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Boards Championing Innovation: Shepherding Growth in an Uncertain World

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Our volatile economic climate is defined by sustained inflation, high capital costs, geopolitical friction, and a shift from growth-at-all-costs to growth-with-discipline. These circumstances show no sign of abating while technological advances are moving faster than ever. Boards can no longer afford to treat innovation as an aspirational side effort. It must be governed with the same rigor and intentionality as financial oversight or risk management. Innovation is no longer an isolated function; it is a core lever of long-term value creation.

Yet the tension remains: how do you govern something that thrives on ambiguity? How do you measure progress without reducing innovation to a checkbox? And how do you design compensation plans that inspire bold thinking without incentivizing recklessness?

These are not theoretical questions. They are boardroom realities.

Innovation Is a Governance Responsibility

Historically, innovation lived outside the board's direct purview, usually viewed as the domain of research and development (R&D) teams or product leaders. That model no longer holds. In industries facing accelerated disruption, such as energy, life sciences, financial services, or even legacy industrials, boards are expected to be stewards of transformation. That means ensuring the company is not just executing against today's strategy, but actively evolving to meet tomorrow's market.

Innovation, then, is not just about developing a new product or platform. It's about rethinking business models, reinventing customer experiences, and enabling agility in core operations. This broader view demands governance. Boards should oversee innovation like any other strategic function: with structure, visibility, and accountability.

Making Innovation Visible and Measurable

To govern innovation effectively, it must first be visible. One of the most practical shifts a board can make is asking management to maintain and regularly review an "innovation pipeline"—a clear, evolving view of initiatives moving from concept through validation and deployment. This mirrors the discipline of sales pipelines or capital investment trackers and provides a shared vocabulary for assessing innovation health.

Regular innovation updates, anchored by this pipeline, should move beyond status reporting. They should invite dialogue, challenge assumptions, and elevate outside-in thinking. Boards that engage deeply in these discussions send a powerful message: innovation is not ancillary, it's essential.

In today's environment, capital efficiency is non-negotiable. Boards must push for experimentation at scale, but with cost discipline. Rapid prototyping, learn-fast/fail-fast cycles, and scalable validation models are essential. The board's job is to ensure innovation efforts are not only bold, but economically sound.

Innovation Is a People Strategy

Ultimately, innovation lives or dies through people. Boards have a clear role in building the leadership and cultural infrastructure to support it. This begins with ensuring management is developing a bench of future-ready leaders who are curious, resilient, and comfortable navigating ambiguity.

To do this, succession planning must go deeper than CEO readiness. It should include identifying high-potential talent with innovative mindsets and giving them the opportunity and space to lead. Assigning these individuals to cross-functional sprints, idea incubators, or platform transformation projects is a powerful way to build both capability and credibility.

Crucially, companies must avoid the trap of asking for innovation "on top" of already full plates. Boards should ensure that innovation efforts are resourced appropriately with time, tools, and authority. Stretch roles should be a platform for growth, not a recipe for burnout.

Rethinking Metrics for Innovation Success

Traditional KPIs often fall short when it comes to capturing the value of innovation. Boards must expand their definition of performance. That includes milestone-based tracking: How many initiatives moved from ideation to pilot, how many customers were touched by a new solution, what lessons emerged from failed experiments?

Failure, when institutionalized through thoughtful post-mortems, becomes a source of strategic insight. Boards that normalize failure as a necessary part of learning create cultures that are bold, not reckless; curious, not complacent.

Compensation as a Catalyst for Innovation

Too often, incentive plans reward short-term financial performance and inadvertently penalize innovation. What if compensation design could be leveraged to fuel creative thinking, collaborative problem-solving, and disciplined risk-taking?

In an economic cycle that prizes capital discipline and talent retention, boards must ask: Are we rewarding the behaviors we want to see?

Consider how the following practices might be incorporated without significant disruption to existing compensation norms:

Innovation-weighted annual scorecards that include key milestones: These could go beyond ROI to include pilots launched, new revenue streams tested, market feedback captured.

Equity with longer-term vesting: Innovation, by nature, will play out over longer cycles than traditional financial performance metrics. New business models, platforms, or products may take years to validate and scale. Long-term vesting periods, for example five years or more, could ensure that equity incentives reinforce patience, persistence, and long-view thinking, rather than short-term wins.

Performance-based equity tied to innovation outcomes: Boards in some industries may already be linking successful commercialization, market share growth in new segments, or percentage of revenue from new solutions without explicitly noting these are, in fact, innovation milestones.

Peer-nominated bonuses and recognition: For broad-based populations, compensation programs that celebrate collaboration, ingenuity, and persistence and not just final outcomes can be very influential in driving an innovation culture.

Executive compensation tied to innovation health: Whether a distinct percentage or used as a modifier, including cultural measures like engagement in idea-generation platforms or creating innovation governance frameworks can signal the board is prioritizing the future.

When compensation aligns with innovation goals, organizations are sending a clear message to all stakeholders: this work matters, and we're willing to invest in it.

Final Thoughts

The fast rise of widely available generative AI (which has of course been in development for years) has clearly shown that innovation can no longer be left to chance, nor confined to a department. It must be governed with purpose, increasingly as a fiduciary duty of the board. That doesn't mean controlling it into submission, but rather creating the structures, incentives, and culture that allow it to flourish.

The boards that embrace innovation governance and back it with thoughtful compensation are positioning their organizations to adapt, thrive, and lead. In an era defined by uncertainty, innovation isn't a gamble. It's a strategy.

About the Author

Jane Park is a managing director at Pearl Meyer. With nearly 20 years of experience, Jane advises public and privately-held clients on executive and non-employee director compensation issues. Her work is focused on pay governance, incentive plan design, pay-for-performance alignment, compensation benchmarking, proxy analysis, and special programs for IPO and M&A transactions.

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