Innovation in the boardroom: Rising to the challenge?

2022 Innovation Study

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Contents

Foreword

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Recently the CSIRO identified seven global megatrends that will be central to the challenges and opportunities we face over the next two decades. These megatrends – adapting to climate change, being leaner, cleaner and greener, an escalating health imperative, geopolitical shifts, diving into digital, increasingly autonomous technology and unlocking the human dimension – are going to be the major drivers of boards' focus for the foreseeable future. To seize the opportunities and grapple with the challenges they represent will require organisations of all kinds to focus their minds on innovation.

In 2019, the Australian Institute of Company Directors (AICD), in partnership with the University of Sydney Business School, released its report, **Driving innovation: The boardroom gap**. At the time, the report was the first of its kind in Australia, and one of only a handful of reports globally which examined the role of the board in driving organisational innovation.

Three years on, the world has been transformed by the COVID-19 pandemic and a range of other global forces, and this has had consequences for organisations and their approach to innovation. The AICD has partnered again with the University of Sydney Business School to produce a second edition of its study into innovation and how boards bring it into focus.

Our research results provide cause for cautious optimism. In 2019, we found that Australian boardrooms recognised the importance of innovation but struggled to prioritise it. In 2022, we have found that some progress has been made, although more needs to be done. Necessity has been a powerful driver, with the need to survive the public health and economic consequences of the COVID-19 pandemic forcing many Australian organisations to innovate. More generally, increasing competition is forcing innovation to be a key plank of successful organisational strategy.

We have found that boards who are achieving the greatest innovation outcomes are those that have integrated innovation into their discussion of strategy, culture, risk, investment and performance. The language of "innovation" may be alienating for some, so understanding what the concept means for each organisation is key.

Many directors have been pleased at how innovative their organisations have proved themselves when confronted by the impacts of the COVID-19 pandemic. The challenge for Australian directors now is to harness these achievements and their own learning, to sustain innovation as business-as-usual practice within their organisations. This question should be front of mind for directors: if innovation was primarily driven by necessity, how do we now strive to innovate if the urgency has diminished?

We look forward to working with our members, government, academia and the broader business community to help meet this innovation challenge. Our continued prosperity depends on it.

Introduction

BACKGROUND

This study builds on the AICD-University of Sydney 2019 research study, **Driving innovation: The Boardroom Gap**. In this 2022 edition, we sought to gauge the extent to which directors' mindsets with regards to innovation have developed over the intervening period – particularly considering the impacts of the COVID-19 pandemic.

The 2019 study's headline finding was that Australian directors accepted the importance of innovation to their organisation's strategy, but too often competing priorities, limited resources and a lack of awareness of the need for change meant that the topic did not receive the urgent attention it deserves. At a more granular level, the study found that Australian directors recognise the importance of innovation, but that more needs to be done to prioritise its delivery; Australian boardrooms have low innovation and digital literacy levels; and board-executive collaboration leads to better performance.

As was the approach in 2019, the current study is being informed by 17 interviews with experienced chairs and directors, a survey of AICD members that resulted in over 850 responses and a literature review to compare Australian directors with their international counterparts. It also includes data on the digital skills of the ASX 200 director cohort, utilising data compiled by **OpenDirector**.

This project was supported by the Australian Government Department of Industry, Science and Resources through the Digital Director Initiative.

OVERVIEW OF FINDINGS FROM THE 2022 STUDY

The COVID-19 pandemic has shown that we live in times of uncertainty and more than ever boards have a responsibility to future proof their organisations. It has accelerated the move to digital and remote work, as well as a broader adoption of technologies for the delivery of goods and services. For many organisations, these changes were not regarded strictly as 'innovation', but as ways to catch up with the times. Nevertheless, they have shown that organisations can adapt quickly to changing conditions and this learning should remain at the forefront of future decision making.

The 2022 edition of the study has highlighted a somewhat more optimistic picture of innovation in the boardroom than in 2019. This has been fuelled by the move to digital and use of technology prompted by the need to survive the COVID-19 pandemic. In turn, this should make directors both optimistic that digital transformation is not beyond the capacity of their organisation, but also nervous – if innovation was largely driven by necessity, what will happen once the urgency has diminished? The role of the board in driving innovation has now become even more critical.

Our research, both the interviews with directors and data from a survey of the AICD membership, highlight that:

1. **Innovation has been given greater priority by boards but risk appetites have not substantially increased.** The large majority are working towards new and improved business processes or structures, products and even business models. Only a small proportion of survey responses said that innovation is not a matter of priority or is a matter for management and not the board. The increased focus on innovation has been expressed among all organisations, across the full range of maturity levels and sectors (i.e. Not-for-profit (NFP), listed etc.). The results indicate they have felt the pressure from the COVID-19 pandemic and are responding.
2. As found in the 2019 edition of the study, **boards that collaborate with their executive team on strategy and innovation matters tend to be more likely to achieve their goals** than boards that are more hands-off.
3. **Mature boards do not use the word innovation, it is just an integrated part of doing business – innovation is ultimately a mindset that needs to permeate the boardroom** first and the organisation second. It sets up an environment that embraces change and, looks for opportunities in ambiguity.
4. **Effective boards prioritise leadership vision.** The greatest drivers for a culture that enables innovation are vision and leadership, as they promote innovative behaviour and, an openness to new ideas and experimentation. The role of the board is to select leaders who embody these characteristics and then support the organisational environment to nurture experimentation, customer focus and collaboration.
5. **The board needs a critical mass of directors who bring an innovation mindset and experience in innovative organisations.** This is needed for growth and to future-proof an organisation in the face of substantial uncertainty. While all directors should embrace an innovation mindset, boardrooms also need directors who have experience in innovative organisations to be effective in questioning and challenging management.
6. **Board education is crucial to developing and maintaining a shared focus on innovation.** This can be achieved via regular external speakers but also by establishing a temporary committee or advisory board to focus efforts.

RECOMMENDATIONS

The findings of the survey and interviews with directors point to key practical steps that boards can undertake to ensure that priority is placed on innovation and that the progress made during the COVID-19 pandemic can be sustained into the future.

1. **Constructively challenge the management team and continue questioning long-standing assumptions on whether innovation is possible and its timeframe for implementation.** The achievements that were possible from a quick move online in many sectors has highlighted that a greater use of technology is possible at a speed that was unimaginable before the start of the pandemic. Boards and organisations should now keep challenging assumptions (of the type like: 'it will take 3 years to achieve this goal') and learn what worked and what can be replicated in other areas of the organisation. Boards need to capture that capacity for innovation that was driven by the necessity to survive and translate that into business-as-usual practice.
2. **Boards must ensure that innovation is part of 'how we do business' in both the boardroom and the organisation.** Vision and leadership from the most senior leaders in the organisation has been identified as the most critical aspects for a culture that nurtures innovation. Boards need to set the tone from the top and enable senior leaders to embed a mindset in the organisation that allows for experimentation and disciplined risk-taking along with an ability to learn from failure.
3. **Directors must be able to bring an 'innovation mindset' to board deliberations, while boards need to start hiring more directors with real world innovation experience.** In a typical board of around nine members, the chair should consider whether they have enough directors with an innovation mindset to shape the conversation. While this mindset is necessary, it is not sufficient. A starting point should be having board skills matrices which explicitly requires experiences in organisational innovation or transformation. In searching for directors with these skills, boards may need to look beyond the traditional director cohorts.

DIRECTORS WHO BRING THE INNOVATION MINDSET

- Constantly scan for changes before they happen
- Be curious, humble and embrace new thinking
- Are ambitious and respectfully challenge the status quo
- Increase risk appetite for innovation and seek learnings in failure
- Understand and accept ambiguity

4. **A greater focus on emerging trends and potential impacts to business models is needed to predict future scenarios and plan accordingly.** Individual directors and boards have the responsibility to allocate greater time and focus on trying to understand these future scenarios and prepare the organisation for such possibilities. Board upskilling which facilitates a shared understanding of the impact of emerging trends and technology include regular expert speaker briefings and study tours.
5. **Gaining an outside perspective via experts, advisory boards and technology committees is critical to staying competitive in an uncertain and complex environment.** Providing the board with outside perspectives is critical and consideration should be given to the innovation maturity of the organisation to determine the appropriate supporting mechanisms.

The many facets of innovation

During the interviews we had the opportunity to dig deeper into how directors view and conceptualise innovation in the boardroom. A range of responses was received of how and where innovation can and should be executed, but there was a clear agreement that the key requirement is an innovation mindset in the boardroom. A textual analysis of the interview transcripts with coding of the themes allowed us to identify the different flavours of innovation and five main components of an innovation mindset.

An overwhelming finding in the interviews with directors is that they do not use the word 'innovation' in the boardroom. In a way, innovation is part of 'how we do business,' and an innovation mindset (see Finding 3) is part of any conversation about strategy and risk, especially in relation to purpose, competitive advantage and long-term sustainability. For example, one director said: ***"Innovation is rarely addressed as an explicit topic titled as such in the boardroom, rather it is embedded through broader strategy discussions and practices. It is fair to say most boards do not talk about innovation as a stand-alone topic. They do not say: 'Oh, let us now talk about innovation, or how do we think about innovation?' They do not do that so explicitly. Because of this, I do not think there is an obvious innovation definition that all companies use"*** (**Wendy Stops GAICD**, Non-Executive Director at Coles Group).

We are not going to settle on a definition of innovation here, as that is beyond the scope of this study. However, we wish to summarise the six themes that were identified during the analysis of the interviews to set the stage for the rest of the report.

1. Innovation is about both outcomes and process

Innovation is often thought about in terms of novel products (e.g. the first iPhone) or new technologies that enable these new products. This is easy to associate with innovation because it is the tangible outcome. Interviewees highlighted that directors should not forget that innovation also happens in organisations by doing things in better, faster and cheaper ways to achieve outcomes. When discussing process, several directors pointed out that innovation emerges as a result of collaboration, hence remote work arrangements needs to consider the potential impacts on innovation.

2. Innovation as both blue-sky outcomes and continuous improvement

Innovation is about ground-breaking, blue-sky outcomes but also about continuous, smaller improvements which accumulate over time and may indeed lead to ground-breaking outcomes without planning for them. Many directors reserve the word 'innovation' for blue-sky types of innovation, recognising that it is the kind of innovation that requires larger investment and longer-time horizons for it to be realised. This is the kind of innovation that all organisations should ultimately strive for.

3. Innovation as behavioural change

Several interviewed directors mentioned that one way to determine whether something is innovative or not is by examining whether a behavioural change is required (see Good360 case study in the discussion of Finding 4). If a new solution or process does not require a behavioural change from employees, customers or other stakeholders, perhaps it may not be as innovative as first thought.

4. Innovation is tied to the maturity curve

Following from the conversation on continuous improvement and blue-sky innovation, identifying what innovation is and how to deal with it very much depends on the lifecycle stage of an organisation. If just starting out on innovation, it needs to be defined very well: small improvements can be considered innovation, and leaders need to continuously remind employees about what innovation means across the organisation (see the 2019 study which calls for boards and management teams to define what innovation means to their individual organisation). In organisations where innovation is already an integrated part of the culture, there is no such need, and continuous improvement should be business as usual rather than innovation.

5. Innovation to achieve organisational purpose and a competitive advantage

Innovation enables organisations to achieve their purpose and a competitive advantage more effectively. This may translate into superior offerings for clients and customers but also for attracting talent to an organisation.

6. Innovation requires a different mindset

Ultimately, successful innovation is very much about bringing a mindset of questioning the status quo to make things better, faster or cheaper. As such, innovation may not even be resource intensive. That is, everyone is responsible for contributing to an innovative culture within an organisation.

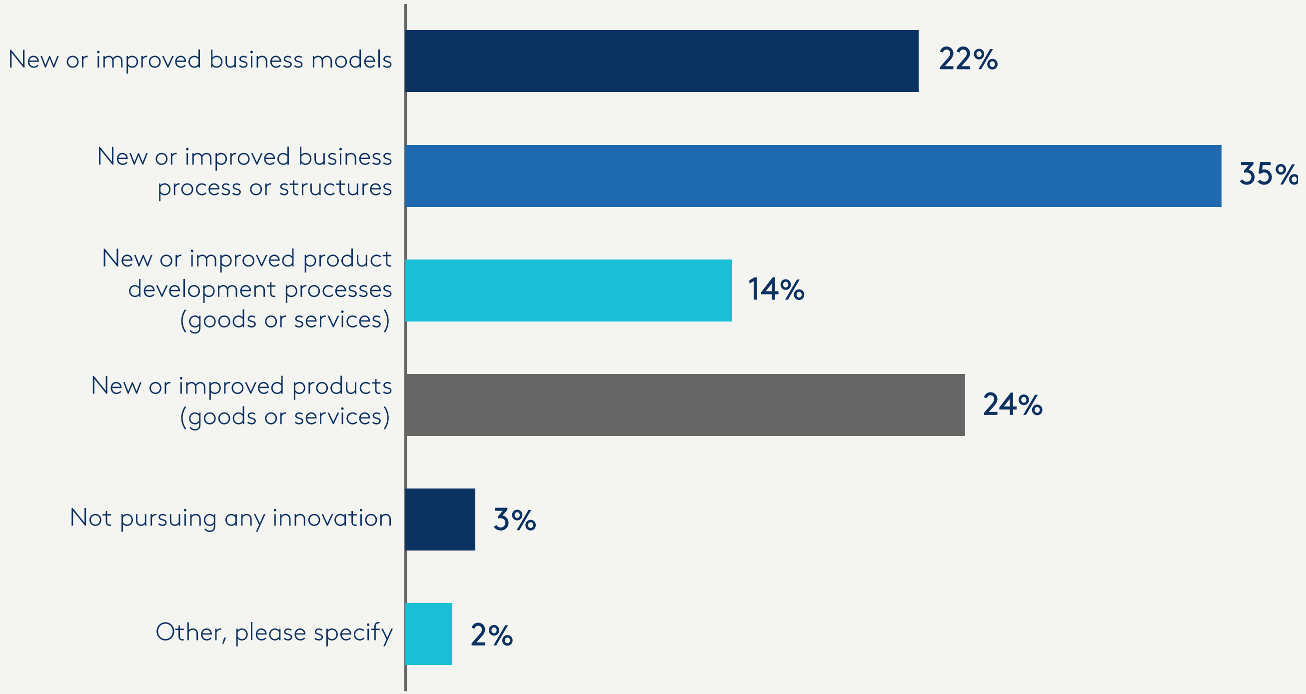
FINDING 1:

Since COVID-19, prioritisation of innovation has increased

The findings from the survey and interviews with directors suggest that COVID-19 has had a positive impact on innovation. The move to more technology-enabling Work From Home and e-commerce, was both accelerated and forced by prolonged lockdowns, and also enabled by customer and client readiness to accept these changes.

From the survey data, a large majority of respondents are working towards new and improved business processes or structures (35 per cent of the responses), products (24 per cent) and even business models (22 per cent) (Exhibit 1). Only a very small proportion indicated that they are not pursuing any innovation (three per cent). Much of the innovation during the last three years has been driven by the impacts of the COVID-19 pandemic. Innovation has been focused on reconceiving how services are delivered to customers and how work is undertaken by staff. Some directors argue that innovation in this form is not innovation and is rather organisations being forced to play catch-up with technology that should have been embraced earlier. Regardless of its classification, much of the change agenda from the past three years has been driven by necessity and competitive pressure. This has been evident also in the responses to open-ended questions in the survey.

EXHIBIT 1: Since the onset of the COVID-19 pandemic in early 2020, which of the following types of innovation has your organisation pursued?



