How to bring innovation into the boardroom

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Why innovation at established companies must start with disrupting the ageing boardroom

The customers of established companies want their products and services to meet or even exceed their expectations every time they use them. This is the reason why the managers of established companies have to focus on improving and preserving existing products and services, and have to be masters in incremental **innovation** and evolution.

A fledgling startup, on the other hand, has no customers and has to meet no customer expectations. If the founders would come up with an idea for an incremental **innovation** for an existing product or service, it would be very difficult to find funding for this and to convince customers to walk away from their long-term suppliers. An evolutionary **innovation** is best brought to the market by those who already offer the existing product or service.

On the other hand, a revolutionary **innovation** is best brought to the market by those who must not defend an existing business or be considerate of existing structures, networks and other sensitivities. This is the reason why the successful founders of startups have to think as revolutionary as possible – they have to be quite radical in their approach to attract investors and their first innovative customers.

As the startups are conquering virgin soil, they learn best by testing and by trial and error. They have to act fast and flexibly with developing structures, and know that failure is part of the learning process.

The successful leaders of these new businesses have to be creative and proactive explorers and need a strong belief in their self-efficacy. Many multi-billion dollar companies of today changed their business models significantly in the beginning and spent lots of money on dead-end projects, until they finally found the right way to success.

The development process of startups and the character traits of their revolutionary leaders, often aged under 30, don’t match well with the compliance needs and rules of corporate controlling, or the mindset of corporate managers – often more than 20 years older.

As a result, there is a lot of misunderstanding and friction between these two worlds. It is difficult for startups to sell to established corporations, whilst the established corporations are rarely able to develop disruptive **innovation** internally.

The creation and successful growth of corporate startups is difficult and the integration of acquired startups by managers of established companies often fails and makes the founders leave.

At the same time, boards of directors usually have an average age of over 60, and they often consist mainly of long-term corporate managers. Very few have any **digital** natives, startup entrepreneurs, or enough understanding of startup culture and millennials habits.

As **innovation**, and especially disruptive **innovation**, becomes more and more important for the sustainable future of many businesses, it is highly recommended to have board members with this rare experience.

This will no doubt be agreeable to many businesses but we should still ask why there are so few founders of disruptive startups on the boards of established corporations.

First of all, founding and growing a business is definitely a full-time activity. At this stage, it is difficult to motivate a young entrepreneur to accept a second job. The right moment comes after the exit, either of the founder or of the whole business.

When acquiring startups or at the end of an earn-out phase, every corporate acquirer should think about offering board seats to the founders. A new board member such as this should then be able to build the bridge between the highly structured mentality of the corporate acquirer and the revolutionary minds which are integral to start ups.

In many cases, a job as a manager is offered by the acquiring corporation, but this often does not match the personality and goals of the founders.

Secondly, offering a board seat to a young, apparently unexperienced founder may surprise and irritate the establishment – and the chosen candidate, as mentioned previously, may not be acceptable because of the frictions and misunderstandings between these two worlds.

This problem can be reduced by not choosing a 25-year-old founder in his first years in business, but a more experienced entrepreneur, who has already grown a business to a size that also already needs more corporate structures.

Thirdly, if a disruptive innovator finally made it into a corporate board, he or she may in many cases stand alone or may not be taken seriously and may want to leave again soon. A solution to this problem is to appoint more than one, which may also help to get different views on disruption.

In any case, an existing board majority of seasoned corporate managers should always remember that the disruptive innovators have a different mindset, which may be essential for the long-term wellbeing or even existence of the company.

But what if businesses encouraged the opposite? Indeed, sending seasoned managers into the boards of young, revolutionary and disruptive startups will improve the understanding between the two worlds, and can build early bridges for future partnerships.

*Sourced from Professor Elgar Fleisch, **University of St Gallen***

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