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Center for Board Effectiveness

On the Board's Agenda | US

Embracing disruption: The board's role in championing innovation to capture potential

Introduction

The boardroom's pivotal role in championing innovation

In today's rapidly evolving business landscape, innovation powers the heartbeat of progress. As new technologies disrupt traditional industries and consumer preferences shift seemingly overnight, organizations that thrive are those that embrace change. Yet, corporate boards may underestimate their strategic role in fostering these crucial adaptations. Conversations on technology disruption are often initially focused on back-end operations (and efficiency), rather than proactive forces to drive seismic organizational shifts, catalyzing profound innovative transformation.

Imagine a once-dominant organization, known for its decades of success, now failing to adapt, facing the stark reality of dwindling demand and shrinking relevance. Visionary leaders, armed with bold ideas and the curiosity to understand the power of innovation are the driving force behind tomorrow's marketplace, technological disruption, and engines of growth and resilience that are redefining supply and demand dynamics, while ultimately shaping the future of the boardroom.

Board members should consider strategies to champion and drive forward-thinking approaches that are essential to delivering marketplace outcomes in today's economic landscape.

The innovation imperative

Setting the tone in the boardroom

In this contemporary business landscape, where rapid technological advancements and business disruptions intersect with more fluid supply and demand dynamics, board members **can no longer afford to operate without an appetite for transformational opportunities** and a mindset of boundary-pushing innovation.

In many boardrooms around the world, the buzz around innovation—and specifically artificial intelligence (AI)—is reaching a fever pitch. Once viewed as a futuristic concept, AI has swiftly moved into the mainstream, leading to monumental changes across industries. Appreciating the impacts of innovation is no longer just about staying ahead of the competition; it is about recognizing a new strategic imperative.



70% of respondents in a recent survey reported maintaining or increasing their spend on innovation.

Innovation can help organizations foster greater resilience and capture opportunity, even among increasingly challenging economic environments. In a recent survey of companies by Deloitte and Fast Company, nearly 70% of respondents reported maintaining or increasing their spend on innovation despite economic uncertainty.[1]

> "Embracing agility, curiosity, and forward thinking within the boardroom is paramount in today's rapidly evolving landscape. By investing in a collective tech journey, the board can proactively engage management to integrate technology seamlessly, fostering innovation across its diverse mosaic. The board's role in innovation is not merely passive observation, but active participation in shaping the future."

Lara Abrash
Chair, Deloitte US

> "In an era where industries are converging and boundaries are blurring, one of the greatest risks is failing to innovate. By expanding the role of the board beyond traditional oversight to actively promote innovation and strategic risk assessment, boards can help leaders identify new opportunities. They can harness technology innovations to help organizations reimagine and reshape their business models for resilience and lasting impact in the marketplace."

Jason Girzadas
Chief Executive Officer, Deloitte US

The boardroom is where risk and reward should be actively balanced to navigate the inherent uncertainties of innovation. As market dynamics shift at an unprecedented rate,[2] the board's role goes beyond simply recognizing market shifts; it extends to overseeing the enterprise's navigation through these changes—and innovation sits at the heart of this balancing act—serving as both a compass and an engine for sustainable growth and competitive advantage.

In this context, boards should consider setting a bold and creative vision, balancing near-term incentives with longer-term strategies (including choices on capital allocation and associated governance), while cultivating a culture of innovation, to aid in seizing new opportunities, mitigating potential risks, and driving transformative change. Embracing innovation as a strategic imperative can help set a resilient foundation, while proactively positioning organizations to thrive in uncertain and competitive environments.

As such, the board's role could begin to extend beyond traditional oversight—not only fostering a culture of innovation, but also encouraging strategic risk evaluation and ensuring that organizations remain agile and adaptable. By doing so, boards could turn potential threats into opportunities and leverage innovation as a key driver for long-term success. Take for example, the rapid adoption of emerging technologies, such as AI and machine learning, which are expected to add substantial value to the global economy. The worldwide Generative AI (GenAI) market is expected to grow at a compound annual growth rate (CAGR) of about 21% to $200 billion by 2030.[3] However, only a fraction of companies have scaled their AI efforts.[4] This disparity highlights a critical gap between early adopters and those who lag behind, struggling to move beyond initial experimentation.

Boards play a pivotal role in bridging this gap by proactively engaging with management to drive the strategic adoption and scaling of emerging technologies, as well as broader organizational adaptations that unlock new value. Without active board involvement and encouragement of decisive management action, organizations risk stagnation and may ultimately watch their market relevance erode.

