

# Keep Your Innovation Muscle Pumping in a Crisis

How COVID-19 should – and shouldn't – impact the innovation agenda

Egon Zehnder recently hosted a peer-to-peer video call with current and former Chief Innovation/R&D officers and P&L leaders with a passion for industrial innovation. We would especially like to extend our thanks to **Keith Layden (Croda)**, and also to **Cynthia Arnold (Cabot, Milliken)** and **Just Jansz (Synthomer, Econic, EBB)** for providing context and framing the discussion from their vantage points of former CTOs and current Board members of listed companies. Participants represented major publicly listed and private companies in the UK, Europe, and the United States. The call had the dual intention of creating a sense of community and sharing observations and best practices from both past and current crises in terms of lessons learned and pitfalls to avoid.

Four themes emerged from our conversation:

## **The Big Picture Still Matters**

In the current climate, safe operations, health and safety, and cash management will understandably be high on the business agenda. This reality needs to be embraced,

not fought. However, specifically on the innovation front, there was unanimous agreement that thoughtful and nuanced decision-making should not become a victim of the current crisis.

Boards, CEOs, and innovation leaders need to continue to be clear-eyed about the necessity of great innovation and its link to value creation and long-term business resilience. In some cases, it may be the promise of future innovation and continued differentiation that may be shoring up a company's current share price. Strategic clarity on the innovation agenda involves the making of choices.

For example, this is also the time to ask yourself some fundamental questions: Does your current and anticipated customer base appreciate the differentiation that innovation is adding to your products and propositions, and are they willing to pay a premium for it? If not, this crisis should act as a catalyst to rethink your innovation portfolio. Boards have an important role to play in this strategic challenge.

This is also the time where the linkages of innovation to above-average market growth need to be made strongly. If you cut too deeply on your innovation initiatives, which may dramatically depress future growth scenarios, then it is well worth surfacing these trade-offs and ensuring that these are thoroughly discussed around the management table.

History also tells us that crisis and innovation often go hand in hand, and the existential challenges posed by crises have often accelerated innovations. However, taking such a stand requires strong strategic conviction on where an industry is heading or needs to be heading, a relatively strong balance sheet and cash position, and a healthy risk tolerance.

Unfortunately, there was also agreement that quite often the "marketing" of the company's innovation prowess exceeds the "substance." Especially in times like these, where good news is in short supply, resist the temptation to over-promise and assume the best-case scenarios for your innovation efforts.

## Disrupt the Disruptors

The theme of re-imagining the methods and processes of innovation came out strongly in the discussion. The crisis is an opportunity for R&D teams to “disrupt themselves,” to innovate faster and deliver more value to the organization.

Innovative organizations need to challenge themselves on their focus – too much emphasis on product innovation might mean missed opportunities on process/cost transformation innovation initiatives. (This doesn’t have to be a choice between two different approaches but an integrated approach to product and process innovation.) In good times and in bad, it never helps to define the scope of innovation too narrowly. Innovation leaders should retain a healthy set of personal ownership and accountability on providing innovation-led challenge and solutions on the cost and operational agenda of the company. The concept of needing to show agility and dynamism in innovation also came up, with leaders recognizing that innovation is not just something for the long term. Short-term innovations can deliver immediate and medium-term value to the company.

In terms of the innovation process, cutting steps and accelerating timelines is not the same as cutting corners. Companies need to experiment and try new ways of achieving outcomes quicker and more efficiently. Finding ways to make innovation projects more modular and having a sharper distinction between core proprietary company capability versus leveraging external partners and more open innovation platforms is the need of the hour. The concept of needing to show agility and dynamism in innovation also came up, with leaders recognizing that innovation is not just something for the long term. Short-term innovations can deliver immediate and medium-term value to the company. In general, strategic outsourcing relationships were seen as an area of genuine potential. At the same time, companies need to continue to have a responsibility for vulnerable partners, customers, and suppliers. Short-term cash protection actions against smaller, innovative companies whose survival may be at stake may create long-term negative consequences for the resilience on the innovation ecosystem. Being a good business partner in your respective ecosystem needs to continue to be a priority.

However, in the urge to do things differently, resist the temptation to over-engineer KPIs. KPIs seldom tell the full story of the health of a company's innovation efforts, and during crises, this problem can appear accentuated. Fewer, but more robust and reliable KPIs linked to business strategic priorities are often sufficient.

### **Communicate, Communicate, Communicate**

All participants emphasized the need for consistent and regular communication, especially in a crisis where anxieties run high with employees, business partners, management, and shareholders. Sugar-coating issues can lead to a loss of credibility, as can trying to make predictions when these are impossible to make. Presenting facts, scenarios, and options in a rational yet empathetic way that feels authentic within your own personal style is the best balance to strike.

Though the CEO might be fronting most of the conversations with the Board, shareholders, and analysts, a CTO has an important role to play in helping make the case for a continued emphasis on the importance of innovation to the future prospects of the company. Often, potential upside from new business/innovation led initiatives is baked into the future strategic growth plans and share price expectations. During a crisis, it is important to continue to emphasize the trade-offs of short-term actions with intellectual honesty and message discipline.

Communication is also important for the CTO's role on the executive committee. CTOs need to reflect on their personal style and communication strategies. The crisis can be a time where the voices for long-term, cash-consuming, riskier initiatives get drowned out among other priorities. Retaining a confident, supportive, and credible voice around the executive team is an important consideration, as well as being open to making your innovation case differently. A CTO's preparation on the business case, linkage to finances and value creation, and the materiality of the innovation pipeline to the strategic health of the company needs to be made in a way that is going to capture a CEO's and executive team's attention. Supporting P&L leaders and the CFO in making and selling the business case for innovation is extremely important. Beyond the setting of the executive team, CTO's should spend one-on-one time with their fellow executive team members to build trust and create a culture of support in these testing times.

Staying close to customers and other partners is also vital, and outsourcing this imperative to P&L/BD leaders and procurement professionals can result in a big missed opportunity of missing a first-hand understanding of customer priorities and related innovation insights.

### **Retaining an 'Innovation Culture' Is Key**

Retaining team morale and a great innovation culture is essential in a crisis and in the eventual subsequent recovery. Laying off precious scientific and innovation talent is almost inevitably a decision a corporation will come to regret, in the opinion of leaders who have had to make these decisions in the past.

Other options—from reassigning teams to other roles, tasking them with more short-term value generating projects, offering furloughs, or other such measures should be considered before innovation talent is exited from the company.

Retaining enough “innovation muscle” will be critical to a successful recovery. For example, one organization has reallocated a large portion of its innovation talent pipeline to collaborate with the sales and marketing teams to provide technical input into customer interactions.

Good CTOs try to unleash the innovative mentality of the bench strength to solve real problems that the company is grappling with. These could be technical support that customers need, special projects to improve efficiency of raw material usage, and other short-term, value-generating actions. Innovation is not a 9-to-5 activity, and teams should be given the freedom to encourage freethinking and challenge conventional wisdom. The best ideas on value generation might often come from the team itself. Cross-fertilizing this innovation DNA with the rest of the organization on defined tasks can add a lot of value. “Contrary to popular belief, scientists crave recognition and glory as much as sales leaders,” one leader shared. The culture and the mood of the organization is important to innovation success as much as the actual initiatives underway.

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## Covid-19 Micro-Website

We have launched a micro-website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

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