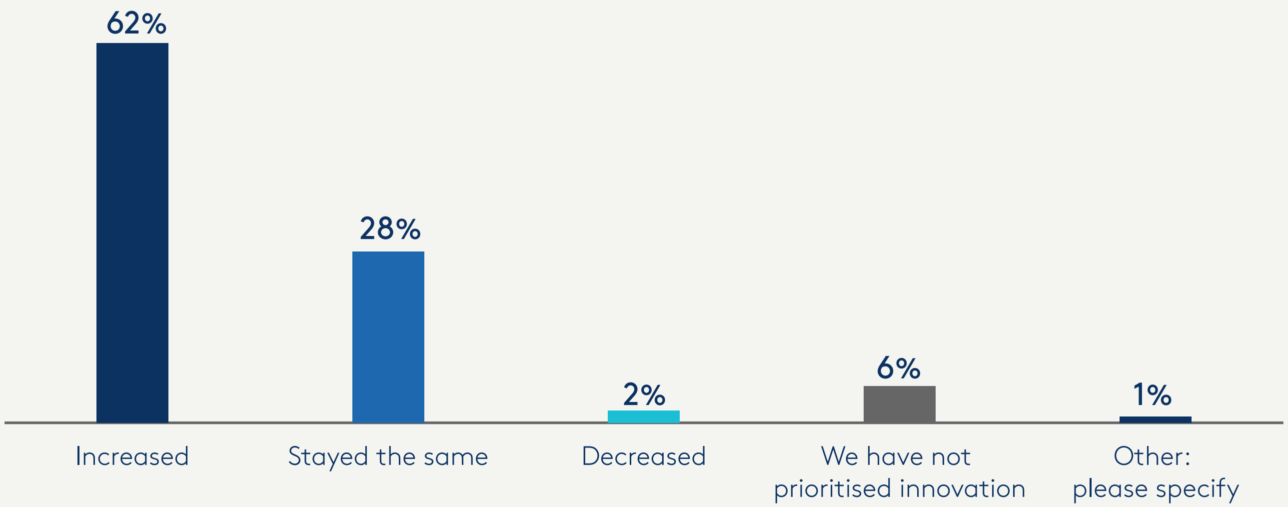
n = 846
* Respondents could select multiple options

THE PRIORITY ON INNOVATION HAS INCREASED

Since the emergence of the COVID-19 pandemic, the level of priority being placed on innovation has increased (62 per cent of respondents, Exhibit 2). Only a handful of survey responses said that innovation is not a matter of priority (6 per cent). The increased focus on innovation has been expressed among all organisations, across the full range of maturity levels and sectors (i.e. NFP, listed and private companies, public sector entities etc.). The results indicate they have felt the pressure from the COVID-19 pandemic and are responding. When looking at the reasons why innovation is becoming more important, the text responses from the survey point largely towards necessity, due to the disruptions brought by the COVID-19 pandemic, as well as pressure from competition.

To note, some interviewees, such as **Sally-Ann Williams GAICD**, Chief Executive Officer of Cicada Innovations and Non-Executive Director at Qudos Bank, took a critical viewpoint and stated that the digitisation of certain processes and the shift from legacy systems as demanded by the COVID-19 pandemic, was in fact out of necessity and such updates should instead be classified as “catch up” rather than innovation (particularly when compared to the international landscape)

EXHIBIT 2: Since the onset of the COVID-19 pandemic in early 2020, and excluding working-from-home arrangements, how do you rate the level of priority placed on innovation by your organisation?



n = 821

“During the COVID-19 pandemic, it has been pleasing to see an acceleration of the conversation around how you can optimise your business and look at innovative strategies through embracing and enhancing digital technologies and capabilities. Every board has played digital catch up on something that they should have been doing for the last 10 or 15 years. Now they have accelerated that, and that is great. But I do not think that is innovation. That is the bare minimum for efficient and future proofing operations of your organisation” (*Sally-Ann Williams GAICD*).

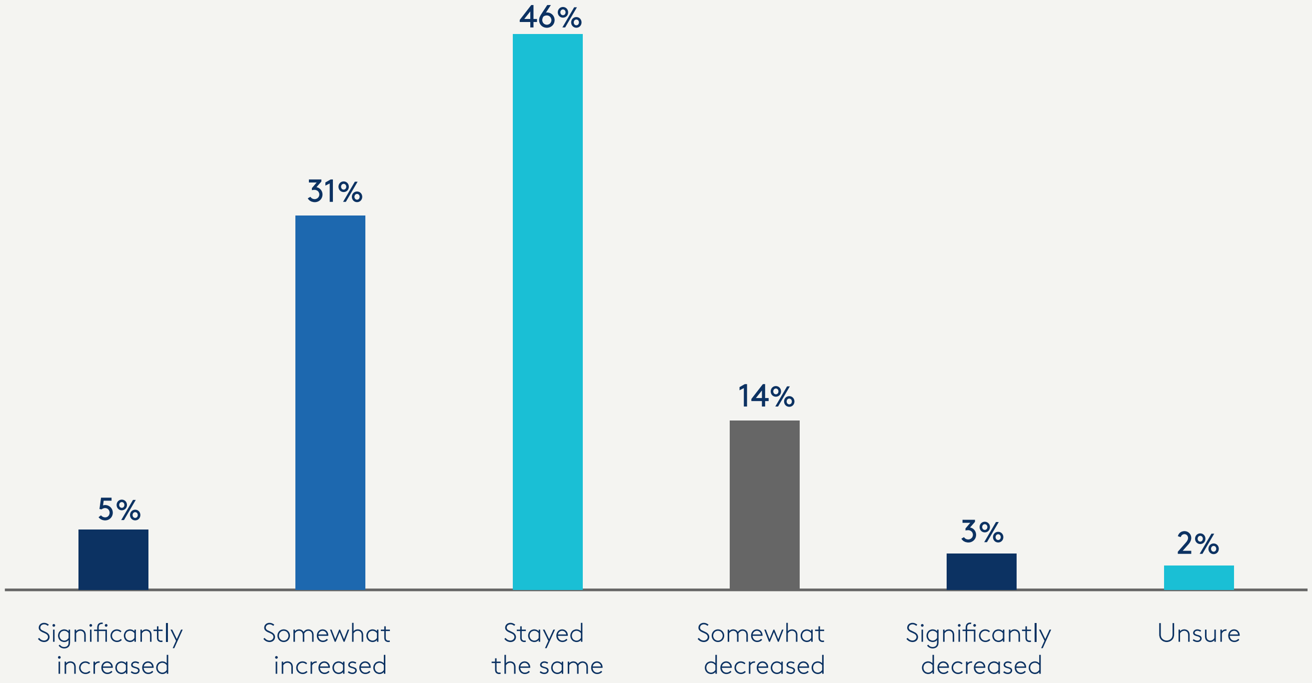
Given that prioritisation of innovation was driven by the urgency triggered by the COVID-19 pandemic, some critical questions for directors are: how do we empower organisations to continue to prioritise innovation? That is, how can we still be agile in making decisions and embedding change, rather than reverting to older, slower processes?

RISK APPETITE HAS NOT INCREASED SIGNIFICANTLY BUT THERE IS SOME POSITIVE MOMENTUM

Over the last three years, risk appetites have largely remained the same (46 per cent of respondents, Exhibit 3), yet 36 per cent of respondents said they have somewhat or significantly increased. One reason why this might be the case is that the risk appetite from the board has always been 'appropriate', but the environment was not challenging enough to push executives to increase their focus on innovation as a source of growth. Some directors have expressed that many policies and processes previously stood in the way of more agile ways of working and fast decision making.

Eileen Doyle FAICD, Non-Executive Director at NextDC, discussed the importance of being clear about one's risk appetite — that having a strong understanding of the organisation's risk appetite subsequently allows it to take measured risks where failures are accepted: ***"When you do your risk planning, you need to be able to be clear about your risk appetite, and your risk appetite is not one thing, you have to break your risk appetite up into categories of risk. You might have a really low risk appetite for safety, but you might have a higher risk appetite for new technology in particular aspects of your business. Or you might have a medium risk appetite in your dealings with government. This allows anyone in the organisation to understand the areas where they can take risk and where failure is acceptable."***

EXHIBIT 3: Since the onset of the COVID-19 pandemic in early 2020, how has your board's risk appetite (willingness to accept risk in pursuit of organisational objectives) changed?



n = 816

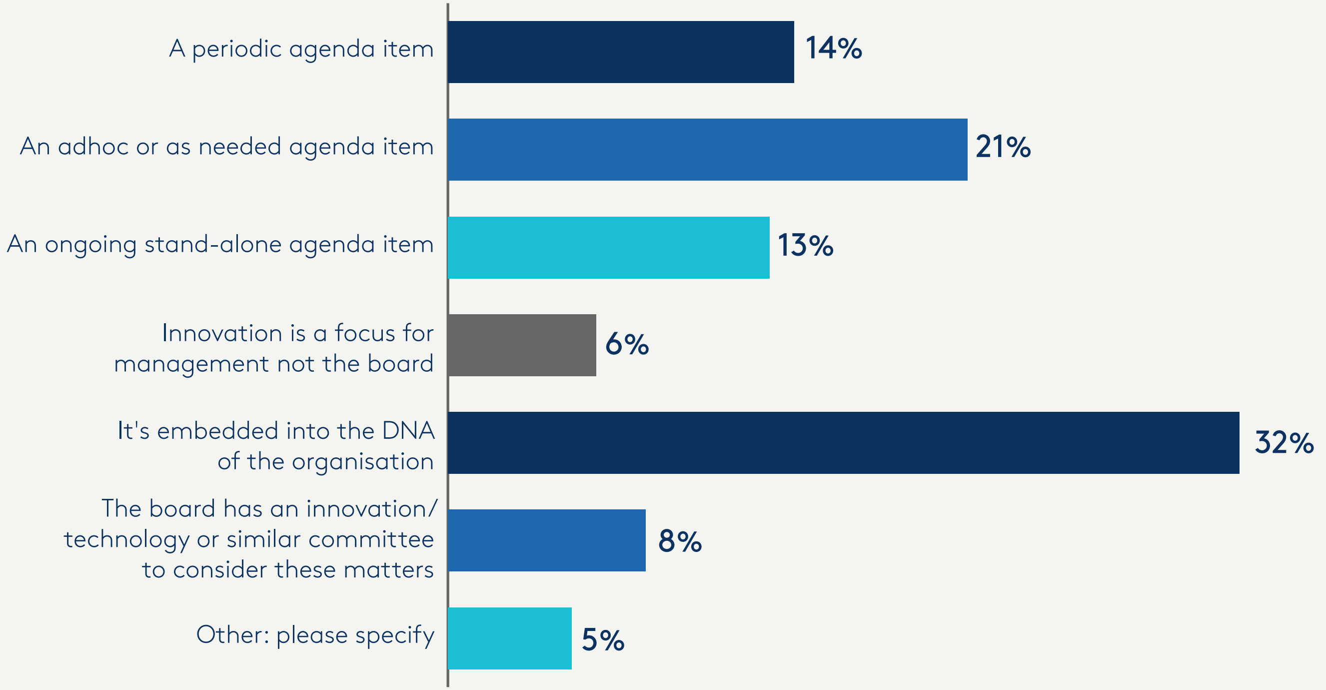
In contrast, study of 273 directors by the international consulting company, Gartner, found that 57 per cent of directors said that they have increased or expected an increase in risk appetite from 2021 to 2022 (Lyengar, 2021). If that proves true, Australian boards may still be out of step with international counterparts.

A SPECTRUM OF INNOVATION MATURITY: FROM STAND-ALONE AGENDA ITEM TO EMBEDDED IN THE BOARDROOM AND AN ORGANISATION'S CULTURE

From the interviews with experienced directors, it became clear that the most mature boardroom approaches to innovation are those in which it is an integrated part of the strategy and risk discussion – i.e. part of 'how we do business', rather than a standalone item on the board agenda.. The survey data has provided a complementary view and highlighted that for most organisations, innovation is seen as embedded in everything the organisation does. There was also a clear view that innovation is indeed a matter for boards, with only a small number of directors believing that innovation is only a matter for management (six per cent). This marks a change since the COVID-19 pandemic. In the 2019 study, 17 per cent of our sample stated that innovation had never been an agenda item (Exhibit 2, AICD, 2019).

Importantly, most respondents stated that innovation was embedded in the 'DNA of the organisation' (32 per cent of responses, Exhibit 4). This is a very reassuring number, however we should not lose sight of the fact that in a global and dynamic competitive landscape, as a nation we should strive towards having a much higher proportion of organisations where innovation is a true part of how they do business; from the ground floor to the boardroom. In comparison to international counterparts, 13 per cent of Australian directors said that innovation was an ongoing agenda item whereas 29 per cent of international directors said that emerging technologies were regularly on their agenda (every meeting) (Corporate Board Member and EY, 2019).

EXHIBIT 4: What mechanisms or processes has your board put in place to elevate innovation to the board level for discussion?



n = 791
* Respondents could select multiple options

Through the interview process we discovered that if an organisation has not prioritised innovation, then a good starting point is to single out innovation as an agenda item for each board meeting. This will keep it at the forefront of everyone's focus, both in the boardroom and at a management level. Ultimately, the goal is to progress in innovation maturity and make it an integrated part of the organisational culture.

CASE STUDY: THE SPECTRUM OF INNOVATION AND THE ROLE OF THE BOARD

Fiona Balfour FAICD, Independent Non-Executive Director at Airtrunk, discussed two approaches to innovation that she has experienced as director and senior executive.

Airtrunk opened Australia's first and largest hyperscale data centres in Western Sydney and Melbourne in 2017 and since then has expanded into further Australian locations as well as Singapore, Hong Kong, and Tokyo.

Balfour said *"Airtrunk is an innovative business, innovation is its main agenda. We do not go to board meetings talking about innovations. Instead, for example, we talk about how we are going to build the next data centre smarter than we built the first. The innovation cycle is part of continuous improvement. This is because Airtrunk is in a different place on the innovation spectrum. Companies who are truly being innovative do not even talk about it because it is part of their business. Whereas older organisations with an established capital base will often need to talk about innovation in more explicit terms, because that is the only way they can introduce transformational change."*

Balfour also reflected on her time as a senior executive for Qantas. When a mature organisation is innovative, it is often because they are under significant economic challenges or stakeholder pressure. Such pressure can drive innovation. For example, in the 1990s, as the world aviation market became highly competitive Qantas developed an innovative yield and revenue management processes and systems that allowed Qantas to price its product very competitively, but also profitably. Those processes served it well for many years and beyond what was expected.

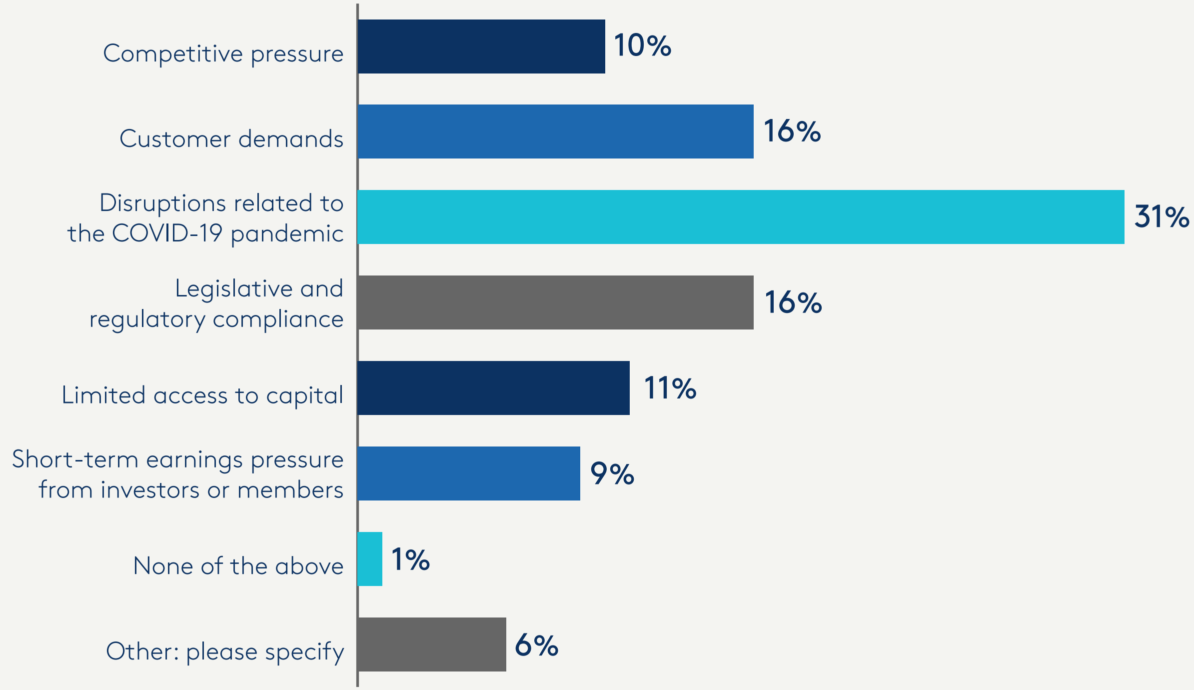
In these larger organisations, the role of the board is to assist management prioritise the challenges they need to focus on and to encourage innovation that may yield long term benefits.

