



# Culture of Innovation:

Building a Foundation  
for Business Resilience  
and Economic Recovery in NZ

## INTRODUCTION

# Crisis is the mother of innovation

No individual, business or national economy can evolve by doing the same things they've always done. Whether it's creating disruptive new products and services or simply changing the way an organisation runs, innovation is what fuels progress.

This white paper examines what defines best practice in innovation, compares how innovation leaders behaved during COVID-19 against the majority of businesses and offers solutions to help more New Zealand businesses become stronger and more innovative. By learning from those who have best adapted to the new normal, we can set our national economy on track to a stronger future.

In New Zealand, we pride ourselves on our ability to adapt to new circumstances – the number eight wire mentality is our national psyche. However, research shows that we still have some distance to travel before we are true innovation leaders.

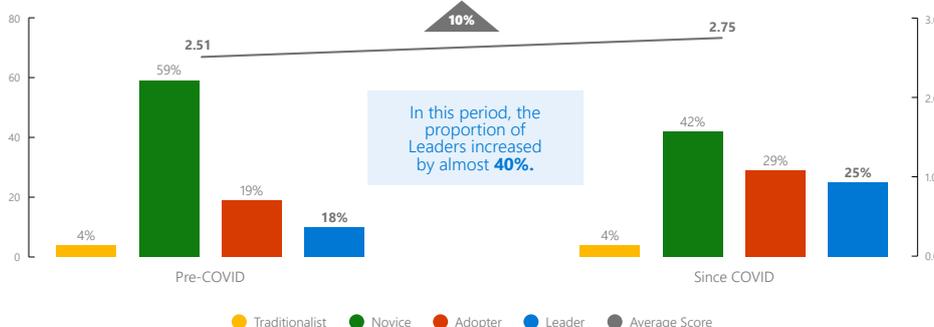
In early 2020, Microsoft commissioned IDC to research organisations across Asia Pacific, looking at whether they had the right 'culture of innovation' to drive their success.

Titled *Culture of Innovation: Foundation for Business Resilience and Economic Recovery in New Zealand*, the research was repeated following the outbreak of COVID-19, to reflect the huge shift in the business environment and ways of working created by the pandemic.

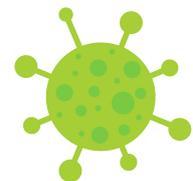
COVID-19 has created both significant challenges and opportunities for organisations globally, but it demonstrated in just a few weeks how important innovation is to businesses' resilience. As Microsoft CEO Satya Nadella noted in April, we saw two years of digital transformation in just two months as organisations adopted new technologies to enable digital services, remote working and online collaboration for the first time.

In New Zealand, researchers saw a 10 per cent maturing in New Zealand business innovation post-COVID, with a sizeable 40 per cent increase in the number of businesses that qualified as innovation leaders in the six months to July 2020. In the words of Russell Craig, Microsoft National Technology Officer, "crisis is the mother of innovation."

### DISTRIBUTION OF COI MATURITY IN NEW ZEALAND



The mission is now to ensure New Zealand organisations don't lose that momentum. As the adage goes, if you're not disrupting yourself, someone else is.



Who led the digital transformation of your company?

- CEO
- CTO
- COVID-19

“We've seen two years' worth of digital transformation in two months.

SATYA NADELLA,  
MICROSOFT CEO

The IDC study reveals 43 per cent of New Zealand organisations view COVID-19 as an opportunity, not a barrier – and those who do expect to perform better than their counterparts, recovering sooner and more confident of growing their revenues.



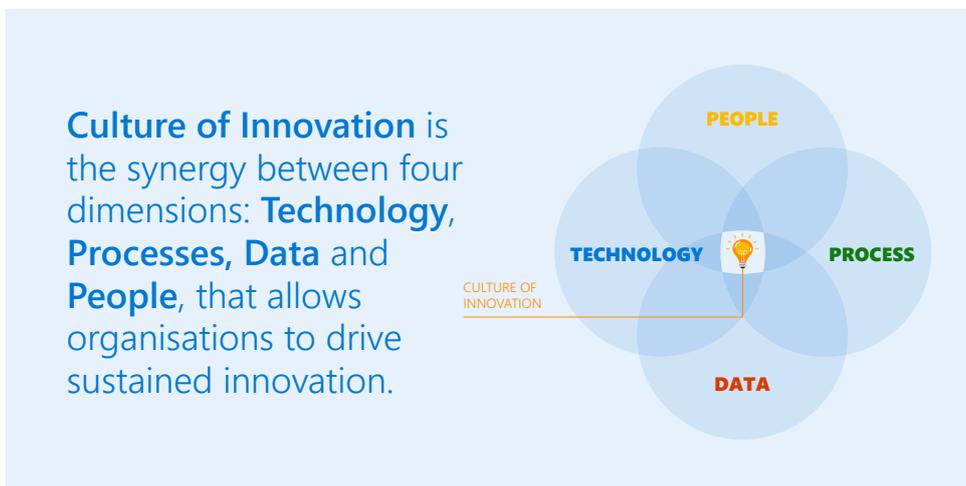
For a stronger and more resilient economy in the long term, it's crucial for more local organisations not to consider recent innovations as 'job done'. Instead, they must learn from both local and global innovation leaders how to remain competitive in such a fast-moving environment and seize the opportunities COVID-19 has created for New Zealand enterprises to reach new markets and improve their services through technology.

