RISK & INNOVATION

Is Talent The Best Defense Against An Innovation Slowdown?

OVERVIEW

Little wonder why so many CEOs have restless nights. Europe and the U.S. are facing unprecedented political uncertainty, technology is developing at a breakneck speed and even the world's biggest corporations are not safe from social media backlash.

Against this backdrop, Aon's 2017 Global Risk Management Survey (GRMS) found that brand damage, economic slowdown, increasing competition and changing regulations were the top four risks. Meanwhile, disruptive technologies, failure to innovate and lack of talent are the threats projected to *increase* in severity in the coming years. Are businesses prioritizing the right risks?

According to the survey,the tech sector is most aware of the threat posed by failure to innovate and other industries can learn from their industry's risk rankings. More and more industrial sectors are getting swept up in the "Fourth Industrial Revolution" – where everything from machinery and household appliances to robots are being connected to the Internet of Things (IoT). The tech sector's current concerns are important: What is affecting it today will likely impact almost every other company in the years to come.

IN DEPTH

The need to innovate – together with disruptive technology – are high priorities for the tech industry, according to the GRMS. While staying ahead of the innovation curve is a daily mantra for the tech sector, many industries have not ranked innovation slowdowns as such a prominent threat – yet.

"Failure to innovate and disruptive technology, coupled with attracting and retaining top talent, increasing competition and brand risk will maintain the Top 5 status for the Technology sector for the foreseeable future," predicts Eric Boyum, National Practice Leader, Technology, Aon. "These factors will also increase for other industries that are going through digitization and digital disruption."

Innovate Or Fade Away

So why are other industries ranking innovation slowdowns as a lower priority? As regulators scrutinize the 'sharing economy' and 'peer to peer' businesses like Airbnb and Uber, perhaps companies in more established sectors believe it's just the disrupters that are vulnerable to new legislation.

Could the low ranking also be a symptom of the complacency among established firms that inadvertently enable disruptive organizations to flourish in the first place?After all, many big brands – from Kodak to Borders – have disappeared partly because they failed to see the bigger picture. Borders, the establish book retailer, , according to Time magazine, moved in a different direction despite consumer trends:late to the web, invested in CD sales as downloads were gaining popularit, and more physical stores emerged as consumers moved to e-commerce. Additionally, Kodak, the firm that invented the first prototype digital camera, thought photo sharing was going to help the printing business. As it turned out, *digital* photo sharing *was* the new business, the Harvard Business Review says.

Established businesses can fail to anticipate disruptive risks because they are too focused on protecting market share – even if they recognize the importance of adapting to newer consumer trends. And while these companies may understand the theory of disruption – identifying and anticipating customers' needs and responding to them in new and more efficient ways – they can lack the skills to identify the most effective ways to turn theory into practice.

Failure to innovate and meet customer needs has been ranked 6th in the last four Aon surveys, but is predicted to rise to number 3 by 2020. In just a few short years, this risk is projected to be the top risk in Asia Pacific, and number 2 in North America, as these regions continue to compete for top talent in everything from consumer electronics to renewable energy technologies.

Understanding The Core Of Innovation And Disruption

Disrupters are shaking up traditional business models by meeting customer needs in a more efficient and responsive way. From taxis and hotels to the music industry and newspapers, established businesses in almost every sector are at risk from mavericks who have found better ways of doing things. These revolutionairies can be start-ups like Airbnb or Spotify, or blue-chip firms muscling in on a new endeavor, like Apple and Google joining the race to develop driverless vehicles.

At the heart of this is data and analytics. The growing commercial value of data describing a user's online behavior – the core concept set to revolutionize the way the world works – is also core to the rapid rise of players like Snap. But where tech firms excel at gaining insight into customer needs from detailed data analysis, not every company has yet to find out how to gather, interpret and successfully apply data to help enhance, or even transform, their own business models.