PRIORITISING INNOVATION REMAINS CHALLENGING DUE TO BOTH EXTERNAL AND INTERNAL FACTORS

Innovation has been prioritised during the COVID-19 pandemic, yet external and internal challenges are still putting pressure on long term growth (Exhibits 5 and 6). Of course, disruption from the COVID-19 pandemic is still high on the list (31 per cent of the responses) but there is also strong external pressure from a legislative and regulatory compliance viewpoint as well as from customer demands (both 16 per cent).

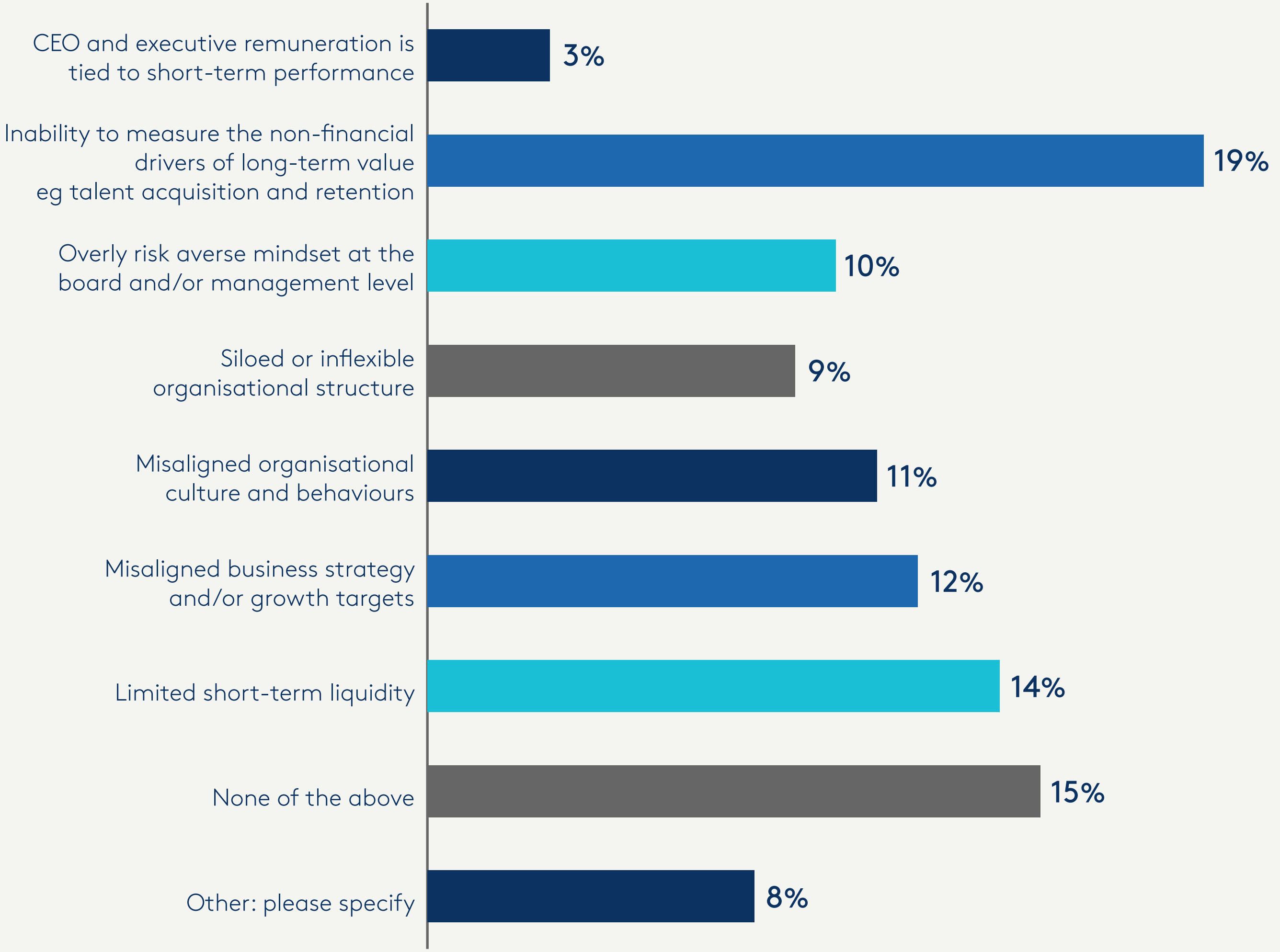
When looking at internal pressures, 19 per cent of the responses mentioned the inability to measure the non-financial drivers of long-term value creation (for example, talent acquisition and retention) as well as short-term liquidity (14 per cent). There were also several other categories that attracted respondents' attention, including misaligned business strategy and/or growth targets (12 per cent). Interestingly, several respondents selected the "None of the above" answer (15 per cent) and "Other" (eight per cent). When looking at their text inputs, several respondents mentioned shortage of qualified staff and staff turnover as key inhibitors.

EXHIBIT 5: Since the onset of the COVID-19 pandemic in early 2020, which of the following external factors has had the greatest impact on your organisation's ability to focus on long-term growth?



n = 790
* Respondents could select up to 3 options

EXHIBIT 6: Since the onset of the COVID-19 pandemic in early 2020, which of the following internal factors has had the greatest impact on your organisation's ability to generate long-term value?



n = 788
* Respondents could select up to 3 options

In the 2019 study, we found that an organisation's innovation ambitions were challenged by access to talent, capital and time to make informed decisions. Specifically, 31 per cent of responses said access to talent was their greatest challenge. In interviews with directors, the problem of 'short-termism' was also repeatedly raised as being at the heart of innovation challenges (see Exhibit 6, AICD, 2019).

Interestingly only 10 per cent of responses identified an overly risk averse mindset at the board and/or management level as impacting on long-term value creation. This may further corroborate the insight that the level of risk appetite might not be as great an issue in Australian boardrooms, with the challenges being in the translation of this appetite into concrete action (see Exhibit 3).

MARKET EXPECTATIONS FOR LISTED COMPANIES

On a more structural level, various interviewees pointed to the challenges of operating in Australia's listed markets, and its pressure for dividends and the dividend imputation system, which is causing an over-emphasis on the short term and therefore inhibiting innovation. When asked what was driving this tendency towards the short-term, **David Gonski AC FAICD*Life*,** Chairman at Sydney Airport Corporation and Barrenjoey Holdings, replied: ***"Return. If you are a long-term investor in listed stocks, you look at the share price perhaps a maximum of once a week. If you are focused on short-term, you look at it every minute. Now, how do you satisfy those who are looking every minute and those whose perspective is longer term. The answer is you cannot really afford long term concepts of innovation, which a) might fail, because you will be out the door; or alternatively, b) that may not allow you to pay the dividends that shareholders require."***

Sally-Ann Williams GAICD highlighted that ***"all of my companies I work at face challenges listing in Australia, because of the constraints around patient capital. It is not a big enough capital market for most of the companies that we work with to scale significantly, and it often values short-term growth rather than long term growth. In Australia, if you are a listed company, there can be a large focus on dividends and returns to shareholders, but you will not have a short-term return to a shareholder if your company is going to prioritise re-investing in R&D and innovation vs profits over the next 10 years."***

WILL REMOTE WORK HINDER INNOVATION?

When asked whether Work From Home practices have affected innovation, interviewees responded with mixed opinions with some stating that it was too early to express a firm view on what the future of work might look like. The general consensus was that remote work had both its challenges and opportunities, and that the success of flexible working arrangements is highly contingent on a number of factors including the type of organisation, the relevant organisational level, the type of team, and even the particular individual among others. Nonetheless, there was agreement that hybrid working models, with a combination of both remote and in-person work, are here to stay.

These practices can be powerful as they can enable employees to have a greater sense of confidence and independence in their decision making. ***"As we moved to working from home during the pandemic, many organisations compressed the decision-making hierarchy. We became far more agile and nimble. Things were delegated down because it was just more efficient and effective to give people that freedom and ability. I think there is a consciousness about not losing that nimbleness and not losing that greater sense of delegation and authority that people had"*** (**Elana Rubin AM FAICD*Life*,** Non-Executive Director at Telstra Group).

However, the main proviso to remote working arrangements is that it can gradually diminish an organisation's sense of identity. As many directors expressed, there is no replacement for having people in the same room and the energy this can bring. This is particularly relevant for cultivating innovation where collaboration and communication is essential. **Eileen Doyle FAICD** directly addresses this:

"Sometimes it is important to have people come to work as a team and feel a sense of organisation. It is that kind of collaboration that usually creates innovation. Occasionally, you do get innovation from the individuals. But it is really that collaboration, and exchange of ideas that leads to the best innovation."

FINDING 2:

Effective innovation relies on collaboration between the board and management

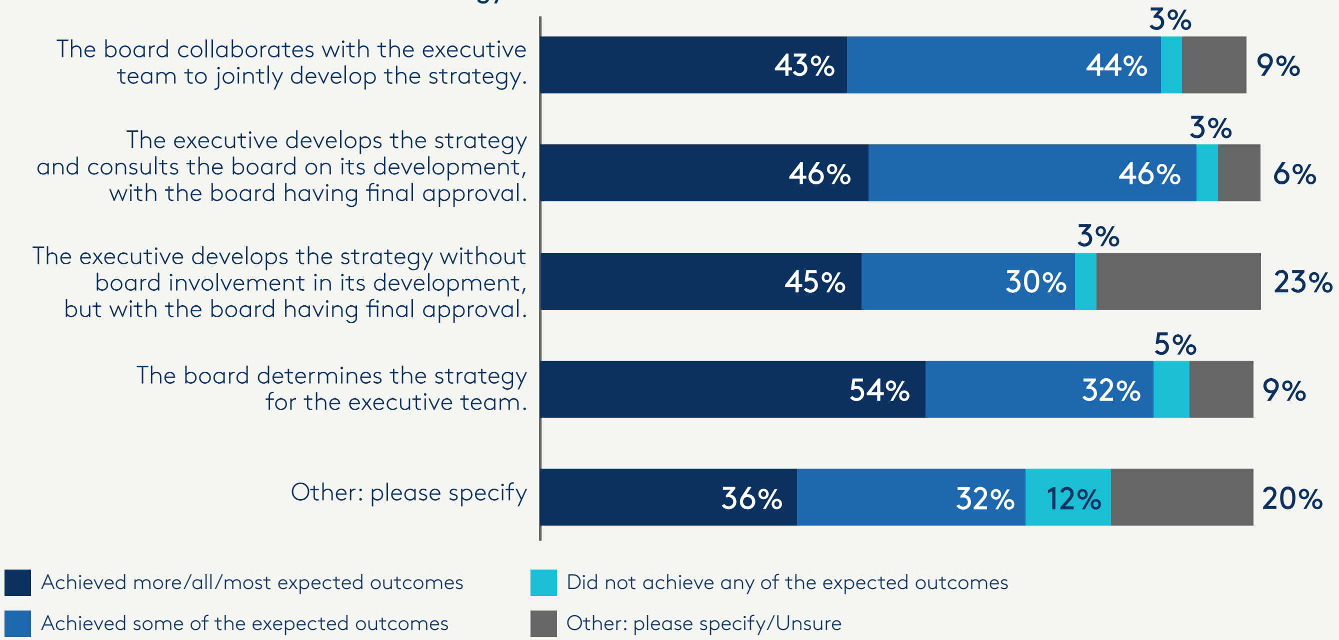
The relationship between the board and management in the development and execution of strategy undoubtedly plays a crucial role in achieving strategic outcomes (Exhibit 7). More than half of respondents (58 per cent) said that the board and the executive collaborate in the development of strategy and 25 per cent said that the executive consult the board in strategy development. Only a handful of respondents said that either the board develops the strategy by itself, or the executive does so without board involvement.

Consistent with the key findings of the 2019 study, organisations where the board and management collaborate in the development of strategy tend to be associated with better outcomes from innovation (Exhibit 8 and compare Exhibits 14 and 15 in 2019 report). Further, a McKinsey & Co. study of almost 900 boards and senior executives found that boards that more effectively collaborated with senior management during the COVID-19 pandemic also more effectively helped their organisations (Huber, ***et al.***, 2021).

EXHIBIT 7: What is the role of your board in the development of strategy?

n = 813

EXHIBIT 8: Role of the board in strategy and achievement of outcomes from innovation



n=777

Percentages may not add to 100 due to rounding

Based on interview responses, strategy is clearly more often on the agenda of Australian boardrooms than before the COVID-19 pandemic. This is consistent with evidence from international studies that highlighted that the most adaptable boards include strategy as a topic on every board meeting's agenda (Huber, ***et al.***, 2021). Similarly, boards have expressed a strong preference to spend more time on strategic decision making and transformation planning rather than engaging with investors, financial reporting and traditional risk and compliance (Sutherland and Winter, 2021).

The extent of director involvement in strategy development and execution is often dependent on the resources available to an organisation. One of the directors articulated that ***"as opposed to an ASX company where the focus would be primarily on strategy, in the SME and NFP space, as a director you are asking a lot more questions about execution and having a lot more conversations around what the execution steps are. You are not doing execution of course, but there is a lot more focus on both strategy and execution than just strategy"*** (**Heith Mackay-Cruise FAICD,** Non-Executive Chair of Straker).

THE ROLE OF THE BOARD IS TO ESTABLISH INNOVATION GUARDRAILS

One salient finding is that the board and management have distinct yet complementary roles when it comes to driving innovation. Management is primarily responsible for ***"delivering the ideas and rationale for a strategic approach"*** to innovation and also ensuring that they have some understanding of the expected outcome (not just the building blocks). Notably, bringing this strategy into fruition will inherently involve some level of risk. On the other hand, the board's role is to ***"pressure test, probe, question, doubt and then ultimately support"*** management. In other words, the board is responsible for setting the boundaries, parameters, or ***guardrails*** within which those management risks are undertaken. **Professor Michael Hartmann**, Professor at the Degroote School of Business and Principal of The Directors College, McMaster University (Canada), provides further guidance:

"The board's role is to set the guardrails, the lanes which management can operate within. If you see management going outside that is when you engage and when circumstances warrant, realign those guardrails."