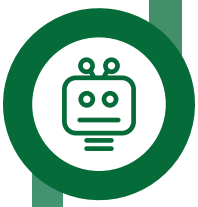
Amid this Fourth Industrial Revolution, beyond staying up to date on emerging technologies, boards should consider these factors to elevate the role of innovation in the boardroom.



Accelerating pace of change

Technology is disrupting industries and increasingly reducing barriers to create digital global economies. New technology adoption efforts anchored in a "wait and see" approach are potentially riskier than they once were, as the pace of innovation means that product life cycles are shrinking, customer demands are shifting rapidly, and traditional business models may become outdated quickly.

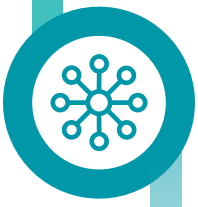
To help address these challenges, boards should consider adopting a more agile mindset to challenge the pace of management, and encourage incorporating foresight strategies - anticipating emerging trends that foster early experimentation with new technologies. This approach is paired with calculated, proactive (and real-time data-based) risk and change management capabilities.



Abundant creation spurred by AI

While AI has been maturing for many years, recent advancements in GenAI are enabling more people to harness the power of AI without specialized knowledge (e.g., coding, machine learning). Automated content generation, data analytics, and decision-making systems aid in the production of predictive insights, personalized recommendations, and high-quality products at scale. This abundance has the potential to fundamentally transform various sectors and redefine the value proposition of many organizations, as many of these developments are occurring in "verticalized" AI applications.

Boards should recognize the transformative potential of AI to unlock new business value (and associated ethical considerations and risks), while overseeing management's investment in organic and inorganic opportunities. These efforts may include activations such as new research and talent development, as well as monitoring the market for new merger and acquisition (M&A) opportunities that may be the difference between future market leadership or stagnation.



Technology-influenced market demand/customer expectations

Technology disruption is creating space as these technologies give rise to fundamentally new markets and fields, ultimately reshaping demand and customer expectations/experience. Personalized recommendations, instant access, and seamless digital interactions have become the norm. Many customers now expect businesses to predict their needs and provide frictionless experiences across many touch points.

Board members should consider encouraging management to prioritize customer-centric strategies that leverage innovation to exceed expectations for consumer-oriented experiences. Such strategies may be increasingly critical to sustaining and enhancing enterprise value and competitive differentiation. Boards might also guide management to proactively monitor competitors, adjacent industries, and emerging technologies that could disrupt customer expectations.

Adaptive innovation organizational structure/incentives

Innovation may serve two major roles for organizations: incremental enhancement to existing products, services, and businesses; or transformational change to create fundamentally new ones. However, some organizations are designed to support the former at the expense of the latter, which can be problematic. There are many different strategies organizations may pursue to address these challenges, such as internal "skunkworks" groups, external collaboration, or shifting operating models as organizations look to improve transformational innovation capabilities.

*Governance processes that recognize the value of both incremental and transformational innovation may help management be more proactive about decision-making **and** resource allocation to propel both types of innovation.*

Enhanced popularity of 'open innovation' models

With increasingly complex market dynamics and converged industry operations, "open innovation" models appear to be growing in popularity.[5] A notable 42% of surveyed organizations say they leverage open innovation models to support their innovation strategies.[6] These models may accelerate growth, reduce research and development costs, and introduce fresh perspectives that could drive breakthrough innovation. In a rapidly changing market, adaptability is key.

Board members should consider encouraging management to explore open innovation opportunities that align with the organizations strategic goals that value external collaboration, fostering relationships to unlock new markets and technological advances, while addressing risk considerations, such as IP protection and data risk.

These shifts can have far-reaching implications for markets, industries, and businesses, both in their opportunities and challenges. As such, boards should consider becoming savvy on these issues (which may influence many governance activities), but also understand the ways in which they could likely have an impact on core board functions.



Understanding the board's role in progressing innovation

Amplifying innovation considerations on the board agenda is increasingly important, but boards should also deepen their awareness of how innovation is taking shape within (and outside) of their organization, as well as the ways in which broader market innovation is influencing the role of the board.



