilance, flexibility, adaptation, innovation and transition or transformation to new business models may be necessary for continuing relevance and viability. Boards vary in their awareness of what could or might happen, in their preparation for contingencies and emergencies, and in their responses to crystallisation of what might or should have featured in their risk registers. Some boards focus on short-term corporate issues at the expense of reading the road ahead and developments in the external economic, social, technological, market and regulatory environment. How might this imbalance be corrected?

Directors should monitor trends and developments, especially those related to existential threats, and consider their implications and possible consequences for a company and its stakeholders and dispassionately assess whether these create opportunities. For example, migrations of people and the

relocation of activities and infrastructures as a result of the increasing frequency and destructiveness of extreme weather events and other impacts of global warming create multiple opportunities for business and arenas for innovative solutions, from alternatives to scarce hard woods to local energy generation and self-build practices.

People, their possessions and livestock will need to be moved and rehoused. More affordable, flexible and modular activity and life support systems that can be quickly transported, made operational and adapted and extended as requirements and conditions change are likely to be required when disasters such as fires, floods and inundations arise or over a period of time as rising sea levels threaten the continuing viability of existing locations. Whole communities may need to be created to address a multiplicity of diverse requirements. Given emerging shortages of certain materials and skills and the time traditional methods of construction take innovation is required in design, approval, assembly, commissioning and regulatory practices.

Exploring Perspectives on Innovation

Some directors focus on continuity rather than innovation. Boards have been responsible for initiating innovations that have had a significant and beneficial impact, but also for delaying or frustrating them. What is a board's perspective on innovation? Given the responsibility of directors to work for the success of a company, innovations prioritised and pursued have often been those that have given a company competitive advantage and primarily benefited the particular corporate entity and its core stakeholders, especially customers, investors and employees. Wider community, social and collective interests may assume a lower priority. The environment, natural eco-systems and future generations might be overlooked.

Discussion of innovation sometimes assumes it is inherently desirable, irrespective of its nature, motivation, how it is used, and its affordability, sustainability and consequences, including impacts on wants and other priorities. Innovations can vary significantly in how inclusive and energy and resource intensive they are and their contribution to required collective responses and community and social priorities. They can be disrupters and/or enablers, in either case with negative or positive impacts. One innovation may complicate, distract and require expensive and scarce resources, while another simplifies, encourages focus, increases understanding and provides a cheaper and more accessible alternative.

The views of certain boards on innovation priorities may differ from those of stakeholders and be influenced by their atypical perspectives, lifestyles and budgets. For example, because they themselves are car owners might their interest in electric vehicles and support of innovations in this area lead to over-

emphasis on those relating to resource demanding private vehicles and insufficient focus on public transport, reducing the need for journeys and alternative mobility solutions and access models such as shared ownership? From a community, societal and international perspective, how might a board obtain more objective and balanced advice on what innovation priorities should be? Are public incentives needed?

Setting Corporate and Collaborative Innovation Priorities

Obvious current collective innovation priorities are more flexible, resilient, responsive and sustainable models, operations, infrastructures and lifestyles; decarbonisation and climate adaptation and mitigation; identifying, reducing and phasing out activities that cause negative externalities; the protection and possible restoration of biodiversity, natural capital and ecosystems; population control; and the support of necessary migration, relocation, transition and transformation journeys as sea levels rise and more areas become uninhabitable. Which of these could best be pursued through collaborative initiatives?

The continuing viability of many strategies for coping with existential threats depends upon innovation in areas such as the recovery of needed resources in recycling operations and finding alternatives to raw materials such as lithium for batteries. In areas such as carbon capture a linked chain of innovations may be required to extend the re-release of CO₂ for as long as possible. While innovations related to less damaging uses of fossil fuels may ease transitions for communities most affected by their phase out, boards should remain focused on achieving longer-term climate related goals. More radical measures may prove less risky.

Most if not all companies, communities and societies are being impacted either directly or indirectly by climate change and the increasing frequency and growing severity of extreme weather events. Does the focus of innovation discussion now need to shift to collaborations and collective responses to common problems on a bigger stage and community, societal and international initiatives to address shared existential threats? Do those representing a wider range of interests now need to be brought together, and how might productive collaborations be achieved across parties with different priorities, constituencies and timescales?

Social Innovation and Societal Transition and Transformation

The focus on individual corporate or customer self-interests in the decision making of boards and individual consumers gave rise to John Kenneth Galbraith's critique of 'the affluent society', as it can lead to insufficient investment in collective social infrastructure and result in private affluence and public squalor.

As large scale migrations are triggered by climate change and communities require relocation, how might more balance be achieved? With globalisation and interdependence and national Governments giving priority to the perceived short-term interests of their own citizens, are we seeing a similar scenario at global level, with insufficient effort being devoted to collective responses to existential challenges?