These distinct responsibilities also allow for management to take risks more comfortably, knowing that they will not immediately be shut down by the board if they are working within agreed parameters. **John Mullen AO,** Chairman of Telstra Group explains this:

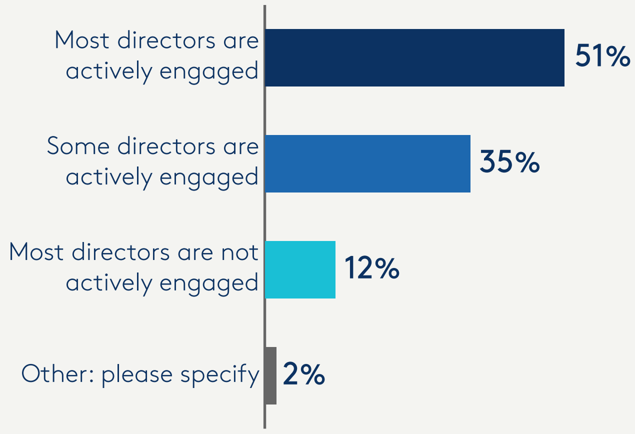
"It is important that boards have a healthy scepticism around new innovative ideas. But, if these ideas are reasonably consistent with what you know management have done well before, and with the business model and our skills and resources, then just put guardrails around it that make sure, if it fails, it is not going to bankrupt the company. What you do not want is to always prevent management from executing their ideas. That stifles innovation completely. What management will end up saying is – "What is the point of putting that up? The board will never approve it. Do not take a risk or we will all get fired for making a mistake."

STRATEGISING POST-COVID: PREDICT AND ACT NOW

During the interview process, we heard that to deliver on outcomes in the medium- to long-term through innovation and technology, organisations need to switch from a reactive 'sense and respond' approach of mitigating threats and risks (such as the COVID-19 pandemic), to a more proactive 'predict and act' approach of anticipating future customer needs. Crucially, **Andrew Stevens**, Chairman of Industry, Innovation & Science Australia, criticises the dwell time that is generated in a ***"sense and respond"*** approach, stating that it is ***"not good enough in today's world"***. Instead, the "predict and act" approach, as a corollary to future thinking, is far more effective in driving growth and therefore innovation (Snowden and Boone, 2007). As such, top organisations compete on the basis of innovation, because rather than trying to protect and slow down competitors, they are constantly moving quickly to anticipate the needs of customers.

Evidently, innovation for the purposes of differentiation and maintaining a competitive advantage must be integrated into strategy. As **Andrew Stevens** puts it: ***"strategy, sustainability and shareholder value are all circles in Venn-diagrams with innovation at the centre."*** Clearly, innovation and technology are important to directors as their impact enhances the value proposition of the organisation. In the survey, 51 per cent of respondents stated that most directors are actively engaged on innovation and technology matters (Exhibit 9). Conversely, 47 per cent of the respondents said on their board some or most directors fail to engage with innovation and technology related matters. These results suggest that the conversation about innovation may often be driven by a small number of directors rather than the whole board, thereby slowing down progress. Methods to improve the board's common understanding of emerging trends are discussed further in the board education section of this report, and may be key to lifting performance (Finding 6).

EXHIBIT 9: How would you rate your board's level of engagement on innovation and technology related matters?



n = 792

ACCEPT THE RETURN ON INVESTMENT MAY NOT ALWAYS BE CLEAR

When asked how to monitor a strategy that prioritises innovation, the general sentiment amongst all interviewees was that there are no blanket metrics to monitor innovation. Rather, these need to be tailored to the specific circumstances and type of innovation an organisation is pursuing. Regardless of the specifics of these metrics, various directors emphasised the importance of them being clearly defined, and outcome-based with frequent milestones.

"When I look at the quality of an idea, I would rather back a good idea where there is an excellent implementation plan and a good team to do it, than an excellent idea where you do not think there is any hope of it being implemented. Implementation is really about the 80/20 rule, it might be 20 per cent, in the great ideas, but it is 80 per cent implementation, and that is what will make or break the success of an innovation. It is vital from a board perspective, that you track implementation. In doing that, you must be outcome-based, rather than process based. You must create measurable outcome milestones that you can look at and see whether you are really getting there or not" **(Eileen Doyle FAICD).**

However, there are some exceptions for when having a solid set of outcome-based metrics may not be entirely applicable as innovation sometimes involves delving into areas which are too nascent to have any established performance indicators. This is particularly the case when considering long-term innovation across a 10-20-year horizon. In such circumstances, a calculated risk must be undertaken, where an established set of metrics may not always be available.

In conversation with one director, we explored investment into the next generation technology in an industry. The director emphasised that, with a blue sky type of innovation, the organisation has to invest with a limited understanding of the ultimate impact. At the time when the organisation has to make the investment, it knows that there is a need for such technology, it knows that there will be a demand, but it is far too early to quantify the extent of it. By the same token, a company cannot delay investment as uncertainty will persist for some time yet. As time passes by and uncertainty is resolved, the specific metrics to hold management accountable on will become clearer, and the board will be able to monitor effectively.

From the international research, we found that boards talk about strategy more often than before the emergence of the COVID-19 pandemic and they are also more agile in allocating resources. A recent report by McKinsey & Co. analysed implementation of board practices of directors in response to the challenges posed by the COVID-19 pandemic. A board's ability to implement effective changes to help the organisation respond to the pandemic was found to hinge on adaptability in meeting challenges. The most adaptable boards were more likely than others to implement a range of changes.

Directors at more adaptable boards, among others, showed a distinctly stronger focus on strategy by including it on every board meeting's agenda, an increased time commitment to board work, and overall, more agile behaviour. This included improved team dynamics, increased use of technology and digital collaboration tools and improved board processes, such as more frequent updates on company insights and shorter reports (Huber, ***et al.***, 2021).

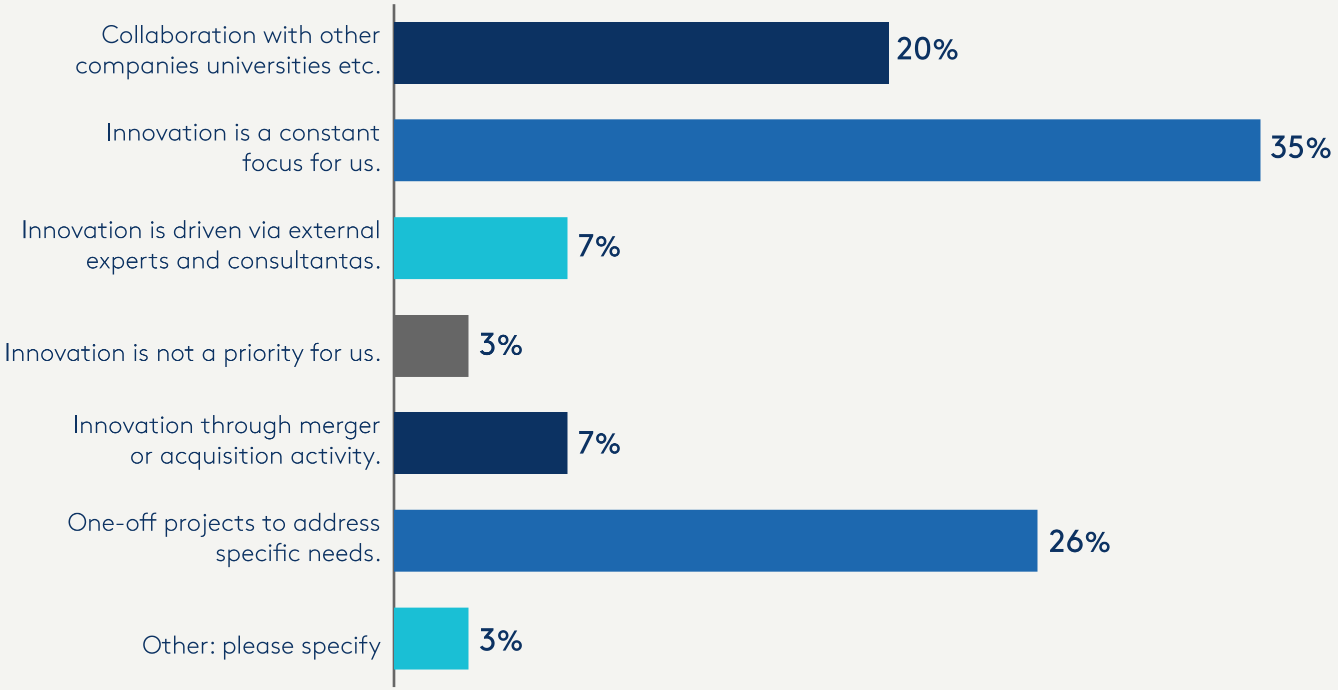
PARTNERSHIPS ARE CRITICAL TO INNOVATION

A number of interviewees emphasised the importance of fostering long-term, often exclusive, collaborative partnerships to future-proof oneself and to gain a competitive advantage. However, collaboration with other companies and universities did not emerge as a key component of innovation in the survey results, with only 20 per cent of responses citing such practices (Exhibit 10). When asked about approaches to innovation, 35 per cent of responses said that innovation is a constant focus for them, while 26 per cent said that innovation was about ad-hoc projects to address specific needs.

The importance of external collaboration is supported by various international studies on the subject highlighting the value of partners operating in different industries or sectors, because they provide crucial insight beyond industry blind spots (EY, 2022).

In contrast to the establishment of exclusive partnerships, innovation can also emerge by engaging in "open innovation" practices that bring established businesses closer to the start-up ecosystem. These practices can then become the foundation of longer-term collaborations.

EXHIBIT 10: Which of the following statements best describe your organisation's approach to innovation?



n = 833

* Respondents could select all that apply

CASE STUDY: BOARDS NEED TO ENSURE MANAGEMENT LEADS NOT LAGS

Partnerships among larger organisations and start-ups, whether domestic or international, are increasingly important in gaining and sustaining a competitive advantage, as well as preparing for potential disruptions such as the COVID-19 pandemic. In large and complex organisations with multiple businesses, boards are relying on management to tap into the right resources to both stay on top of trends and identify potential partnerships that will provide an advantage for years to come.

Coles Group (Coles) is a good example. The organisation operates more than 2,400 retail outlets across Australia ranging from supermarkets, liquor outlets to fuel and convenience stores. As part of modernising and improving its operations, Coles entered into two partnerships — one with Witron, a company that builds automated distribution centres and Ocado, a leading technology provider in automated single pick fulfilment technology and home delivery solutions. Both partnerships were entered into before the pandemic. Ocado will place Coles in a strong position, as they will help accelerate their grocery e-commerce operations while Witron will deliver long term structural cost advantage through automation, data and technology. By establishing these partnerships, both Coles and their partners are able to secure a competitive advantage — a reward for investing the time and effort to modernise and improve Coles' operations and put the infrastructure into place.

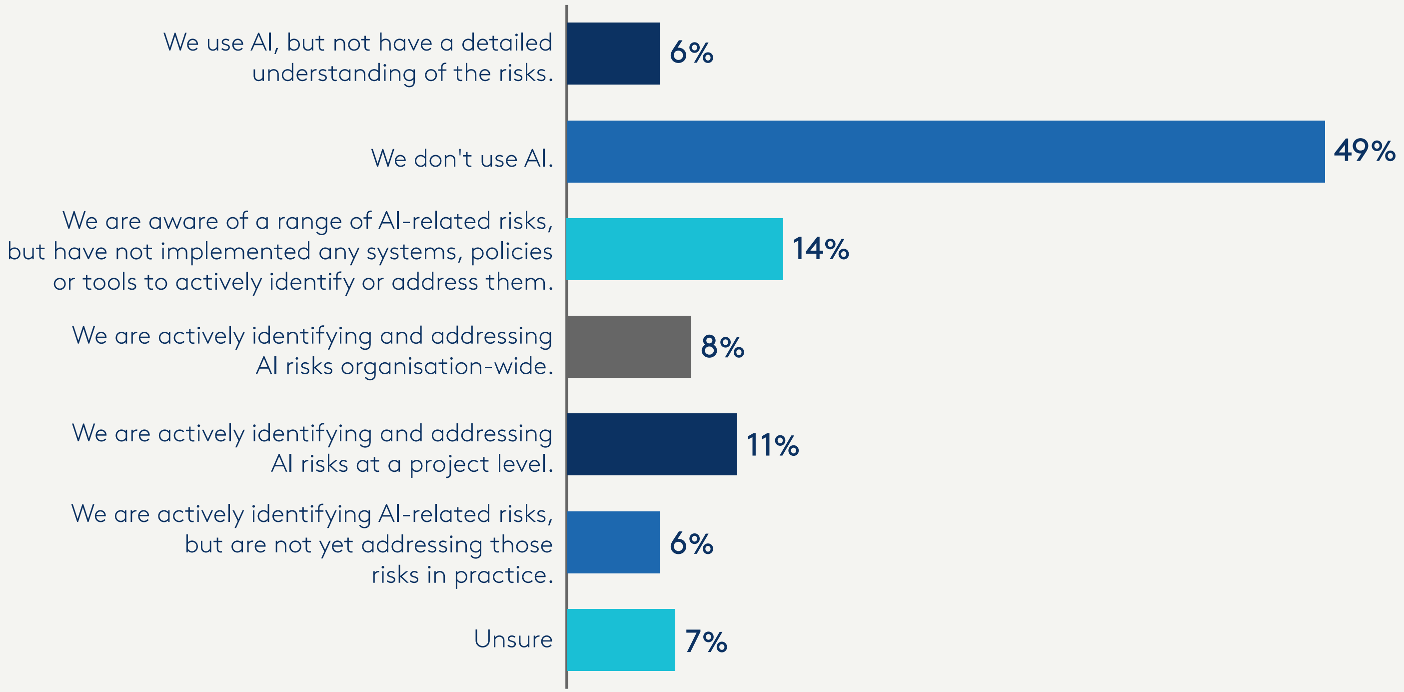
Finding partnerships starts with understanding the evolution of the ecosystem around an organisation, well beyond traditional competitor scanning and benchmarking. By systemically monitoring the start-up ecosystem around the retail sector, management better understood what was happening from the customer needs perspective.

Wendy Stops GAICD, Non-Executive Director at Coles, highlighted the importance for management to network broadly as that will become a source of ideas for partnership and innovation. ***"The job of the board is to ensure their executive team is in touch with future trends and looking to secure a competitive edge. They should be talking to industry experts, research academics who are specialists in a particular area and organisations overseas who may be successfully executing great initiatives."***

BOARDS NEED TO BETTER UNDERSTAND THE TRADE-OFFS OF AI

There is no doubt that Artificial Intelligence (AI) is going to be one of the most impactful technologies of our times, although it comes with significant ethical and privacy challenges. When asked in the survey about their organisation's ability to identify the risks associated to AI technologies, almost half of the respondents said that their organisations do not use AI at all (Exhibit 11). Further, only eight per cent are actively identifying and addressing risks at the organisation-wide level. These results suggest that many directors may not be aware of the use of AI in their organisations or that indeed, its use is relatively limited. Of potentially greater significance, the results also suggest that more can be done to identify and manage risks associated with the use of AI, and that the board can play an important oversight role.

EXHIBIT 11: Artificial Intelligence (AI) technologies are increasingly being used by organisations, both directly and indirectly via suppliers. How would you describe your organisation's ability to identify and address commercial, legal and reputational risks associated with the use of AI?



n = 780

FINDING 3:

Experienced directors do not talk about innovation - an innovation mindset has to become 'how we do business here'

During the interviews with experienced directors we explored at length their definition of innovation and how organisations can make it part of 'how they do business'.

One thing that became clear was that innovation often demands having a particular mindset or approach to questioning management. This is a mindset that allowed organisations to quickly adapt to the disruptions brought by the COVID-19 pandemic. Some interviewees such as **Christine Holman GAICD,** Non-Executive Director at Indara, even described the innovation mindset as forming part of an organisation's ***"DNA"*** and as ***"a subliminal way of thinking"***. In this sense, innovation is not something that is outwardly discussed, but is practiced every day by effective directors without consciously thinking about it.