## **BUILDING A FRAMEWORK FOR INNOVATION**

The study shows that 88 per cent of New Zealand business leaders now believe innovation is critical to business resilience. We should therefore define what that looks like.

The figure below is the Culture of Innovation framework developed by IDC after assessing organisations' approach to innovation. The four pillars, **People, Process, Technology** and **Data**, represent the four key elements required to enable innovation to thrive within an organisation. Whereas traditional models refer to just **three pillars**, data has been added to highlight its importance to informing decision-making and strategy in the digital era.

Organisations who are mature in all aspects of this framework are considered **innovation leaders**.



# People

Notably, People are at the top of the chart, recognising that the right skills, capabilities and mindsets need to be in place for innovation to happen.



In the IDC research, 70 per cent of innovation leaders across Asia Pacific were investing in skilling initiatives and building business-wide capabilities, compared with 57 per cent of New Zealand businesses generally.

Russell Craig says businesses first need to identify the existing skills within their organisation and where they hope to take their business, which will help in turn to identify the gaps.

“The next question they need to ask is can they develop those skills within the business, or will they need to acquire them via recruitment?”

However, beyond business level, there also needs to be greater collaboration between industry, education institutions and the public sector to ensure New Zealand has enough people with the digital skills to enable innovation. According to Guy Littlefair, Pro-Vice Chancellor and Dean of Design and Creative Technologies at Auckland University of Technology: “Rather than thinking of the job takers of the future, we need to be creating the job makers of the future. It’s time to look at new ways of skilling, including packaging old three-year courses into shorter timeframes.”

Craig highlights cross-industry collaborations such as the [Industry 4.0 Accelerator](#) (i4) as an example of how to accelerate skilling. Uniting academic partners, industry leaders such as Microsoft and Kordia and regional agencies, it has already incorporated Microsoft digital certifications into business degrees. It is now working to educate employers about the potential of digital technologies and create regional projects where students can receive on-the-job technology training.

Skilling is just part of the equation. Diversity is also revealed as an important driver of innovative thought, with 82 per cent of innovation leaders having a multicultural, multigenerational and cross-industry workforce. Among general New Zealand businesses, the figure was 63 per cent, demonstrating there’s significant maturing to be done in the local market.

The importance of diverse mindsets and experiences to growing business innovation is acknowledged by the World Economic Forum, which funds financial services startup [Mujeres Wow](#) to address gender imbalance in small business lending. “Closing the gender gap in financial inclusion can act as an enabler of countries’ development, economic growth, inequality reduction, business evolution and social inclusion,” the programme summary concludes.

Vanessa Sorenson, Managing Director of Microsoft New Zealand, agrees. “Harnessing Aotearoa’s diversity of thought is something we really need to build on. With the working from home culture COVID-19 has accelerated, we’re now better positioned to do that, accessing talent from communities all around the country in a way many businesses haven’t done before.”



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VANESSA SORENSON,  
MANAGING DIRECTOR,  
MICROSOFT NEW ZEALAND

# Process



A clear process that lays the foundations for innovation was another element the IDC research's innovation leaders shared.

This is well illustrated by the fact that just 15% of New Zealand business leaders found innovation easy prior to COVID-19, compared with 58% in the second phase of the study. Once the right processes and strategies are in place, it simply becomes easier to keep innovating.

Where innovation leaders differ from the bulk of New Zealand businesses is the maturity of their processes. When COVID-19 hit, most Kiwi organisations were focused on implementing remote working, introducing data analytics tools to improve decision-making and developing a stronger corporate vision for the future.