This is why businesses should closely monitor the tech sector's forward-looking concerns. Those who understand and anticipate emerging risks will have a stronger chance of overcoming them. The rest risk being overtaken by up-and-coming rivals who better understand both consumers and the rapidly changing business landscape.

A failure to innovate and respond to customer needs can directly impact an organization's bottom line. In the last 12 months, it led to a quarter of firms reporting a loss of income, more than from cyber crime and hacking (reported by 10 percent), or political risk (reported by 23 percent). Companies also report less preparedness to remedy the problem. Today only 59 percent report 'readiness' for dealing with this risk, down from 64 percent in 2013.

All this shows that perceptions of risk are changing. With this change in perception comes a need for new approaches to overcome such emerging threats. And to develop those new approaches requires the right people.

Talent: The Ultimate Solution?

In 2011 Apple overtook Exxon Mobil to become the world's most valuable firm. And now four of the top five companies in terms of market capitalization – Apple, Alphabet/Google, Microsoft and Amazon – are from the tech sector. Investors have put their faith in ideas and creativity as much as natural resources and physical assets. Meanwhile, Microsoft's $26 billion acquisition of LinkedIn shows the enormous value of a company which had quickly become a dominant talent and recruitment networking tool.

Since innovation reflects forward-thinking , attracting and retaining the right talent to implement such strategies might be a company's best bet to stay ahead. And potential recruits need more than competitive salaries: They are after a strong brand with a good reputation and workplace flexibility that recognizes good work.

For those with skills in fields like cybersecurity, big data and predictive analytics, it is a seller's market as demand outstrips supply. There has been a global skills shortage in these areas for the last few years, and this remains a serious challenge. Add to this a tightening labor market as unemployment falls in major economies, and the potential strengthening of borders in the U.S. and the U.K., which limits talent supply even further, accessing top talent becomes a greater challenge.

Despite an appreciation of the rising challenge of skills shortages, failure to attract and retain talent dropped from 5th in 2015, to 7th in the 2017 survey results. But again, technology firms – who tend to be ahead of the curve – rate it at number 3.

Talent Beyond Tech

Skills shortages are not just an issue for tech companies, even if other sectors may not yet fully appreciate the importance of talent in their business plans. For instance, failure to attract and retain talent did not appear in the Top 10 for the energy sector in this year's survey. "From my point of view, this makes it an underrated risk for the sector," says Bruce Jefferis, CEO Energy & Mining, Aon. "Historically, talent retention coupled with innovation has been a key driver for the energy sector and it will continue to be a key risk in the longer term."

With the Fourth Industrial Revolution likely to impact almost every sector, other industries should start to take note. With talent pipelines increasingly needing to be planned as much as ten years out, failure to start planning today could lead to even greater disruption in years to come.

TALKING POINTS

"We are living in a challenging new reality for companies of all sizes across the world. There are many emerging influences that are creating opportunity, but at the same time, creating risks that need to be managed." – Rory Moloney, CEO, Aon Global Risk Consulting

"It is a mistake to hire huge numbers of people to get a complicated job done. Numbers will never compensate for talent in getting the right answer." – Elon Musk, Founder and CEO, Tesla, SpaceX

"Nothing you do for your company has as much impact as putting the right people around the table. The aphorism is true: You can't manage your way out of a bad team.

An approach to hiring that genuinely identifies real skill and fit will give you the best shot at assembling the right team." – Matt Mullenweg, CEO, Automattic and Founder, WordPress

FURTHER READING

- Creativity Will Be The Source Of Our Next Industrial Revolution, Not Machines – Quartz, April 11, 2017
- How IoT Exacerbates The IT Talent Gap – And How To Find The Right Talent – Information Age, March 14, 2017
- Skills Shortage To Hit Chinese Companies – China Daily, March 7, 2017
- The Next Big Blue-Collar Job Is Coding – Wired, February 8, 2017
- 2017 Global Risk Management Survey – Aon