Five key themes emerged during the interviews which subsequently form the key interconnected components of the 'innovation mindset.' The innovation mindset underpins every aspect of an organisation — from strategy to culture, to board composition, to the requisite skills and attitudes embodied in directors.

1. Constantly scan for changes before they happen

Several interviewed directors emphasised that we need to fully acknowledge that we are living in times of constant change and uncertainty. **Christine Holman GAICD** makes note of this:

"It is about how one thinks differently about almost everything, right in the middle of COVID-19, in a world where there is no certainty about how this is going to play out, so you cannot do the same thing anymore. The status quo does not apply."

2. Be curious, humble and new thinking

Naturally flowing from this openness to change is the need to be curious and to embrace new ways of thinking. This involves a willingness to depart from pre-established beliefs to truly direct one's mind towards the future. An innovation mindset requires one to think about the long-term and recognise that some of the old approaches and legacy systems may not be relevant in today's world.

Elana Rubin AM FAICD*Life* explicitly framed innovation as ***"more about the mindset and curiosity which comes through the questions that you ask management."*** This focus on the cognitive dimension to innovation is supported by **John Mullen AO,** who defined the term as ***"the constant searching for new ideas, thinking laterally and not being stuck in your core rut."***

The role of directors is to challenge and guide management, with the benefit of their outside perspectives, in ways that fuel more creative ideas and even reframes how the organisation perceives itself. For example, Facebook in changing its name to Meta, did so to reframe its focus beyond social media and into the 'metaverse'. Tesla has framed itself as an energy company, rather than an auto company. The vision the organisation has for itself, that is, the frame it uses to define itself will greatly influence the organisation's people in their approach to finding solutions for the challenges it faces.

Curiosity also means stepping out of the boardroom and engaging with employees, as innovation can be sourced from areas one least expects. It is about shifting from an organisation which has solid lines between different levels of the organisation to one with dotted lines which encourages communication and collaboration across these various levels. For example, one director mentioned that one of Coca-Cola's best PR campaigns – having bottles and cans with names printed on them – was in fact suggested by a packer, who was also mother, and who thought it would be appealing to customers to have their child's name labelled on a Coca-Cola can

3. Be ambitious and challenge the status quo

Whilst an openness to change and innate sense of curiosity relates to the breadth of the innovation mindset, the next component is 'thinking bigger', which relates to depth. How deep or distant into the future are you thinking? How much risk are you willing to take when investing in new fields and products?

Christine Holman GAICD has highlighted how innovation requires a new mindset at the board and organisational level to ***"challenge the ambition: what is the largest and best picture of what is possible?" and "challenge how things are done not in just product and service development but in every aspect of how an organisation conducts itself".*** Further, she highlighted how innovation is not the result of one individual with brilliant ideas, but rather ***"everybody has some genius in them waiting to be unleashed."*** This became particularly evident during COVID-19, when everyone from the factory floor to the board had to think creatively and step up.

4. Increase risk appetite for innovation and seek learnings in failure

Innovation requires taking risks, accepting that there might be some degree of failure and an acknowledgment that this forms an essential part of the innovation process. Across the interviews, one of the major criticisms of Australia's innovation climate is our perceived fear of failure, which stifles growth and innovation by breeding risk-aversion. Ultimately, there needs to be a rethinking of failure in the senior leadership team as well as in the boardroom. Rather than seeing it as a "black mark" against someone's name, it should be viewed as a sign of their courage, growth and resilience in their ability to take risks and overcome adversity. As many interviewees emphasised, informed risk-taking should not be career-limiting, but rather encouraged.

Various interviewees highlighted Australia's discomfort with failure. For example, **John Mullen AO** makes note of this cultural difference: ***"in America, if you have not got a couple of failures under your belt, you're probably not worth employing. These people carry the scars, and I believe you learn much more from your disasters than you ever do with your successes. I do not think we have a good culture of fostering that in Australia, and that flows through to innovation in 'Why take risk? You are better off just continuing doing what you are doing now, or all the investors and media will be all over you.'"***

5. Understand and accept ambiguity

As the COVID-19 pandemic has demonstrated, ambiguity and uncertainty are unavoidable in our rapidly transforming world. As such, in the case of investment in innovation one often has to invest in a theme without knowing upfront how to quantify the expected outcomes. The metrics of success will become clear as the investment unfolds over time.

CASE STUDY: FRAMING PROBLEMS TO INSPIRE INNOVATION

In organisations where innovation is part of their DNA, the board and leadership team work in harmony to bring new perspectives to problems, be agile in decision making and promptly bring innovative solutions to the marketplace. Directors bringing an innovation mindset to their role is essential to being successful in this process.

Domino's Pizza Enterprises (**Domino's**) (which started with the Australian master franchise for Domino's Pizza out of the USA in 1983) has gone through extraordinary growth in Australia and overseas since its beginning. It has often been praised for its use of technology, including its 'DOM Pizza Checker'.

In the interview with **Lynda O'Grady FAICD,** Non-Executive Director at Domino's, it became evident that Domino's board and management have, in developing their strategy, brought a mindset which, amongst other things, embraced big ambitions and challenged conventional thinking for their industry. They have approached strategy and innovation through the lens of delivering outcomes for people, by leveraging technology.

Domino's developed its 'fortressing strategy', which started just before the emergence of the COVID-19 pandemic, which aims to shrink rather than expand each store's delivery radius, as other retailers are doing. As part of the strategy, Domino's has its own delivery drivers (rather than rely on delivery services provided by, for example, Uber Eats), has a car park delivery strategy and has explored using drones to reach close by customers. If the company had framed itself as a technology company – trying to reach the customer as fast and cheaply as possible - rather than a people company, then it would have probably embarked on a strategy to expand the delivery radius and decrease the number of stores as most other competitors have done.

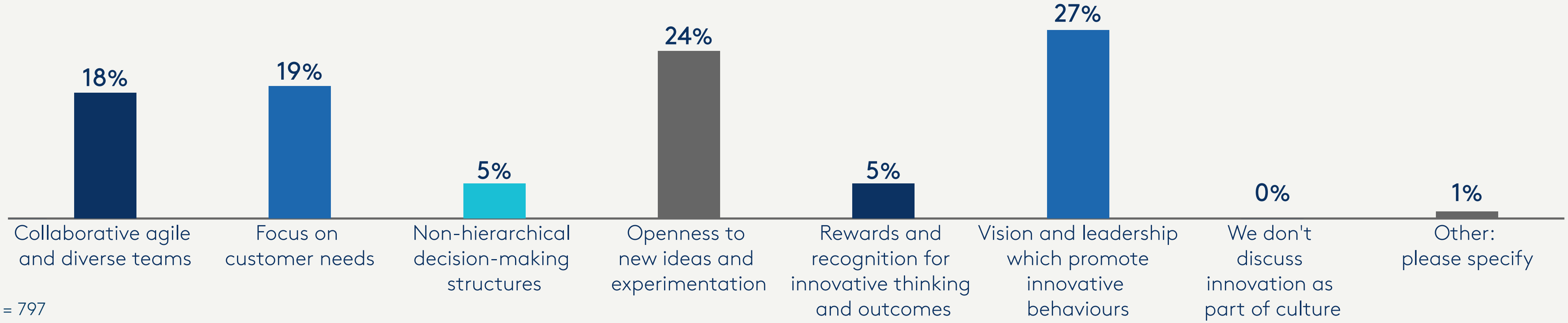
Lynda O'Grady FAICD explained during her interview that this approach became even more crucial during the pandemic when customer proximity to stores became critical. Even in these circumstances, the board and management continued to bring a mindset which viewed the situation as a people crisis, not just a health crisis. The difference may be subtle but the implications for action were extraordinary.

If one was to define it as a health crisis, the most immediate reaction may have been to shut down the stores, as long as closure was financially viable, which was the approach of such companies as Apple. Instead, the situation was viewed by Domino's as a people crisis, where they recognised that many of their customers were having limited human interaction each day, and that Domino's frontline staff provided a point of human contact. In addition, Domino's focused on their own staff and how much they depended on their job to survive. Having a focus on these situations, meant accelerating the deployment of the existing fortressing strategy, by pursuing even closer engagement with customers rather than less. For staff it meant focusing on their health and welfare, with the early and rapid purchasing of huge volumes of PPE and cleaning products.

FINDING 4:

Prioritise leadership vision

EXHIBIT 12: Which of the following attributes are most important to developing a culture which nurtures innovation?



n = 797
* Respondents could select up to 3 options

A culture that fosters innovation and calculated risk-taking starts with the board. Directors agree that that setting a clear 'tone from the top' is needed, supported by alignment between the board and management on priorities and risk appetite. Indeed, an important aspect of the board in innovation is defining the desired culture, including through the appointment of the CEO. From the interviews, as well as the open-ended questions in the survey, it became evident that if directors appoint a CEO that is largely focused on the very short-term and does not allocate time to learn and talk about innovation and new technologies, the rest of the organisation tends to follow and any attempt to bring in innovation from the bottom-up will fail.

When asked about the attributes that are most important in developing a culture that nurtures innovation (Exhibit 12), a large proportion of the respondents said that the greatest drivers are vision and leadership which promotes innovative behaviours (27 per cent of responses), an openness to new ideas and experimentation (24 per cent), a focus on customer needs (19 per cent) and collaborative, agile and diverse teams (18 per cent). Surprisingly, less popular options were the presence of rewards for and recognition of innovative thinking and outcomes (five per cent) as well as the presence of non-hierarchical decision-making structures (five per cent). In a complementary finding, an international study by Harvard Business Review in 2019, found 31 per cent of their respondents identified lack of senior management vision and buy-in as one of the key reasons holding back innovation in their organisation.

Everyone in the organisation is responsible for innovation, and this should be seen through a risk lens. In fact, the concepts of experimentation as well as failure recurred throughout the interviews. For example, **Elana Rubin AM FAICD*Life*** mentioned that ***"one of the things that is important around innovation is also being prepared to fail, and for failure not to be seen as career-limiting or fatal. When something new does work as imagined, it is an opportunity to sit back refresh, refine, tweak. It can be a learning experience for everyone. Business is about the business of taking risk. What you do not want is innovation led by a thought-bubble, but you do want to innovate where you are taking considered and deliberate risk to try something new, and not every risk will pay off."***

CASE STUDY: GOOD360 AUSTRALIA

Good360 Australia is a NFP organisation with 30 employees (2021) which was founded in 2012. It operates by taking new goods (e.g. clothing, homewares, personal hygiene, nappies, cleaning products, toys, books and scholastic supplies) that have not been sold from retailers or from the consumer goods sector, matching and then distributing them to almost 3,500 charities and disadvantaged schools nationally. The organisation has grown in the last five years from delivering $5 million to $88 million goods per annum.

The Challenge

Obtaining funding is a constant challenge for Good360 because it does not fit a known philanthropic cause area to receive government funding or funding from philanthropic organisations.

More broadly, innovation within the charitable sector is quite challenging, and the main issue facing the organisation was educating the charities within its potential supply chain. The main stakeholder touchpoint is an e-commerce platform and therefore educating the client base (charities) to use a new business platform has required a behavioural change that took time to embed. Changes needed to happen and as **Matthew Barnett FAICD**, Chair at Good360, puts it: ***"At its heart, innovation of your business model is applying something new that requires a behavioural change between yourself (e.g. your organisation) and the stakeholders with whom you interact."***

What Good360 did

During the COVID-19 pandemic the key question became: Can they grow fast enough to meet substantially increased community needs?

Good360 rose to the challenge of sourcing much needed goods from donors such as PPE, hand sanitiser and cleaning products. Additional cash donations from some key philanthropic backers who knew Good360 could respond quickly covered additional operating costs. Later, as Rapid Antigen Tests (RATs) were required, Good360 became active in distributing these as well. When additional capacity was required in the warehouse due to a reduction in volunteers and charities were no longer able to pick up orders directly due to restrictive lockdown provisions, Good360 quickly pivoted to gain assistance from the Australian Defence Force to keep its COVID impacted supply chain delivering goods.

As a result, many charities were able to stay open to support their local communities and Good360 significantly grew the size of its operations and greatly enhanced its reputation as a solution provider in the sector.

Handling goods is expensive, and so, working with one of their partners, Woolworths Group's BIG W, Good360 created and implemented an innovative approach to reduce operating costs. Good360 would match charities to their local BIG W store. Each of the 180+ stores around the country prepared their goods surplus in the store, ready-made for charities to pick up. By doing so, Good360 effectively tipped the supply channel and added a variant of click-and-collect as a new and more efficient model.

As a result, the distribution of the goods became more cost effective. However, the biggest benefit came in another unexpected area – when the team members at each BIG W store started interacting with appreciative local charities when they came to collect the donated goods. BIG W Team members at each store were impressed to see BIG W directly supporting charities in their local community. That local connection received much positive feedback from charities too. The positive feedback helped Good360 gain interest from other retailers with multiple outlets to participate in a local store donation program.

Outcome

Good360 grew its reputation with donors and with charities while also growing the efficiency of its innovative model. For every $5 of cash donated, Good360 now delivers $100 of needed products to charities.

Role of the Board

Barnett further highlighted ***"it is important that the board understands the behaviours that need to change, because without an anchor in personal action innovation can be a little bit too hypothetical. I think if the board has a sense of these things, it makes it easier for the organisation to move forward with innovation. The board can contribute to the creation of ideas, but I note, having worked in smaller high growth settings for a while, its main role is in priority setting and making a judgement call on where best to deploy limited available resources. I think where board experience can really help a young organisation is: 'Let us prioritise trying this area of innovation in preference to that area and then let the senior management lead and support the rest of the organisation in the ideation phase.'"***

BOARDS NEED TO WALK THE TALK

During interviews we explored different practises that boards can consider in order to walk the talk and drive a focus on innovation down into the organisation. This is not intended to be a comprehensive list but a starting point for conversations in the boardroom.

Provide visibility to innovative ideas

Interviewed directors highlighted the importance of offering visibility to the board of innovative ideas, regardless of whether they are ultimately successful or not. Directors have highlighted that if one asks for innovation from the senior management team as well as from the rest of the organisation one needs to be capable of also providing feedback and an avenue for presenting those ideas.

Revisit past funding decisions when needed

The ability to quickly adapt to the new conditions posed by the COVID-19 pandemic were at the forefront of our conversations with directors. Today, it remains important to have flexibility to reallocate funding when worthwhile ideas emerge outside the traditional budgeting and strategy cycle.

International research provides some relevant insights. One study has identified an elite set of organisations (among the world's largest 500 companies by market capitalisation) that consistently outperformed others based on compound annual average growth rate. These organisations were defined as ***"super accelerators"*** and they differentiated themselves not by industry, geography or strategic focus. In fact, many were trying to do the same things as everyone else: put customers first, innovate, develop the right operating model and so on. Rather, what differentiated them was their ability to mobilise, execute and transform with agility. Ultimately this allows them to adapt and pivot faster than competitors, which is critical for the digital age (Heidrick & Struggles, 2016).

Are the right signals being sent?

Directors need to be mindful that their own behaviour in the boardroom does not send management mixed messages. For example, while formally a board may have declared innovation to be a priority, excessive or undue focus on compliance risks by individual directors in meetings can undermine the confidence of management to execute on broader aspirations for a more innovative culture.

In terms of behavioural attributes, one director highlighted that the most important thing around the board table is humility and integrity and the behavioural attributes of directors. Most people joining a board have a strong CV, but they have different behavioural attributes, sometimes trying to dominate the conversation and be dogmatic rather than open to other perspectives. **John Mullen AO** said ***"If you can [..] have people who really do listen, and they do not just wait for you to finish so they can say what they want to say, they listen to what the other directors want to say and embrace that diverse thinking – then you have got a board that is working harmoniously together. Otherwise, it is a group of intellectuals all trying to shout the loudest."***

Practice the discipline of the blameless post-mortem

As an example of practicing the innovation mindset, **Sally-Ann Williams GAICD** provided insight on a commonplace practice in the technology industry of conducting ***"blameless post-mortem"*** after any failure. The purpose of these discussions is not to assign blame (hence the name) but to unpack learnings from the failure.

