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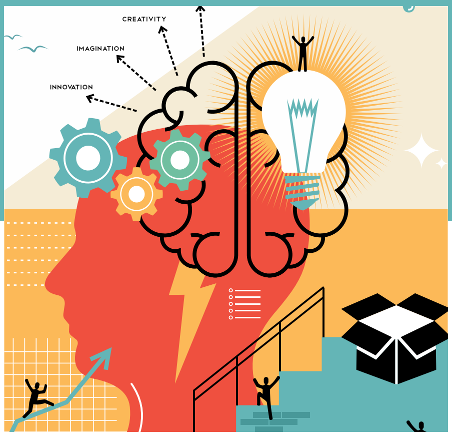


Eight Factors That Will Increase Your Board's Innovative Aptitude

By Michael Mangum and Paige Kelly

A highly effective board can help drive innovation and keep your company ahead of the curve.

An elusive target that many companies attempt to chase and capture, innovation helps engineering and construction (E&C) firms gain a sustainable advantage in a highly competitive industry landscape. But how is this best accomplished? And how does the organization determine the proper amount of innovation needed to stay relevant in today's ambiguous and complex built environment yet avoid the "bleeding edge"—a place of change-induced danger?

One of the most overlooked resources available to help accomplish this objective is a peak-performing board of directors. While many elements are involved with productive, sustained innovation, a board of directors can provide a vital initial impetus. And if that board is high-performing in nature, the organization will greatly benefit from its measured wisdom.

Stop Doing "More of the Same"

Companies that want to grow by continuing to do "more of the same" will, at best, achieve incremental growth. Exerting additional collective effort, when misguided, will simply move the organization to an undesirable place more rapidly. For corporate objectives that lie beyond modest growth targets, some sort of game-changing shift is required. An engaged, savvy board of directors is often the perfect vehicle to accomplish precisely this, providing a forum for both the rigorous analysis and effective collaboration essential in moving from idea to commercial success.

For E&C firms, the board's organizational role can encompass a variety of activities—all of which fall under the umbrella of positively influencing the business's executive leaders. Whether it is focused on strategic planning, risk mitigation, financial oversight or succession management, a board can deeply impact the organization's innovation trajectory.

Here are eight factors to consider when assembling and leveraging your next innovative board:

1. **Failures are an inevitable aspect of innovation.** Directors serving on a peak-performing board typically have a deep understanding of the company's direction as well as the chosen strategies that guide its future progress. Boards can vet new ideas and encourage the investment in a "department X" (or project X) for a company to achieve higher returns. In addition, boards should assist in the calculation of risk, yet expect some failures along the way. A recent industry study focused on boards[1] showed that 18% of boards try to avoid failure in all of their dealings. If an organization skirts all failure, even the most experimental and inconsequential innovation will be stifled. A CEO would surely avoid venturing outside the norm if failure equated to dismissal. Thus, a board must embrace and encourage a calculated—and hence, acceptable—level of risk in an organization's strategic goals.

2. **Performance matters.** A culture that values innovation aligns performance metrics to reward behaviors that advance those ideals. The process of aligning CEO/president performance metrics with the promotion of new ideas prompts both achievement-oriented action and disruptive innovation—a winning combination. We are aware of multiple businesses that succeeded in aligning executive incentive compensation with KPIs, effectively driving change in the decision-making processes of senior leaders. One such leader remarked, "So in this situation, you want me to turn away the more profitable project for the sake of the one that furthers our strategic vision? I don't understand why, but if that's what you want, that's what you will get!" In this case, the board insisted that revenue concentration be dispersed more broadly to reduce shareholder risk. Logic dictates that absent board involvement, the decision to decline high-margin projects would have proven far more difficult for profit-driven managers to embrace.

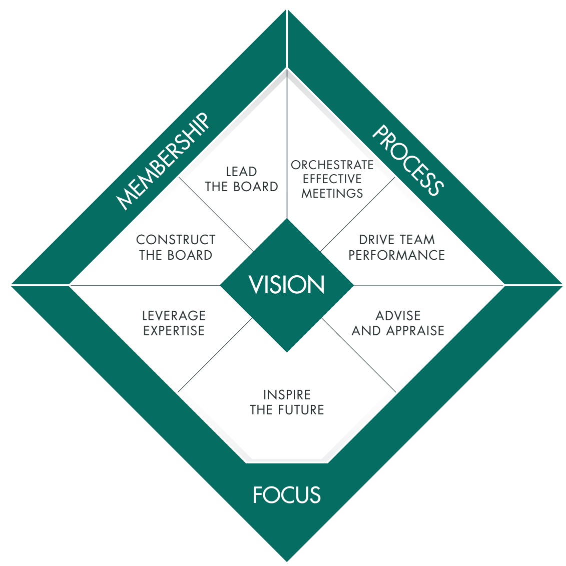
3. **Good risk management is critical.** A board must help find the middle ground between reckless risks (i.e., on unique projects, new market sectors, technology advances) and being overly risk-averse. In an FMI special innovation series, three industry executives from companies that are leading the innovative charge spoke about courageous leadership. Specifically, they addressed the ways that innovative leaders embody this trait. Examples of their insights include, "…lead others well so that they can create a plan for testing the idea, learning from the outcomes and trying again," "…clarify roles and responsibilities associated with the innovative risk so expectations are clear all around," and "…after you've listened to others, ask yourself if you are willing to take the risk on behalf of the organization, because at some point you have to trust your knowledge, experience and intuition." For a high-performing board, it's important to be able to tell if the business's stakeholders are genuinely willing to embrace organizational risk. Consequently, the degree of enterprise-level risk—and the degree of willingness to accept innovative risks—start with the board.