## TOP STRATEGIES IN THE LAST 3 MONTHS TO BE MORE RESILIENT AND RECOVER FASTER

### NEW ZEALAND ORGANISATIONS



1  
are introducing new ways of working with remote work being the new norm



2  
are leveraging data analytics for better decision making and new data-driven revenue streams



3  
are strengthening corporate vision, implementing clear direction and agile decision making from leadership

### LEADERS



1  
are rethinking the organisation's current business model/exploring new ones



2  
are introducing new ways of working with remote work being the new norm



3  
are digitalising products and services, introducing new digital products

Organisations who had already implemented these processes and who were further along in their digital transformation were much better equipped to deal with the lockdown. As others raced to simply maintain operations, innovation leaders were already focused on rethinking their business model and exploring new options, extending existing working from home platforms and either digitising their products and services or introducing new digital offers.

"The number of organisations who are innovation leaders has increased dramatically, so we clearly have the capability to innovate in New Zealand," says Microsoft's Craig. "But if businesses aren't among those leaders, what will that mean for them? Innovation leaders are already set up to move to the next level. If you're not first, you're last. Implementing solid processes to enable innovation and encouraging thinking that challenges the status quo is essential to businesses' long term survival."

Notably, innovation leaders in the research enabled collaboration and knowledge sharing across their organisations, something less than half of New Zealand businesses achieve. Linking back to the People element, greater focus must be placed on this to break down siloes, improve diversity of thought and empower more workers to contribute to innovation. As best practice shows, a true innovation culture cannot simply be imposed from the top down.

Following these leaders, there must also be a formal and systematic process – if not a dedicated budget – to drive digital innovation, along with KPIs to monitor progress. However, this doesn't have to be something developed from scratch.

In the words of Farmlands Chief Executive, Peter Reidie: "The Kiwi tendency is we'll tweak it and do it our way, and that's a big mistake in my opinion. You can do that with people and products, but when it comes to process we should be looking to the people who've been doing it a long time. I would argue we need to steal the most effective processes from those who know, and innovate around people, technology and data."



# Technology

If COVID-19 has taught us one thing, it's the importance of technology in supporting business continuity and resilience.



Many New Zealand businesses understand this well – a quarter invested in new technologies in response to COVID-19, and there is high demand for greater government investment in technology – but there is still substantial room for improvement.

Whereas 92 per cent of innovation leaders across the region are investing in technologies to support innovation, just 61 per cent of New Zealand businesses do so. Furthermore, while 62 per cent of New Zealand businesses plan to build on their COVID-19 innovations by speeding up digitalisation via new products, automation and e-commerce platforms, for example, this means a large proportion still aren't seizing the opportunity to get ahead of the competition or strengthen their resilience further.

New Zealand businesses' technology platforms and programs are also rather fragmented compared with best practice. Ideally, these should be integrated with each other and streamlined so employees aren't having to search for information in various locations, use multiple platforms to perform daily tasks and other activities that take time away from value-add work like ideation and strategy. Nearly 30 per cent of local businesses have yet to do this.

Despite businesses' forced innovation during lockdown, this shows a continued hesitancy to push boundaries or invest strongly in technology. There needs to be more than a brief jump in preparedness for a digital future – instead, there must be a sustained trajectory of digital transformation and forward planning to keep momentum going.

"New Zealand businesses have already shown they have the ability to innovate using technology during a crisis, so let's build on that," says Vanessa Sorenson. "For example, Microsoft's investment in a New Zealand datacenter region is going to enable businesses to do so much they couldn't do before, leveraging the vast scale of Microsoft's global networks. Now they can plan ahead for the next 18 months to two years, knowing what will be possible."

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**62% of organisations** in New Zealand will further speed up digitalisation in the form of launching digital products, digital payments, ecommerce, automation, etc., compared with **87% of leaders across Asia Pacific**

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# Data



Data is the new oil. However, too much, unchannelled, can turn from a pool of data into a murky and unproductive information swamp.

As Littlefair says: “Data is very important, as without it you can’t move forward, but it’s about how to interrogate that data and turn it into information that supports innovation.”

In a positive sign, the IDC research shows two-thirds of New Zealand businesses are already leveraging data to differentiate and enhance their products and services. With significant investments like the new Microsoft datacenter region, we can expect this to increase further. It’s encouraging to see more than a quarter of businesses are prioritising real-time access to data to improve decision-making and enhance offerings in the next 12 months.