"Let us walk through from the beginning and learn from this what actually happened. There needs to be an acknowledgement that we decided to do this and that there is collective ownership. We decided to go down this pathway, this thing broke, it did not work as intended, what could we have done that would have mitigated that? Is there anything that we missed? What did we forget to ask? Is there a question that if we were doing this tomorrow what would we have done differently? It is really important to do this right afterwards and not to assign blame to anybody. It has to be a blameless post-mortem."

FINDING 5:

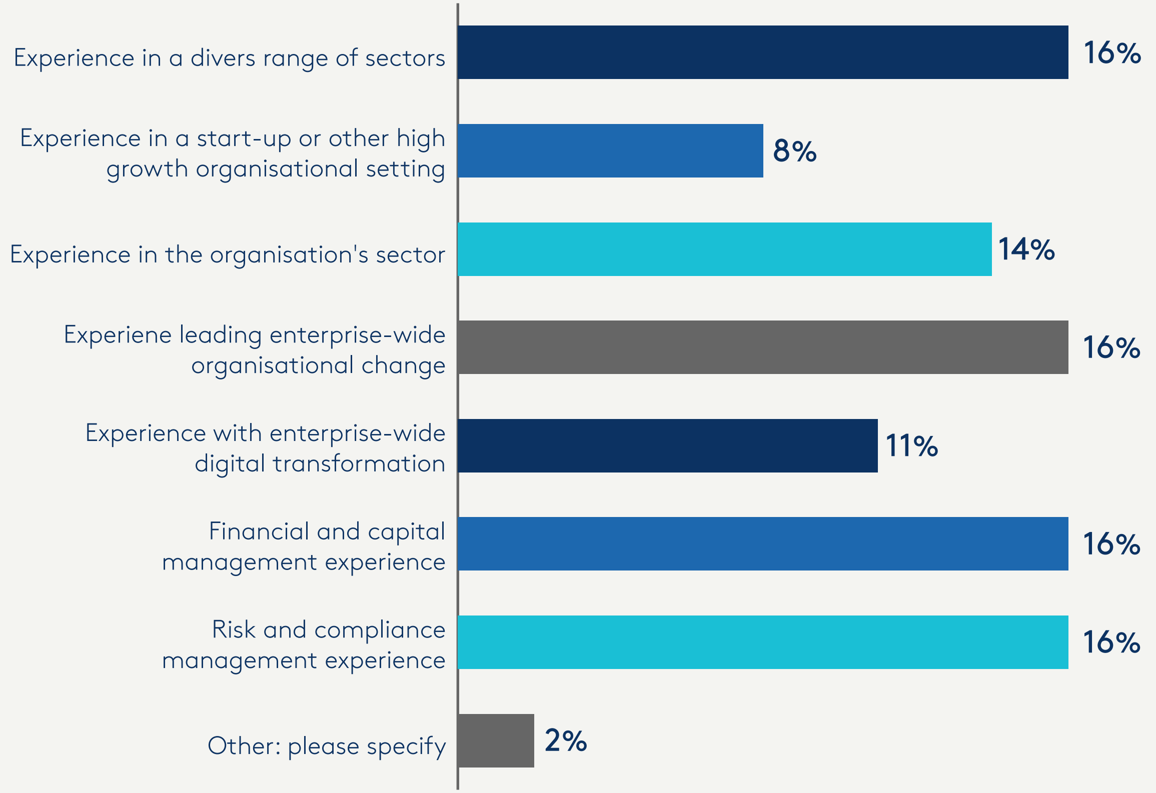
Revisit board composition

Board composition is critical to ensure the Board takes an integrated approach to innovation – it should form part of a board's strategy, culture and risk. Directors told us in interviews that the most effective boards are composed of a diverse group of directors that bring an 'innovation mindset' and include directors with direct experience working in innovative organisations. They also concurred that it is cognitive diversity in the boardroom that is most likely to produce an effective board, rather than having a focus on composition built purely on professional or functionally based careers or on diversity which is purely demographic based.

When prompted in the survey to think about what the most relevant director experiences needed to navigate in uncertainty, the most common answers (all 16 per cent, Exhibit 13) included experiences in a diverse range of sectors, experience in leading enterprise-wide organisational change, traditional financial and capital management experience as well as risk and compliance experience.

This question highlights the importance of a variety of experiences in a boardroom – especially experiences in a range of sectors – but also of start-up and enterprise-wide organisational change. These topics were also prevalent in the interviews with directors. **For example, Elana Rubin AM FAICD*Life* said that**

EXHIBIT 13: In your view, what is the most relevant director experience to navigate uncertainty in the operating environment?



n = 804
* Respondents could select top 3 options

"board composition and diversity is really important. It is about having people that think differently and are comfortable with different opinions, thoughts and perspectives coming through. In the boardroom, you need people who have a curiosity and a sense of wanting to do things differently. For me diversity is a shorthand for people that have come with different experiences and skills and schooling and life experience and, so they take a different path to their decision making."

WHAT DOES A TRULY DIVERSE BOARDROOM LOOK LIKE?

Demographic diversity in a boardroom should be the result of striving for diverse skillsets using broad and unbiased approaches. **Fiona Balfour FAICD** emphasised that diversity should never be just for diversity's sake, which is where having experience in the boardroom and in the relevant domain is important:

"Getting people on your board because you want to improve your diversity statistics is not all that helpful if they do not actually bring value with them. I do think you have better conversations with a diverse room. I do think having a mix of age, gender and the full range of human experience adds value, but it only adds value if they have got the right expertise, because otherwise they will struggle to participate and intelligently add to the board conversation."

This sentiment was echoed by **Michael Hawker AM** FAICD, Non-Executive Director at BUPA, who advised against *"compartmentalising the world"* when recruiting new directors.

"We need board directors today who bring the critical experience in, and understanding of, the drivers of how you build an innovative and sustainable business, which are: employees first, who become experts in our products, know our customers and use data to be able to provide the level of product or service delivery and expertise that our customers now think we should be able to deliver. I have sat in board meetings where a director has said, 'we should have specific Board Directors who come from and represent a minority (Less than one per cent of the community) sector of society.' Alternatively, I would suggest you need more directors who understand how to build, grow and manage a business to be competitive in today's business environment, which has been so dramatically impacted by the global technology revolution happening around us." (Michael Hawker AM FAICD).

Most directors should display an innovation mindset

According to directors interviewed, most directors on a board, if not all of them, should have curiosity and a sense of wanting to do things differently.

Andrew Stevens highlighted that the world has reorientated away from the consumption of tangible value to the consumption of intangible value. Technology and digital play a big part in facilitating this consumption. This requires directors to ask different types of questions. *"Speaking about attributes, curiosity is important, and some experience in strategy formulation, execution, and evaluation as these are at the heart of the competitive advantage that the business has. Recruitment for these directors does not necessarily need to come from the traditional director pool. Boards need directors that match the nature of the business and can support, energise and assure the executive team that they will be treated fairly if they commit and deliver outcomes."*

As for digital skillsets, several directors mentioned that boards need a critical number of directors displaying an innovation mindset in order to start making a material impact to the conversation - the number mentioned was typically three directors. Again, it is important to reiterate that from our interviews with directors, most were very explicit in emphasising the best organisations would strive for all directors to have an innovation mindset.

A critical number of directors should have had experience in innovative organisations

Directors also pointed out that an innovation mindset is necessary for making innovation part of 'how we do business' but several directors have also pointed out that that alone is not sufficient. Boardrooms need to start including directors who have lived organisational innovation in their careers. Only by having experienced the challenges and opportunities of innovation can they challenge and indeed support management effectively.

One director referred to the concept of a T-shaped approach to board composition which is evident in organisations which are more mature in terms of innovation: all directors (not just three) should be innovation literate (displaying the innovation mindset), but at least some directors should have had deep functional experience in innovation. This is confirmed from the survey response in terms of skills sought to deal with uncertainty and innovation (see Exhibits 13 and 14). Some of the other innovation-related skills to search for included those that one can develop through experience in growth organisations and in organisations dealing with challenging situations.

In a practical sense, a starting point for boards that do not have these profiles already in the boardroom, should be having a board skills matrix which explicitly requires at least a critical proportion (usually at least three directors) with experience in organisational innovation. In searching for directors with these skills, boards should be looking across a diversity of people who have experiences in innovation, which means they may need to search beyond the traditional director cohorts.

Do we need a digital expert on our board?

This is a recurring question among directors and boards, along with what it truly means to be a digital director. In 2021 and 2022, in partnership with **OpenDirector**, the AICD has tracked the level of digital skills amongst ASX 200 directors. The headline finding is that in July 2022, eight per cent of all ASX 200 directors could be regarded as digitally skilled (up from seven per cent in 2021). More broadly, we found that 12 per cent of the same cohort possessed STEM skills (up from 11 per cent in 2021). With the typical board having nine directors, this data suggests that on average, ASX 200 boards are approaching a point of having at least one 'digital director' amongst their membership.

Our assessment of skills relies on publicly available information and considers the backgrounds (i.e. education and experience) of directors, and allocates points based on a set criteria. The criteria includes education, experience in technology organisations and experience in technology-related roles.

Unsurprisingly, the sectors with the highest proportion of directors with digital skills are the Information Technology sector (41 per cent), followed by the Communication Services sector (21 per cent) and then the Consumer Discretionary sector (12 per cent).

While almost half of all directors with digital skills have a STEM degree (45 per cent) and/or a Masters degree in technology (11 per cent), they were most likely to attain their digital backgrounds by working in a technology organisation (60 per cent). Compared to the average of all ASX 200 directors, directors with digital skills are more likely to be younger and in executive positions. There is no material difference in digital or STEM skills between the genders.

Although this study focuses on digitally skilled directors (and therefore relatively deep expertise in information technology), the AICD encourages all directors to lift their digital literacy through continuing education. Instead of allocating responsibility to one 'digital director' on the board, all directors should seek to adopt a digital mindset to make informed decisions as a collective.

During the in-depth interviews, directors expressed various views on the relevance of technological or digital backgrounds of directors. In fact, across industries, an MIT study has shown that a board composition of three digitally savvy directors has the highest correlation with improved financial performance, whereas beyond three the effect is only marginal. No effect of specific technology backgrounds, nor age was drawn. The aforementioned study correlated financial performance with general technological savviness. Boards can increase their number of technologically savvy directors through encouraging self-directed learning, having a commitment to board wide education, and adding new directors (Weill ***et al.***, 2019). Several of the respondents to our interviews highlighted that on most boards, there are typically nine directors, so in fact not everyone needs to be a digitally savvy director.

These points were emphasised by **Bill Chang**, CEO of Singtel Group Enterprise, who said that ***"we need to acknowledge that we need the traditional skillsets of 'legal profession, finance, audit and risk', but these directors ought to "also have had good exposure to technology and technology driven innovations. Companies should intentionally put in place succession plans to achieve this good balance needed."***

Elana Rubin AM FAICD*Life* observed that, ***"you can sit on a board of any company and engage very effectively around innovation, digitalisation, and how technology can be incorporated in the business to lead to both better outcomes for the business, its employees and its customers, without being a coder or an IT specialist."***

NURTURING A NEW BREED OF DIRECTORS

Several directors asserted that to truly prioritise cognitive diversity in the boardroom, the director community need to start taking risks in hiring individuals from non-traditional skillsets. **John Mullen AO** emphasised ***"unless we start giving people from non-traditional backgrounds a shot at being on boards, you are never going to build up a wider bank of thinking and innovation, because everyone is going to look the same. While you cannot have your whole board being experimental, if you have got a board of ten people, and one or two of them are experimental all the time, I think that is healthy. You will have a few failures, but you will have a lot of successes, and we need to really broaden the field we are choosing from."***

Sally-Ann Williams GAICD added that ***"we are all a bit set in our ways and think this person has got to have CEO experience, or they have got to have been on the executive of an ASX listed company, or they have got to have done this, and you limit the field down to everyone who looks the same or comes from the same background. Whether you are male or female – you think you have got diversity – if we have got 40 per cent women, but all the women came from exactly the same background as the men, have we really got the deep diversity we need?"***

Skills not age is key

During the interviews, we explored whether boards should look at recruiting younger directors. In Australia, the average age of a non-executive director is about 60, which is similar to the average age of directors of the Financial Times Stock Exchange Group (FTSE) 350 which was just over 56 years (Heidrick & Struggles, 2022).

There has been ongoing debate as to whether bringing younger people onto boards could be an effective catalyst for innovation. Looking outside of Australia, we have seen attempts at bringing younger people onto boards occurring in other countries, such as in Quebec, where they have been actively brought onto government boards. In the USA, corporate boards are getting younger, and the average director tenure is in decline (Abbey, 2022). As highlighted by Julie Hembrock Daum, the North American board practice leader at Spencer Stuart, ***"if you are looking for skills such as people who understand technology or digital marketing or cybersecurity, you are not looking for people who are retired. You are looking for people who are active and are going to stay current on that knowledge"*** (cited in Abbey, 2022).

During the interviews most directors were not opposed to younger directors, but rightly pointed out that the focus should be on the skillset that is needed in the boardroom and that this may mean that younger directors should sometimes be included in some form. That is, when a board looks for skills, these skills might be concentrated in different demographics, but the search should always start from matching skills and the organisation's needs rather than demographics.

In fact, the need to reframe the age diversity question as one regarding skillset and background goes back to ideas of cognitive diversity and the innovation mindset. One director has noted: ***"I think it is attitude and contribution (and enthusiasm) not age that is the important part of the equation."***

It is not necessarily ***age*** that sets young people apart, rather it is their ability to offer different ways of thinking, their different experiences as a digital native and their different skillsets. So, a board should not set out to find a young person, but rather seek people that fit the attributes of ***'cognitive diversity'***. **Matthew Barnett FAICD** makes note of this: **"I am strongly in favour of bringing younger people onto boards. But it is not just youth itself that is important, it is more about having true digital natives and accessing thinking and experience that comes from a whole career immersed in digital technology creation and use."**

Trade-offs in bringing non-traditional directors onto boards

Whilst several directors were in favour of bringing new thinking onto the board, they have qualified their endorsement of this practice by recognising trade-offs and the need for balance. This balance between new lateral ways of thinking and acknowledgement of director responsibilities is encapsulated in one director's remark: ***"If you do want to bring in some of that really raw young thinking onto a board, that is great because they can have some really innovative ideas. As long as they understand that as a director they have got fiduciary responsibilities for a lot of other aspects of the business"*** (**Wendy Stops GAICD**). This is particularly the case for listed entities where directors need to understand the unique expectations of such an operating environment. So, entrepreneurs that were successful in the technology space might not be aware that their contribution in the boardroom is beyond bringing in curiosity, growth, and technology expertise; it has to encompass the entire board agenda, including risk and compliance matters.

DIRECTORS WITH NON-TRADITIONAL BACKGROUNDS ARE AN INCREASING FOCUS FOR RECRUITERS

We also discussed our findings with leading director recruitment firms **Korn Ferry** and **Russell Reynolds Associates** to gauge the extent to which they reflect activity in the director recruitment market. Across those discussions, what we heard was that director recruitment is being driven by the extensive use of board skills/composition matrices. These matrices are increasingly including provision for directors from non-traditional backgrounds and skill sets.

While the need to recruit from amongst former chief executives, accounting/finance and legal professionals remains a significant feature, boards are increasingly seeking to refresh their membership with directors who can challenge and take a board's thinking in other directions. Even the focus on diversity is moving beyond gender, with recruiters being asked to look amongst people of varying life experiences and demographics, including disability, First Nations, rural and regional localities, and younger people. There is a clear appetite amongst boards with the most sophisticated approaches to their composition to achieve diversity which supports strategy, challenges conventional thinking and adds new value to organisations.