[1] "Radical Innovation and Growth – Global Board Survey 2016." Deloitte and Board Network. February 2016.

4. **Directors must accelerate (and not impede) progress.** The first place to look when assessing whether your board supports and drives innovation is its membership. Do you have directors that support and add value to the growth of the organization? Do all directors model openness and receptivity to change? Are they knowledgeable about risk inherent to the industry? Are they capable of thoughtfully assessing ideas for validity, implications and opportunity? A PwC survey of corporate directors found that 35% indicated their preference to remove at least one director from their board. This might have been because the individual consistently didn't arrive prepared, he or she was not aligned with company strategy, or there was a different set of qualifications required than what the individual fulfilled. Interestingly, more than 50% of those surveyed indicated that a director replacement was not made, even when board evaluations showed that was needed. If your board is acting as a barrier to innovation, it may be time to refresh its members; directorship is not a "till death do us part" proposition.

5. **A spirit of openness and adaptability must prevail.** An organization's board exists to influence management and ensure that strategies and finances are aligned in a way that optimally supports business success. Therefore, there is great temptation to embrace proven methods of success. Yet, a key aspect of this duty is the vetting of new ideas, which is often the place where innovation either prospers or dies. FMI's Peak Boards model (Exhibit 1), developed after years of in-depth research of the critical components of the very best boards, identified "Inspire the Future" as one such domain. We found that a true Peak Board challenges the organization to embrace new perspectives that foster innovation. Consequently, outstanding boards assure that an array of new ideas are fully heard and carefully explored. Unhealthy boards often marginalize and dismiss even the most promising of initiatives for the sake of preserving the status quo—a doomed strategy in an environment of rapid change and complexity.

Exhibit 1. FMI's Peak Boards Model



Source: Model is based on in-depth industry research.

6. **Diversity rules.** Recommendations for new board members occur mostly through peer endorsements.[2] Many individuals have a vast network of professionals who make for strong board candidates. Often we are drawn to like-minded individuals, which often results in a homogenous board—one less than ideal to fuel innovation. Drawing from a wider pool offers the best chance to include multiple perspectives, experiences and world views. Consideration of diverse individuals—whether in gender, ethnicity, experience, education, industry familiarity, age, etc.—ensures a board that can offer unique per-

[2] "The Governance Divide: Boards and Investors in a Shifting World. Insights from PwC's 2017 Annual Corporate Directors Survey." PwC. 2017.

spectives. Board diversity is grossly underutilized as an innovative advantage, with less than 20% of boards having any gender or ethnic diversity. This represents a significant missed opportunity. Given these statistics, current directors can improve board diversity by looking for opportunities to network with other individuals through community or professional networking events. While diversity is important, diversity for the sake of diversity isn't the answer. Organizations need to be diligent in building diverse, qualified boards that provide different perspectives to help the organization achieve its long-term vision.

7. **Seek outside director competencies to fill internal competency gaps.** What will your business look like 10 years from now? What knowledge gaps exist in getting there? Knowledge about the E&C industry is important for board members but should not be a singular requirement to join a board. A case can be made that industry expertise is one of the defining factors of all successful company leaders. If this is true, why would we prioritize this as the most imperative qualification for new directors? And if innovation is a priority, would it not be wise to seek directors from adjacent spaces and from outside of our industry? For example, if your company is looking to innovate its technological processes, a board member with experience from the software industry could have relevant experiences and expertise that might be applied to the E&C world. We believe that the director search process should begin with personal attributes: Is this a person who is a good cultural fit with my organization and someone whom I can trust? Industry experience follows in importance.

8. **Innovation can't be an afterthought.** If increasing opportunities for innovation is said to be a priority—prove it! Make time on the agenda for activities that will advance opportunities to innovate. This might include exploring national or global trends and identifying how they might impact the business. Invite an external subject matter expert to address the board. Consider an internal competition that challenges (and incentivizes) employees to bring their best innovative ideas to the board to be tested for feasibility. A board session might encompass judging this competition and giving feedback. The possibilities are almost endless as to how a board can stoke the spirit of innovation.

Keeping the Momentum Up

When appointing a new CEO or president, a board must consider the organization's current and future needs. The characteristics of the organization's leader will directly impact the organization's ability to capitalize on strategic, innovative objectives. If innovation is at the forefront, the succession and executive selection processes should reflect that. With this focus, the board positions itself to choose a future CEO capable of successfully leading the business for many years to come.

We encourage boards to partner with management to create an innovation-friendly environment. Broad perspectives and experiences provide opportunities to further innovative thoughts, respectfully challenge new ideas and sharpen concepts worthy of adoption. Consider also that each director has the power to propel or stifle innovation. Are the right people serving on your board? Or are they holding you back from utilizing the board to its maximum potential? The answers to these questions will help you shape a board that guides your organization today and keeps you on track to excel in the years to come.

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