Transformational governance[1]

By Professor Michael Rosemann, Executive Director, Corporate Engagement, Queensland University of Technology

- Organisations increasingly need to be ambidextrous, that is to be able to both exploit and explore.
- However, companies often lack transformational capabilities.
- New roles such as the Chief Opportunity Officer can provide required institutionalisation and guidance towards transformational performance.

This article investigates governance in the context of rapid changes and calls for a stronger focus on the transformational performance of the firm via appropriate roles, responsibilities and processes.

Emerging digital technologies combined with the increasing digital literacy of corporations and citizens are making our economy opportunity-rich. The costs to innovate have fallen as a cloud-enabled infrastructure allows organisations that are light on assets to shape (disrupt) value chains that so far have been reserved for large corporations. As a consequence, we witness start-up communities (FinTech, InsurTech, GovTech, etc) in most industries leading to an active environment of rapid prototyping and new alliances. In this context, organisations can no longer rely on their ability to exploit existing assets and capabilities. Instead, a greater demand exists to ensure adequate explorative capabilities at the disposal of corporate decision-makers. It is the ambidextrous organisation that has at its heart this idea of co-existing exploitative and explorative strengths.[2]

Governance as the system of corporate processes, mechanisms, rights distribution and relationships through which an organisation is controlled and directed[3] is foundational to achieve and sustain the transactional and transformational performance of the ambidextrous organisation.

The revenue resilient organisation

The growing speed and quality of digital innovations creates much more of a threat to the revenue base than the cost structure of established organisations. Therefore, organisations need to become resilient to these threats, if they want to avoid disruption. In order to address this demand, we have developed a resilience assessment framework allowing organisations to assess their revenue resilience in 15 dimensions grouped in the four clusters; customer, competitor, product and policy. In the following we show the revenue threats using one dimension per cluster.

- Customers are reconditioned by digital public goods. Increasingly they follow a zero-cost assumption, that is, they want all for nothing. With other words, the product/service is still in demand, but the customer is not willing to pay for it anymore (for example, information, entertainment, navigation, communication), or as a digital native has never done so.
- New competitors with high levels of digital literacy and light on assets enter the market from outside the industry sector and compete via new digital capabilities (for example, payment), business models (for example, two-sided markets) and community-based, aggregating resourcing models (for example, Uber, but also platforms such as patientslikeme.com).

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- New digital products and services have the potential to make existing products and services obsolete as they directly replace them (for example, email instead of letters) or indirectly shift the way the 'job is done'[4] (for example, video conferencing instead of business travel).
- New policies facilitate different forms of digital competition (for example, legalisation of aggregator models in the transport and accommodation industries).

A revenue resilient organisation is able to protect existing and secure new revenue streams despite threats to its revenue base. However, most organisations do not conduct such risk assessments of their revenue base informed by digital developments. With other words, they are unaware of the extent to which they need to be revenue resilient.

The notion of revenue resilience translates digital developments that are often difficult to comprehend into upcoming monetary implications and as such provides new insights, but also new transformational drivers for directors and boardroom members.

Transformation latency

In a climate that is rich on opportunities and requires increased revenue resilience, resting on carefully optimised transactional performance no longer guarantees corporate success as the assumptions behind established business models and customer interactions start to erode. As a consequence, organisations have to strive for higher levels of transformational performance.

Transformational performance is not only defined by the costs and the quality of transformation. In an area of exponential growth potential, the time-to-transform becomes a metric of competitive importance.

Time-to-transform can also be defined as transformation latency consisting of

- the *time to sense* new drivers of transformation which could mean changes related to customers, competitors, products/services, policy or technology (data latency)
- the *time to assess* the relevance of these transformational drivers for the current and future ecosystem of the corporation (analysis latency)
- the *time to implement* the required transformation (implementation latency).

Insufficient transformation latency explains why the wave of digital opportunities has led to the extinction of organisations such as Kodak, Borders or Sears who were high on transactional performance.

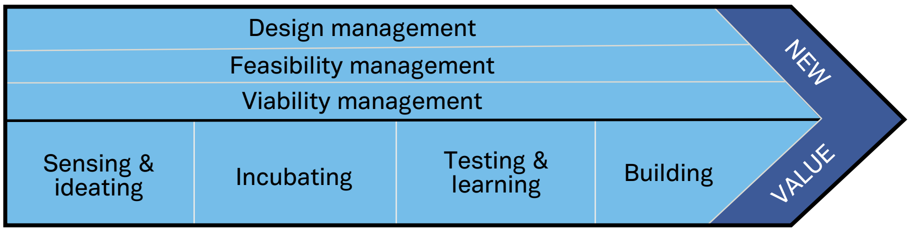
Industrialised innovation

Transformation latency is largely a function of the quality of the process of transformation. However, organisations traditionally have not been designed to transform. Instead, the optimisation of transactional business processes and their automation and increased predictability and conformance has often been the dominating focus. In order to boost transformational performance, new innovation capabilities and systems are required. In large corporations, these need to go beyond a focus on design and creativity. Instead, innovation effectiveness and efficiency have to be achieved, that is, an industrialised innovation system is indispensable.