'Innovation' skills are not overtly forming part of the brief. However, increasingly directors who have demonstrated during their executive/professional career one or more of the components of the innovation mindset are being sought. This sits alongside, director candidates who have had career experience in technological transformation, large scale change management programs, driving growth and entrepreneurial disruption. While the move towards recruiting more digital directors was underway before the emergence of the COVID-19 pandemic, it has since accelerated as organisations have grappled with the major technological transformations that have been necessary to survive and which will be the norm going forward.

We also heard in the discussions, that boards are taking a longer-term perspective to their succession planning as competition for high quality directors drawn from non-traditional backgrounds and skill sets is getting more intense. Boards, often working with recruitment firms, are planning well ahead for their appointments, engaging with potential candidates earlier, and are increasingly willing to take on directors from overseas or still in the midst of their executive career. It was also noted that as more and more boards are recruiting directors drawn from non-traditional backgrounds and skill sets, a virtuous circle is occurring, whereby other boards are seeing the positive outcomes of such appointments and following the trend.

CASE STUDY: ONBOARDING IS CRITICAL WHEN NON-TRADITIONAL DIRECTORS ARE RECRUITED

Appointing younger directors provides an opportunity to refresh thinking in the boardroom but it also presents some challenges.

As Chair of Telstra, **John Mullen AO**, spent some time discussing the need for bringing in different types of thinking in the boardroom of this ASX10 company. Several directors encouraged a reflection on the board's composition by asking the question: do we have the right directors for the rapid pace of technological change in our industry? Once it became clear that new perspectives were needed in the boardroom, the next step was to identify the right attributes. **John Mullen AO** states that there are two key considerations for bringing someone from the non-traditional director community to the board. First, they must have *"achieved something themselves that was significant, they need to have demonstrated a capacity to build or manage a business. Second, they have to understand the requirements of a large public company structure, with all of the reporting, and governance."*

An example of a young individual who satisfied both these requirements and is now on the board of Telstra is Bridget Loudon, who founded Expert-360, demonstrating her own capacity to grow a business, and had also worked at Bain & Co. She also understood the responsibilities and obligations of directors in large public companies.

Onboarding plays a crucial role in ensuring the successful inclusion of younger directors on boards.

"One of the critical things is that if you bring someone like that in, they do not feel they are alone. That all the other directors look alike, and then there is them sat on the rock over there. That is a lonely place to be. Of course, it can go very wrong by making those appointments, and you cannot just leave a new director to swim alone and hope that they survive. You really need to work at it. Two of the main reasons why younger people have not succeeded on boards is that, first, they got bored of the governance and bureaucracy, and second and mostly, they were left to swim on their own, they did not feel any collegiality with the rest of the board" (John Mullen AO).

One approach to address these challenges is through approaches to selection and induction. For example, potential directors could be invited into boards and committees first in an observer capacity. That way they can gain some experience and contribute to discussions without feeling overwhelmed. Once formally appointed, the Chair and another director may spend time in one-on-one meetings with the new director to support and mentor them. **John Mullen AO** notes that this mentoring or partnering relationship does not necessarily need to be within the formalities of the boardroom, but can also occur in informal settings: *"I took a lot of effort to have a mentoring role from one of the other directors who spent a lot of time with her beyond the formal induction, by also having lunch and a coffee regularly, and ask 'how are you feeling about it?'"*

FINDING 6:

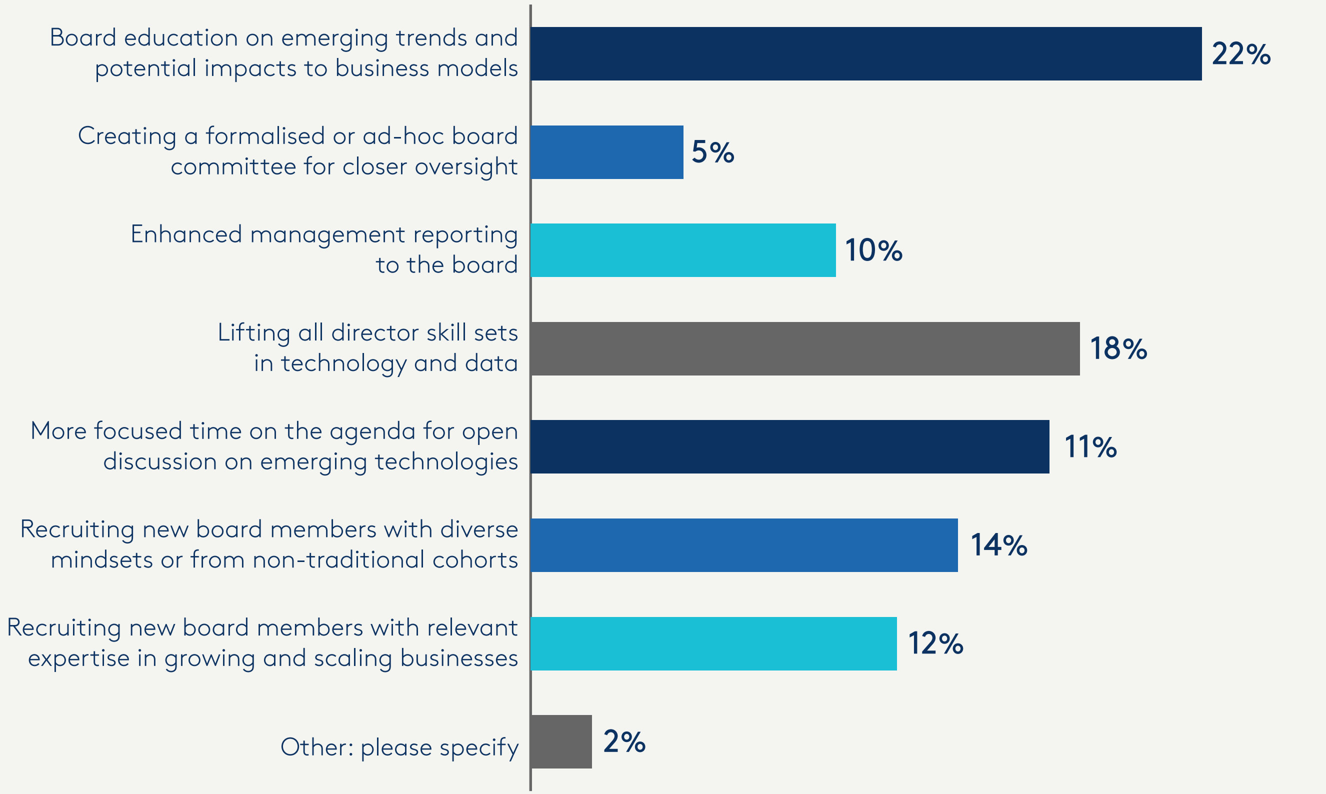
Board education is critical and committees can aid focus

When asked about practices to enhance a board's oversight of innovation, technology and disruption, 22 per cent of the responses indicated it was most enhanced by board education on emerging trends and their potential impact on business models (Exhibit 14).

Eighteen per cent of the responses recognised the need to lift all directors' skillsets in technology and data, at the same time acknowledging the current need for improved understanding of technology within the board. Further, 17 per cent of the responses said there is a need to have more focused time on the agenda for open discussion of emerging technology.

The number of directors who believe it is time to recruit new directors with expertise in growing and scaling a business and with diverse mindsets and non-traditional cohorts is noticeable (14 per cent). Also noticeable and unexpected is the low proportion of directors that see a potential need for an innovation or technology committee (five per cent).

EXHIBIT 14: Which of the following would most enhance your board's oversight of innovation, technology and disruption?



n = 778
* Respondents could select up to 3 options

Whereas each director is ultimately responsible for their own upskilling, several directors pointed out the importance of shared experiences as a board, as well as the board with management, to truly drive change and shift practice. For example, two directors mentioned the critical importance of *"a coalition for change, a group that support each other."* **Sally-Ann Williams GAICD** highlighted that *"we all know the statistics of what happens if you have a representation of one around a table, it does not matter whether it is gender, culture, skill, if you are the lone voice, it can be very hard to actually drive a cultural change, and you have to drive it from the top down."*

Professor Michael Hartmann added that *"there is typically a coalition for change that is required and the number you have heard sometimes is it takes three or more to push for action. If you have one person who does not look like everybody else, it is a lonely voice. If a board thinks, suddenly, we need someone to help us with innovation and they find this amazing person, the amazing person will not stay very long if they are the only voice. It is typically a group that is required to support each other."*

To note, in an international study by Corporate Board Member and EY in 2019 of 365 corporate directors, when asked what would most help in navigating disruptive risks by monitoring technology and innovation, 38 per cent of the respondents said that the topic should be incorporated into the full board agenda (Corporate Board Member and EY, 2019). Only 15 per cent said to consult third-party experts and 14 per cent of the respondents said they should onboard directors with specific technology skillsets. These results suggest that specific full board focus is required.

Regularly bring an outside perspective into the boardroom

Boards need to be proactive in regularly tapping into external expertise, for example with workshops or speakers invited for specific overviews of trends and technologies. Directors are not expected to be experts in every new innovation or technology, but to embrace a mindset of curiosity. When asked about their organisation's approach to innovation, a surprisingly small proportion of respondents said that they collaborate with other organisations and universities and that innovation is driven via external experts and consultants (see Exhibit 13).

It is important to have regular discussions with specialists invited to the board to have an external benchmark. Incorporating outside perspectives into the boardroom is not only important for upskilling directors by exposing them to different ways of thinking, but also to stay on top of future trends.

"As a board, you tend to look from the inside out a lot, and you analyse the company, you listen to management. However, it is just as important to have the outside in. [...] The more outward looking things that you can do, that show how the world's going or show other people's views is important, because you bring that back then into your business and say, what does it mean for our business model" (**Eileen Doyle FAICD**).

In a recent survey of 251 public company directors, the EY Centre for Board Matters found that the major aspect of improvement for the board of directors' knowledge was tapping into external, independent perspectives from advisors and experts (almost 35 per cent deemed this area as most important, in comparison to about 10 per cent who prioritised greater inputs from the C-suite and management). With external expertise, the organisation's biases or blind spots could be mitigated, and learnings from the wider industry leveraged (EY, 2022).

It is also important to organise shared learning experiences, when possible. In terms of effective practices to bring that outside perspective into the boardroom, as in the 2019 study, during the interviews with directors innovation tours were mentioned several times as a way to keep up to date with the most advanced organisations and technologies in the world. Directors mentioned well known innovation centres such as Tel Aviv, Singapore, San Francisco, Silicon Valley, Palo Alto, and several provinces in China. It is worth noting that **John Mullen AO** highlighted that there is ***"value from the face-to-face interaction which comes from engaging in global innovation tours. It simulates innovative and strategic thinking that you otherwise would not get in formal board meetings/ online meetings with fixed agendas. It might just be having a breakfast coffee with one of the senior managers going 'I never thought of X, what do you think of that' and all of a sudden something emerges."***

Understandably, not all organisations have the capacity or budget to fund international innovation tours. As an alternative, **Lynda O'Grady FAICD** suggested the establishment of a "book club" as another means to encourage learning and encourage directors to consider different ways of thinking: ***"In one of my boards, the Managing Director (MD), the executive team and the directors share podcasts, articles, research and books on a regular basis. You could think about it as an executive reading club, a thought-provoking resources hub. Through this book club, the MD was able to introduce new concepts and experiences, canvass what the executives learnt from these resources and then stimulate different modes of thinking in the organisation."***

CASE STUDY: CREATING SHARED LEARNING EXPERIENCES

One of the directors we interviewed recounted an approach that has been effective in creating shared learning experiences and ultimately changing the way the board questioned assumptions on how to do business.

The industry had been recently put under new competitive pressures driven by technology-driven start-ups and young entrepreneurs that were capable of delivering a much more engaging customer experience (particularly for younger consumers) at a fraction of the price. The board, as well as management, initially never felt a compelling reasons to innovate, as the business remained profitable and resilient in its segments of the market. However, while a single start-up posed little threat, a series of them become noticeable.

In response, the board decided on three initiatives. First, the board offered a position to a new director that was closely linked to the start up space, after being an executive for a large technology company for many years.

Second, the board established a technology committee with the mandate of providing guidance to the Board in their consideration of technology strategy, resources, and governance. The Board Chair is also the Chair of the Technology Committee, to signal the importance of technology for the company despite their previous career not being technology focused.

Third, working in close collaboration with the CIO and CTO, the committee regularly invited representatives from the start-up ecosystem relevant to the industry to their meetings. These were companies that were born technology first, and just happened to be in the industry in which this company operates. During these sessions, they present what they are doing, how they articulate their product directions, what gets them excited, how products can be developed differently and how products can be tech led. They are not telling committees and the board how they are doing it, but they are showing the directors and management that innovative approaches to addressing the same customer problems are possible.

When to consider setting up an innovation/technology committee?

In the survey, about eight per cent of the responses (Exhibit 4) said that they have used an innovation/technology committee or similar to elevate innovation matters to the board for discussion and a further 5 per cent would consider such a committee going forward (Exhibit 14). This is broadly consistent with international studies where 11 per cent of the respondents said that oversight of emerging technologies reside within a technology committee (Corporate Board Member and EY, 2019). It is also consistent with analysis which was commissioned by the AICD and performed by Herbert Smith Freehills in early 2021, which found that innovation and technology committees are relatively unusual in the ASX200 (eight per cent). While such committees are proportionally better represented in the ASX20 (15 per cent), the overall incidence is still low.

Interestingly, of those organisations that have set up a technology committee, a large proportion of them say that they achieved some or most of the goals that they were set to achieve (23 per cent achieved most or all goals, 63 per cent achieved some goals). Indeed, sometimes the mere existence of a technology committee can signal the importance of innovation and facilitate the upskilling of the rest of the board. Often it must be considered whether this is a temporary measure, as innovation/technology strategy should be a matter for the entire board rather than a sub-committee. Whether one needs to flag innovation as a stand-alone item or not will often depend on the innovation maturity of the organisation.

During the interviews, several respondents highlighted the benefits of setting up a subcommittee dedicated to innovation, digital and technology, particularly in the early stages of imbuing an innovation focus into an organisation. The main advantage is that a specific committee allows for a dedicated focus, thereby allowing for more effective board oversight of the agreed strategy's implementation.

Heith Mackay-Cruise FAICD explains the practical benefit of having an innovation/technology committee on one of his boards:

"A digital transformation committee was established to implement and monitor innovation across the organisation as a means to fundamentally transform the business model. The committee needed to move the ship so we needed a stand-alone committee to actually go deep. We recognised that as much as the committee was really helpful to management, in advising on strategy and strategy execution, we had a role to play to upskill our fellow directors on the role of the committee itself. Now that the committee is three years old I think it will probably run another year or two, and then it will subside, because it is all part of the board."

Matthew Barnett FAICD highlighted the signalling effect that a technology committee can have:

"Setting up an innovation technology committee or advisory body is a way of signalling that the board wants innovation and is intent on creating a culture and an environment to foster it. Your actions are speaking very loudly as the board is saying 'This is important, we are resourcing it with board, management and external experts' time.'"

However, there are of course some concerns with whether an innovation/technology committee is the most effective means of prioritising innovation particularly for organisations which have already attained a higher degree of innovation maturity. Whilst most of the interviewees acknowledged the potential benefits of having such a dedicated committee, they also cautioned against isolating innovation as a responsibility for a specific committee and that instead it should be a priority for the entire board.

