Governance Through Disruptive Innovation:
What is the Director's Role?

October 15, 2015

The Chicago NACD's 2015-16 season continued with a lively panelist discussion moderated by Cindy Baier, Chief Financial Officer of Navigant Consulting. Panelists Barney Harford, Chief Executive Officer of Orbitz Worldwide; Ellen Rudnick, Executive Director of the Michael P. Polsky Center for Entrepreneurship at the University of Chicago; and Linda Yates, Founder and Chief Executive Officer of mach49 discussed and provided insights on how boards can better help their companies remain relevant and stay ahead of disruption in their industries.

Baier's opening remarks gave a quick overview of disruption, how it has affected the world today and challenged everyone to think of innovation as looking at the world through a slightly different lens – not as how it is today but how it could be tomorrow. In her quick overview, Baier specifically touched on the fact that innovation or disruption has affected every industry over the last few years. Certain companies embraced the innovation, while others failed to recognize the change that was coming. A few examples of the latter included – Kodak by the digital camera; the taxi industry by UBER; and Blockbuster by Netflix. With companies, and sometimes industries, becoming irrelevant due to disruption, how do boards ensure their companies not only stay relevant but also innovate and become the disruptor?

The discussion that ensued centered around three key areas that board members could focus on to govern through disruption:

1. Stay current and engaged;
2. Place small bets and test ideas quickly; and
3. Focus on the customer.

Rudnick stressed the importance of staying current with the news and not just happenings within one's own industry. As a prolific reader herself, Rudnick challenged board members to read outside of their industries while asking the question, "How does this apply to our company?" She then went on to describe a personal example. A few years back, Rudnick read an article about a new company, Zipcar, and thought it was a genius idea. Later that month, she was at a board meeting for an insurance company and mentioned the article in passing to another director. It was during that conversation when both parties realized Zipcar, if successful, would generate a need for an entire new line of insurance products. Additionally, Rudnick emphasized being intellectually curious and engaging with a diverse, both age and ethnic, population as other ways to stay current on trends. The panel then suggested specific ways to do so. These include reading Mark Suster's venture capitalist blog, subscribing to Tech Crunch and spending a few days of the year in Silicon Valley networking with the start-ups.

The bulk of Harford's comments outlined the concept of placing small bets – low-risk ideas that are developed and are tested with consumers in short timeframes. Small bets are important because they allow for the development of new ideas in low-risk situations; in order to hit it big, one must fail a multiple of times and learn from those failures. Harford goes on to explain how Orbitz has hundreds and even thousands of small bets in a year. Within a two to three week timeframe, his team would know whether the small bet would be successful in the market. This strategy of testing and failing is especially important because it allows his teams to learn from their mistakes and develop better products quickly. Especially important to small bets is the mindset that failure is allowed, and this is where boards can come in. Harford, and the rest of the panel, expressed that it is especially important to allow executives to "fail" while innovating.

Yates expanded on Harford's comments and discussed how boards need to re-focus on the customer. The startups and Silicon Valley do not have a 'secret sauce' that causes them to be able to innovate and disrupt industries. What Silicon Valley and startups do well though, is they are excellent at placing the customer first. Recent companies that are classified as "disruptors" have not launched new products, but have actually grabbed market share because of their responsiveness and ability to anticipate their customers' needs. Management teams have been able to gather and analyze data quickly and adjust. Yates gives an example of a technology company that fixed bugs in its products in real-time on launch day; the company anticipated there would be problems and staffed employees to watch social media, blogs and their hotline. Issues were fixed minutes after there was a problem and before users could become frustrated with the issue. This is the agility that comes with being a small start-up and the Fortune 1000 companies need to learn from this by re-focusing on the customer. Yates challenged board members to go and walk the bricks-and-mortar of their retail stores, test out the technology the company is implementing and finally, engage with the employees and with the customers.

The panel wrapped up its comments by stressing that the threat of disruption comes not only from Silicon Valley and the start-ups but also from other Fortune 1000 companies; the startups are the catalysts but another real threat is other Fortune 1000 companies that innovate in the white space and step into industries and spaces the companies did not serve before. Fortune 1000 companies have the brand, customer base, employees and infrastructure to disrupt. The way to protect against this threat is to truly embrace innovation and disruption by staying current, placing small bets and testing ideas quickly and re-focusing on the customer.