## IN WHICH OF THE FOLLOWING IS YOUR ORGANIZATION GOING TO FOCUS ON IN THE NEXT 12 MONTHS TO BECOME RESILIENT AND BE ABLE TO QUICKLY RECOVER FROM THIS CRISIS?



NEW ZEALAND

However, the pace of this transformation is key. With so many businesses now using digital platforms to communicate with customers, collaborate and provide products and services, market leaders are no longer the ones who are simply “online” or “in the cloud”. The playing field has levelled again, and maintaining – or strengthening – one’s position in the market now relies on knowing customers and partners better than anyone else, making better, faster decisions and adopting data-driven models to enhance efficiency. Serendipity has its place in business lore, but insight (derived from data) is what has made today’s social media giants the global forces they are.

More informed decisions also lead to a better ability to spot risks and opportunities, which will be vital to New Zealand’s economic recovery as well as individual business resilience.

According to Microsoft’s Craig: “The next six to eight months are going to be critical. We need to start at board level, educating business leaders to understand the value of data. Acquiring that data comes at a cost, but the value you can extract from it makes businesses more resilient and able to pivot faster.”

Notably, the IDC research shows a third of innovation leaders with data-driven organisations expect to increase their market share despite the pandemic. As this illustrates, there are real opportunities for those who transform fast to make tremendous gains, but slower movers in the data stakes will not just be left standing, but potentially be cut out of the race.



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RUSSELL CRAIG, MICROSOFT  
NEW ZEALAND NATIONAL  
TECHNOLOGY OFFICER

CASE STUDY:

# Farmlands Co-operative

Agribusiness leader, Farmlands Co-operative, shows what innovation best practice looks like here in New Zealand. It had already laid the groundwork for an e-commerce platform when the nationwide COVID-19 lockdown hit in March and April 2020, having trialed an earlier version the previous year. During 2019 it had also integrated many of its operations into a cloud-based Dynamics 365 platform to speed automation and boost efficiency.

That meant it was able to bring a new Click and Collect service online in 10 days, maintaining the resilience of New Zealand’s agricultural supply chain and completing four times as many transactions in a week as the previous platform had completed in a full year. Its in-house teams also rolled out apps to track staff health, streamline sign-ins on site and support compliance with the government’s COVID-19 regulations. Because the framework for these innovations was already in place, apps were able to be developed in just two hours. That included focusing on preparing Farmlands workers for a digitised culture.

“We’ve been on a change journey for some time now, but we’ve learned you must start with your people. If your people are not embracing that change, if they’re not ambitious about what technology and innovation can bring to them, you’ll get nowhere. I would say

we’ve had a change journey enabled by technology, not a technology journey facilitating change,” says Chief Executive Peter Reidie.

He says Farmlands is now in a stronger position post-COVID than it was before, and is already planning further enhancements to its digital platforms to build on the gains it’s made.

“We’ve responded with immediacy, but how much material change have we made? For New Zealand businesses, that question is now more important than ever. It’s always a “what’s next?” world and COVID-19 has only amplified the need for innovation. We’ve recognised it’s by no means over.”

As a result of its previous innovations, Farmlands is now focused on enhancing its online offering and it has also refined its digital collaboration process to enable regional “musters” (meetings) to happen on Microsoft Teams, saving travel time and costs, and enabling those in remote locations to collaborate with each other much more easily.

“Now we’ve made that culture change, that innovation change, the challenge is to utilise that to more effectively serve the needs of our shareholders,” Reidie says.



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It’s always a “what’s next?” world and COVID-19 has only amplified the need for innovation. We’ve recognised it’s by no means over.

PETER REIDIE,  
FARMLANDS CEO

# Summary

The relevance of this research goes far beyond individual businesses. While the four pillars of innovation can boost performance, resilience and revenues, having more New Zealand businesses become innovation leaders will support a much stronger, faster economic recovery at a national level.

The pressure is now for business leaders to look at how they're empowering their people via skilling, incentivising innovation or if needs be, recruiting those with the knowledge to drive their business forward. Leading on innovation also requires clear processes, a willingness to invest in technology and mature use of data analytics to capitalise on the opportunities COVID-19 has created.

Innovation is no longer an add-on for Kiwi organisations. It's become the life-blood of modern business, and a culture of innovation will be a true necessity in New Zealand's rebuild. The only caveat: coming back better and stronger means businesses need to act now.



Innovation is no longer an add-on for Kiwi organisations. It's become the life-blood of modern business

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