Innovation strategies are needed at societal level, and perhaps also internationally if there were a mechanism for securing agreement beyond UN SDGs and Conferences of the Parties (COPs). A significant portion of the infrastructure of a few countries is represented by cities that may be inundated by rising sea levels, or are located in areas that may become uninhabitable at an affordable cost. Strategic decisions may be required on prioritisation and the allocation of resources between protecting and adapting existing cities and relocation to new built environments and how adaptation, transition and transformation should be funded.

Sometimes comparisons between past activities, historic investments and emission per - head feature prominently in discussions about who is to blame and should be held responsible for current challenges. Rational and responsible decision making should focus on incremental changes to future trajectories. While developed countries can contribute to reducing negative externalities and harmful emissions, when confronting existential threats should preventing future increases in more populous countries with much greater total emissions and faster but unsustainable growth be more of a priority?

Establishing Innovation, Transition and Transformation Partnerships

Business leaders and boards sometimes over-manage and become involved in operational matters. Boards that are open to the creative ideas and contributions of others should avoid constraining their thinking. Might stepping back and avoiding the temptation to 'set the scene' by reiterating existing positions enable the consideration of more appropriate alternatives? Could allowing individuals and cross-functional and inter-organisational teams the freedom to form their own groupings and determine their own approaches lead to more imaginative and ambitious proposals and potential outcomes? It may also give directors a better understanding of available potential and possible collaborations and identify purposes, priorities, goals and objectives that would engage and inspire individuals and organisations.

Public-private collaboration and partnerships could also be explored. Many universities receive their core funding from public sources and ultimately taxpayers. They were initially established to create some public benefit. Where might they feature within the mix? In relation to progressing fundamental

scientific research upon which many innovations may depend, might some university or think-tank teams take a longer-term perspective than boards concerned with impacts on annual earnings and democratic Governments preoccupied with the next set of elections? Rather than competitive advantage could different parties in some communities, cities and other groupings seek collective collaborative advantage?

Russia's invasion of Ukraine has triggered a fracturing of the world's states into distinct groupings. Some countries strongly condemn Russia's invasion of Ukraine. They actively help Ukraine to defend itself, impose sanctions upon its assailant, and have sought alternatives to Russian oil and gas. Other states have avoided condemnation of Russia's aggression and conduct of the war. They have not imposed sanctions and have increased their purchases of Russian oil and gas. Will new fault lines hinder collective responses to shared existential threats? Might they also make Governments and companies more wary about with whom they collaborate, exchange knowledge and innovate in certain areas of technology?

Reviewing Purpose and Priorities

Given the negative impacts of current and unsustainable activities on the environment and our future prospects, should more boards review corporate purposes and priorities and the criteria for whether an aspiration, objective, pursuit, and/or outcome is desirable, justifiable and responsible? Is there a requirement for both responsible leadership and responsible innovation? Should initiating, enabling and supporting transition and transformation journeys to more sustainable and inclusive activities, operations and lifestyles, communities, cities and societies; and related innovation be a core corporate purpose? Possibilities, priorities and collaborations could be explored at the forthcoming 2023 Dubai Global Convention.

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Success and tangible results can build the confidence to tackle historic issues the resolution of which is long overdue. Innovations in some arenas could release rather than require resources and result in more affordable and sustainable solutions. Minorities that could be helped may be overlooked if people are preoccupied with other priorities and 'inconvenient' issues are swept under the carpet. For example, a change of

social attitudes and wider use of available treatments could end the marginalisation and suffering of those afflicted with leprosy. Finally tackling a long-standing scourge of humanity might illustrate the impact of a change of tack.

Responsible and Risk-led Innovation

The capabilities and resources available to different directors and boards and their quality, scale and potential and how, where and for what purpose they are employed may vary. Given contending claims upon them, their affordability, versatility, and in some cases their limited supply, they should be accessed and utilised responsibly. The purposes of boards and their innovation, investment and other priorities should also be responsible. From an assurance perspective when deciding what to focus upon, internal and external auditors generally adopt a risk-led approach. Should boards do likewise when determining innovation priorities?

In its 2023 global risks report the World Economic Forum produces separate severity of risk impact rankings for a two-year and a ten-year period. Eight risks appear in varying orders on both rankings. The cost of living crisis which many executives encounter tops the two-year ranking, but does not appear on the ten-year ranking of risk impacts with which directors may be more concerned. The ten-year ranking includes biodiversity loss and eco-system collapse in fourth place, but this risk does not appear on the two-year list. Six of the top ten risks in terms of severity of impact over ten years are environmental, the top three of which are failure to mitigate climate change, failure of climate-change adaptation and natural disasters and extreme weather events. Should innovation related to these risks receive more attention?

Particularly evident in the World Economic Forum's ranking of global risks is their inter-connectedness and the inter-relatedness of their causes. Greater connectivity and digital developments ensure that widespread cybercrime and cyber insecurity remains a severe risk. The presence of large-scale involuntary migration, erosion of social cohesion and societal polarisation and geo-economic confrontation on both rankings highlight growing areas of risk that may also affect boards. Will directors step up and make use of the innovation levers they can pull? Discussion at IOD's 2023 Dubai Global Convention on 'Leadership for Innovation and Business Excellence' will provide some clues. ■

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