Eileen Doyle FAICD observed:

"Committees can be helpful. They need to delve into certain issues, they might do deep dives and be more specific, just like an audit committee does or a risk committee. But at the end of the day, strategy is the responsibility of the board. There is no committee that should be doing that for the board, the board should be doing it."

Some boards recently decided to dismantle technology committees entirely in order to prioritise innovation as a board-wide focus, inherent to strategy. As **Michael Hawker AM FAICD** noted, ***"directors need to understand that technology is changing the nature of our businesses, so the effective management of technology and the management of data, should be front and centre, as one of the major strategic objectives of the organisation, which sits right in the middle of everything we do, and for the whole board to know"***, as opposed to being a distinct and separate committee. The only exception is that it might be helpful to have a dedicated technology committee where the board does not understand the problem, and therefore a group of people may be needed to change that.

It was for this same reason that **John Mullen AO** sought to dismantle the specific technology committee at Telstra: ***"we had a technology committee at Telstra, but we disbanded it because we felt that the whole board needs to embrace technology, innovation and development. Outsourcing it to two or three directors through a committee was not the right approach for me."***

Fiona Balfour FAICD emphasised that ***"I do not think innovation should have a specific committee. But I do think it is important particularly if the size of spend relative to the cost base of the organisation is material, or if the services and products are provided or distributed either physically or virtually in a digital manner, it is essential to have a technology committee. If you embark on establishing a technology committee, you need to be clear on why they exist. But generally speaking, strategy and so innovation – which is part of strategy – should be done by the full board."***

As an alternative to a technology committee, **Bill Chang** suggested that there should be a more fluid and flexible technology advisory panel that includes external expert advisors which rotate periodically (six months or a year) and is chaired by one of the directors who regularly reports on the panel's findings. This alternative structure allows for the board to gain exposure to a wide range of perspectives and inputs. It also allows them to reconfigure the panel of experts according to the requirements of the organisation at a particular time. This also prevents the boardroom from being overloaded with too many committees.

A key reason for differences of opinion on whether an innovation/technology committee is needed or not may be due to the innovation maturity of the organisation or the size of the organisation. Organisations that are struggling at prioritising innovation and technology, whether it is improving the way they do things or coming up with truly innovative products and services, might benefit from setting up such a committee. In fact, ultimately the greatest impact of the committee may be simply its signalling effect to the broader organisation.

However, the end goal should be to have innovation integrated into regular boardroom discussions.

From an international perspective, a report by Deloitte in 2017 suggested that technology committees are a viable option for improving technological awareness in the boardroom. Despite being an increasing trend in the S&P 500, separate technology committees were not as common in the organisations in that report, and instead a larger portion delegated technology oversight to the audit or risk committee. Their responsibilities varied depending on the organisation, but were useful for, amongst others, proactive technology moves, such as strategy integration and reviews of technology disruptions. A technology committee could alleviate time pressure from the board to confront these issues, whilst facilitating oversight of a joint business technology agenda by the board. Despite some disadvantages in organisational decision making, or micromanagement, the authors of that report estimated that the long-term benefits of such a committee make those disadvantages marginal (Kark ***et al.***, 2017).

APPENDIX 1:

Research methodology

This study has benefitted from both quantitative and qualitative data, complemented by a review of over 200 academic and industry studies on board approaches to innovation and technology.

The quantitative part of the report is comprised of two separate but complementary pieces of research. A major part of the study was comprised of an anonymous survey to the almost 50,000 members of the AICD, of which we received 858 useful responses for the remaining part of the analysis. The limitations of our study, as most survey studies, are as follows. First, the survey may suffer from self-selection bias, as only directors that interested in the topic of the survey (innovation in our case) are likely to respond. However, we did not find any systematic difference in the way self-identified experts answered the survey questions, nor between the early respondents and the late respondents to the survey after the reminder has been sent out. Second, directors may have rated their efforts highly if their organisations were successful, compromising the validity of the final data. However, several measures have been put in place in this survey to address this risk. We placed the questions related to performance at the end of the survey to distance them from the questions that measure behaviours. We also included multiple performance questions. Moreover, we discussed performance in detail during the interview to test our hypotheses of causality between behaviour and performance.

Insights from the survey were then complemented by a collaborative study between the AICD and OpenDirector conducted in mid-2022, whose aim was to analyse the proportion of ASX 200 directors with digital skills. This study relies on publicly available information and considers the skills (i.e. education and experience) of all directors of ASX 200 companies, and allocates points based on a set criteria. In total, over 1,200 directors were analysed.

The qualitative part of the report comprised 17 interviews, which were all recorded and transcribed before coding was undertaken. The participants were both from Australia as well international (Singapore and Canada). The analysis of the interviews was conducted with a textual analysis software called NVIVO to extrapolate the key themes that were then used to define the findings. The process of participant recruitment for the interviews was consistent with the University of Sydney Ethics guidelines. A semi-structured interview provided participants with space to present and elaborate on their views of innovation. However, while useful the sample size presents limitations to generalising outcomes across sectors and different organisation sizes. Together, the quantitative and qualitative data provide useful insights into the perspectives of directors regarding the role and importance of innovation to Australian boards and the impact of the COVID-19 pandemic.

Both the survey and interview questions, as well as the research findings, have benefited from discussions with a reference panel consisting of senior chairs and directors in leading innovative organisations. These were directors **Alison Deans GAICD**, **Kathleen Bailey-Lord FAICD**, and **Heith Mackay-Cruise FAICD**.

APPENDIX 2:

Survey questions

Q1

To start with, do you hold a current directorship?

☐ Yes

☐ No

☐ Prefer not to say

Q2

[Only who responded "Yes" and "Prefer not to say" in Q1 proceeded to the remaining of the survey]

With regard to your primary directorship, which position do you hold? ***(Select one)***

☐ Non-Executive Director

☐ Chair

☐ Managing Director/CEO

☐ Other Executive Director

☐ Other: please specify _______________

☐ Prefer not to say

Q3

Which of the following best describes the organisation? ***(Select one)***

☐ Publicly listed

☐ Private

☐ Not-for-Profit

☐ Public sector/government body

☐ Other: please specify: ____________

Q4

What is the organisation's total annual revenue in the past financial year? (in Australian dollars) ***(Select one)***

☐ < $1,000,000

☐ $1 - $10 million

☐ $10 - $50 million

☐ $50 - $250 million

☐ $250 million - $1 billion

☐ > $1 billion

☐ Not applicable or unsure

Q5

Since the onset of the COVID-19 pandemic in early 2020, which of the following types of innovation has your organisation pursued? ***(Select all that apply)***

☐ New or improved business models

☐ New or improved products (goods or services)

☐ New or improved product development processes (goods or services)

☐ New or improved business processes or structures

☐ Other: please specify

☐ Not pursuing any innovation

Q6

Which of the following statements best describe your organisation's approach to innovation? ***(Select all that apply)***

☐ Innovation is a constant focus for us

☐ One-off projects to address specific needs

☐ Innovation through merger or acquisition activity

☐ Innovation is driven via external experts and consultants

☐ Collaboration with other companies, universities, etc.

☐ Innovation is not a priority for us

☐ Other: please specify

Q7

Since the onset of the COVID-19 pandemic in early 2020, and excluding working-from-home arrangements**,** how do you rate the level of priority placed on innovation by your organisation? ***(Select one)***

☐ Decreased

☐ Stayed the same

☐ Increased

☐ We have not prioritised innovation

☐ Other: please specify

Q8

Why has your organisation placed that level of priority on innovation?

Q9

What is the role of your board in the development of strategy? ***(Select one)***

- ☐ The board **determines the strategy** for the executive team.
- ☐ The board **collaborates with the executive team to jointly develop the strategy.**
- ☐ The **executive develops the strategy and consults the board** on its development, with the board having final approval.
- ☐ The **executive develops the strategy without board involvement** in its development, but with the board having final approval.
- ☐ Other: please specify ________

Q10

Since the onset of the COVID-19 pandemic in early 2020, how has your board's risk appetite (willingness to accept risk in pursuit of organisational objectives) changed? ***(Select one)***

- ☐ Significantly decreased
- ☐ Somewhat decreased
- ☐ Stayed the same
- ☐ Somewhat increased
- ☐ Significantly increased
- ☐ Unsure

Q11

Do you think that decision making in the boardroom effectively balances near and long-term value creation? ***(Select one)***

- ☐ Yes, the board equally considers near-term and long-term implications of its decisions
- ☐ No, the board is primarily focused on the near-term
- ☐ No, the board is primarily focused on the long-term
- ☐ Other: please describe

Q12

In your view, what is the most relevant director experience to navigate uncertainty in the operating environment? ***(Select the top 3)***

- ☐ Experience leading enterprise-wide organisational change
- ☐ Experience with enterprise-wide digital transformation
- ☐ Experience in a start-up or other high growth organisational setting
- ☐ Experience in a diverse range of sectors
- ☐ Experience in the organisation's sector
- ☐ Financial and capital management experience
- ☐ Risk and compliance management experience
- ☐ Other: please specify

Q13

Which of the following attributes are most important to developing a culture which nurtures innovation? ***(Select up to 3 options that most apply)***

- ☐ Focus on customer needs
- ☐ Openness to new ideas and experimentation
- ☐ Collaborative, agile and diverse teams
- ☐ Rewards and recognition for innovative thinking and outcomes
- ☐ Vision and leadership which promote innovative behaviours
- ☐ Non-hierarchical decision-making structures
- ☐ Other: please specify
- ☐ We don't discuss innovation as part of culture

Q14

What mechanisms or processes has your board put in place to elevate innovation to the board level for discussion? ***(Select all that applies)***

- ☐ It's embedded into the DNA of the organisation
- ☐ An ongoing stand-alone agenda item
- ☐ A periodic agenda item
- ☐ An ad hoc or as needed agenda item
- ☐ The board has an innovation/technology (or similar) committee to consider these matters
- ☐ Innovation is a focus for management, not the board
- ☐ Other: please specify

Q15

[This question was asked only to those who said "The Board has an innovation/technology (or similar) committee to consider these matters" in Question 14]

To what extent has your innovation/technology committee been effective in achieving its goals? ***(Select one)***

☐ Achieved most or all goals

☐ Achieved some goals

☐ Did not achieve most goals

☐ Other: please specify

Q16

How would you rate your board's level of engagement on innovation and technology related matters? ***(Select one)***

☐ Most directors are actively engaged

☐ Some directors are actively engaged

☐ Most directors are not actively engaged

☐ Other: please specify

Q17

Since the onset of the COVID-19 pandemic in early 2020, which of the following external factors has had the greatest impact on your organisation's ability to focus on long-term growth? ***(Select up to 3 options that most apply)***

☐ Short-term earnings pressure from investors or members

☐ Competitive pressure

☐ Customer demands

☐ Limited access to capital

☐ Legislative and regulatory compliance

☐ Disruptions related to the COVID-19 pandemic

☐ Other: Please specify

☐ None of the above

Q18

Since the onset of the COVID-19 pandemic in early 2020, which of the following internal factors has had the greatest impact on your organisation's ability to generate long-term value? ***(Select up to 3 options that most apply)***

☐ CEO and executive remuneration is tied to short-term performance

☐ Overly risk averse mindset at the board and/or management level

☐ Inability to measure the non-financial drivers of long-term value (e.g. talent acquisition and retention)

☐ Limited short-term liquidity

☐ Misaligned business strategy and/or growth targets

☐ Misaligned organisational culture and behaviours

☐ Siloed or inflexible organisational structure

☐ Other: Please specify

☐ None of the above

Q19

Which of the following would most enhance your board's oversight of innovation, technology and disruption? ***(Select up to 3 options that most apply)***

- ☐ Board education on emerging trends and potential impacts to business models
- ☐ More focused time on the agenda for open discussion on emerging technologies
- ☐ Lifting all director skill sets in technology and data
- ☐ Enhanced management reporting to the board
- ☐ Creating a formalised or ad-hoc board committee for closer oversight
- ☐ Recruiting new board members with relevant expertise in growing and scaling businesses
- ☐ Recruiting new board members with diverse mindsets or from non-traditional cohorts
- ☐ Other: please specify

Q20

Artificial Intelligence (AI) technologies are increasingly being used by organisations, both directly and indirectly via suppliers. How would you describe your organisation's ability to identify and address commercial, legal and reputational risks associated with the use of AI? ***(Select one)***

- ☐ Unsure
- ☐ We are actively identifying AI-related risks, but are not yet addressing those risks in practice.
- ☐ We are actively identifying and addressing AI risks at a project level.
- ☐ We are actively identifying and addressing AI risks organisation-wide.
- ☐ We are aware of a range of AI-related risks, but have not implemented any systems, policies or tools to actively identify or address them.
- ☐ We don't use AI.
- ☐ We use AI, but do not have a detailed understanding of the risks.

Q21

Since the onset of the COVID-19 pandemic in early 2020, did your organisation realise the innovation outcomes it was hoping to achieve? ***(Select one)***

- ☐ Did not achieve any of the expected outcomes
- ☐ Achieved some of the excepted outcomes
- ☐ Achieved most of the expected outcomes
- ☐ Achieved all the expected outcomes
- ☐ Achieved more than what was expected
- ☐ Unsure
- ☐ Other: please specify _________

Q22

Do you have any additional comments regarding how you see the role of the board in driving innovation?

Q23

What are the main areas of expertise and experience that you bring to your primary board? ***(Select up to three)***

☐ Digital and Technology

☐ Financial Management or Auditing

☐ General Management

☐ Government

☐ Human Resource Management

☐ Industry experience

☐ Legal

☐ Operations

☐ Product Development

☐ Risk and Compliance Management

☐ Science or Engineering

☐ Sales & Marketing

☐ Strategy

☐ Other: please specify: ____________

Q24

Which industry most accurately describes the majority of the primary board organisations business? ***(Select one)***

☐ Accommodation and Food Services

☐ Administrative and Support Services

☐ Agriculture, Forestry and Fishing

☐ Arts and Recreational Services

☐ Construction

☐ Education and Training

☐ Electricity, Gas and Water

☐ Financial and Insurance Services

☐ Healthcare and Social Assistance

☐ Information Media and Telecommunications

☐ Manufacturing

☐ Mining

☐ Professional, Scientific and Technical Services

☐ Public Administration and Safety

☐ Rental, Hiring and Real Estate Services

☐ Retail Trade

☐ Transport, Postal and Warehousing

☐ Wholesale Trade

☐ Other: please specify: ____________

Q25

When was the organisation established? ***(Select one)***

☐ Prior to 1980

☐ 1981-1990

☐ 1991-2000

☐ 2001-2010

☐ 2011-2020

☐ 2020-2022

Q26

What is your best estimate of how many employees the organisation currently has, including all locations in Australia? ***(Select one)***

☐ < 20 employees

☐ 20 – 200 employees

☐ 201 – 500 employees

☐ 501 – 1,000 employees

☐ More than 1,000 employees

Final note: when appropriate, the items in various questions were randomised.

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Additional resources

Driving innovation: The boardroom gap (AICD-Sydney University Innovation Study, 2019)

Our Future World (CSIRO report, 2022)

How to Invent the Future (Atlassian guide on innovation, 2022)

Is Your Board Inclusive — or Just Diverse? (Harvard Business Review article, 2022)

How to gain a competitive advantage through innovation (AICD article, 2021)

Boards, Reimagined (Korn Ferry Institute report, 2021)

Tesla chair Robyn Denholm's tips for driving a culture of innovation (AICD article, 2020)

Boards, innovation and disruption (AICD article, 2017)

How customers can help SMEs create reliable innovation opportunities (AICD article, 2017)

How SMEs can build a culture of innovation (AICD article, 2016)

The questions SMEs should ask to drive innovation (AICD article, 2016)

Private and public sector innovation: What are the differences? (AICD article, 2016)

The Innovation Papers (InnovationAus.com publication)

How effective boards approach technology governance (McKinsey & Co article, 2022)

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