Inspired by Michael Porter's essential work on the value chain,[5] which has largely conceptualised transactional, primary and secondary activities, our research is focused on the value chain of innovation. Well managed such a value chain becomes an effective source of generating new value while at the same time reduces the cost-to-innovate. Figure 1 shows the seven innovation capabilities we identified. The absence of any of these will severely compromise the ability to innovate.

- The primary value chain consists of sensing and ideating, incubating, testing and learning and finally building the innovative solutions (for example, product, service, process, business model).
- The secondary value chain consists of the assessments of the three fundamental criteria that every new idea has to pass on its way to commercialisation, that is, is the idea desired (do customers value it?), feasible (is the idea legally and technically sound?) and viable (is the underlying commercial model viable?).

Figure 1: The process of innovation



Chief Opportunity Officer

We outlined, the need for increased transformational performance and revenue resilience, reduced transformation latency and the demand for industrialised innovation systems. However, current governance forms are not geared to ensure a high transformational performance, low transformation latency and an industrialised innovation process.

There are a number of reasons for this including among others

- a dramatic over-emphasis on the notion of risks as opposed to growth in the education of directors and board members
- the challenge to adopt existing governance frameworks, standards and guiding material to the rapidly changing environment
- the lack of compelling cases highlighting good growth-oriented governance practices (as opposed to the plethora of cases showing when governance did not work)
- the lack of an institutionalised capability and capacity to ensure arising opportunities are appropriately recognised, implemented and governed.

In order to address the last item, new governance forms are needed to add a counter-balance to currently risk-intensive arrangements (for example, risk committees). Rather, dedicated, opportunity-centred new roles, responsibilities and processes are needed to proactively benefit from the rich design space that is emerging. In the following, we propose the role of the Chief Opportunity Officer as such a counter balance.

The role of the Chief Opportunity Officer (COpO) is dedicated to the early, proactive sensing of new opportunities, the assessment of these opportunities and the initiation and, where appropriate, oversight of the conduct of the related transformation. As such, the COpO is largely in charge to help the organisation and its relevant stakeholders with identifying and capitalising on new revenue channels. One might even contemplate the idea of an Opportunity Committee as a further conduit of the governance structure, or a reframing of the Risk Committee to expand its remit to *Opportunity and* Risk Committee to enhance governance capacity in ambidextrous organisations.

A Chief Opportunity Officer needs to be a transformational leader, that is, they gain influence via compelling, trust-building visions, foster participation by creating a supportive environment and nurturing new ideas, provide intellectual stimulation by challenging the status quo, and inspire motivation to ensure organisational culture and individual aspirations are aligned.

However, one of the most important roles of the Chief Opportunity Officer is to provide a narrative that adds meaning to the transformational journey. Increasingly, and aligned with the opportunity-rich environment as outlined above, this is not simply socialising 'a sense of urgency' (a burning platform), but to become a gifted storyteller for burning ambitions. If these ambitions go far beyond immediate shareholder value considerations or operational value propositions, we call this the organisational purpose. A purpose goes to the heart of why an organisation exists and where it sees its place in the economy as defined by its net contribution to the well-being of the society and its environment. A good purpose articulates in an intuitive way the extent to which the organisation intends to contribute to an authentic societal need.

Purpose-led transformation provides a long-term direction that focuses on the desired destination as opposed to problem-centred or digitally driven transformations.

In conclusion

The opportunity-rich environment characterised by the emergence of innovation ecosystems, new digital possibilities, reconditioned customers and new business models making existing assets, products and services obsolete requires proactive and growth-centred forms of governance. Corporations who on Thanksgiving want to be the butcher, and not the turkey, need to complement established, risk-centred transformational governance practices with new forms of governance facilitating transformational performance. This article suggested assessing and improving an organisation's transformation latency by investing in industrialised innovation systems and processes. The Chief Opportunity Officer is proposed as a new role with the institutionalised responsibility to ensure an appropriate focus on purpose-led exploration leading to the path of successful, ambidextrous organisations.

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Michael Rosemann can be contacted on 0408 735 363 or by email at m.rosemann@qut.edu.au.

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2 Tushman ML and O'Reilly CA, 1996, 'Ambidextrous organizations: Managing evolutionary and revolutionary change', *California Management Review*, 38, 8–30.

3 Shailer, G, 2004, *An Introduction to Corporate Governance in Australia*, Sydney, Pearson Education Australia.

4 Christensen CM, et al, 2016, 'Know your customers' "jobs to be done"', *Harvard Business Review*, September.

5 Porter, M, 1985, *Competitive advantage: creating and sustaining superior performance*, New York, Simon and Schuster.

6 O'Connell D, 2017, Leadership styles and improved governance outcomes, *Governance Directions*, May 2016, pp 202–206.