Priorities

Elevate innovation as a strategic imperative

Strategies to further the board's innovation agenda

- Consider where innovation appears within current board committees and if a new committee, ad hoc committee, or advisory board could focus exclusively on innovation-related (incremental and transformative) initiatives for the organization across multiple time horizons (short, mid, and long term), ensuring that this committee includes members with diverse backgrounds in technology, market trends, and business strategy to provide comprehensive oversight and guidance. Consider including external innovators, futurists, and thought leaders to provide radical perspectives and challenge conventional strategies with groundbreaking ideas.
- Oversee management's exploration of the impacts of technology disruptions on supply and demand—recognize leadership teams may be prone toward over-optimism about the ability of existing business to maintain relevance and perform adaptive scenario planning/forecasting to better ascertain at-risk revenue and potential revenue replacement strategies.[7]
- Consider imploring management to define clear, measurable innovation goals that align with the organization's overall strategic objectives. Determine who on the board is responsible for defining innovation key performance indicators (KPIs) with leadership and introducing diversity of internal and external perspectives. Consider engaging stakeholders in the innovation process, gather insights, and encourage leadership to take active roles in both promoting and managing innovation throughout the organization.



Priorities

Infuse leading practices from across sectors (converged-industry) to enhance customer experience, brand, and strategic advantage

Strategies to further the board's innovation agenda

- Consider management's use of open innovation models to bring interdisciplinary thinking and capabilities that can reinforce brand confidence and the commitment to sustaining an impactful relationship over time. For example, create an open innovation platform where external innovators, startups, and even competitors can collaborate on solving industrywide challenges.
- Oversee management's prioritization of broader ecosystem participation, including sustainable innovation and long-term value creation across diversified supply sources, to help maintain greater agility and resilience. For example, develop new metrics specifically designed to measure innovation impact and progress, integrating them into the board's performance evaluation framework and ensuring accountability and continuous focus on innovation.
- Foster a strategy that is inclusive of a culture of rapid experimentation, including immersive experiences such as innovation hubs, to better connect with customers and demonstrate commitment to continuous improvement.



Priorities

Harness opportunities from disruption to strengthen organizational resilience

Strategies to further the board's innovation agenda

- Encourage management to incorporate innovation into scenario planning exercises, recognizing that there may be inherent yet unknown elements of disruption at play, preparing for upside and downside scenarios and quicker pivots in strategy as needed.
- Team with business leadership to inject new opportunity ideation into disruption readiness and crisis response playbooks and tabletop exercises to elevate opportunities in these pivotal moments as well as identify emerging markets, gaps, risks, and/or consumer behavior analysis (resulting directly from the disruption itself).
- Foster an environment that rewards management for exploring new business models and structures to diversify the organization's portfolio and gain access to new markets. For example, set up dedicated "disruption labs" within the organization tasked with experimenting "on the fringes" of current business models and technologies to pursue radical and unconventional ideas, with direct oversight and support from the board.



Priorities

Identify proactive capital allocation approaches to enhance investment opportunities

- Encourage management to consider venture fund models that expand potential value capture in higher risk markets (when it fits the business need). This type of experimental strategy can offer a differentiated growth/return profile, especially over longer time horizons.
- Discuss potential M&A strategies with management to access innovative capabilities and ways to adapt operating constructs to promote attainment of deal value, as a significant portion of deals destroy rather than create value.[8]
- Encourage management to establish innovation initiatives in capital allocation at a rate that incorporates varying outcomes and longer-impact returns, which may include the board directly overseeing corporate innovation funds, making bold investments in disruptive technologies and business models to foster a portfolio of innovative ventures.



Priorities

Incentivize innovation commitment and capability in organization's leadership team

Strategies to further the board's innovation agenda

- Consider embedding innovation in executive job descriptions, as part of the board's workforce oversight. About 50% of organizations designate the CEO as the leader responsible for driving enterprisewide innovation.[9]
- Foster a boardroom culture that recognizes the value of shared responsibility for innovation across executives. This approach can be a competitive advantage, even if the organization already has a dedicated role (e.g., chief innovation officer or similar) to lead innovation efforts.
- Include innovation as an important topic on executive and board retreats, and proactively identify priority areas of leadership collaboration to execute as part of these discussions. Consider innovation sabbaticals for executives to work on disruptive projects or embed themselves in innovative ecosystems.
- Encourage the creation of incentives to help innovation priorities receive strong executive engagement across functions, as success tends to require cross-functional collaboration to drive progress.

Boards that actively steward strategies to create new value from disruptions and build organizational resilience may be better positioned to navigate uncertainties and capitalize on marketplace opportunities. It is crucial to recognize that it is not the sole responsibility of the leadership or a designated innovation team to foster innovation—rather it is the collective imperative across the entire organization. By embedding a culture of innovation at every level, including the boardroom, everyone can understand their role in the innovation process and feel empowered to contribute to the strategic growth of the organization.

Engaging your executives

Key questions to consider in the boardroom

Ultimately, board members should consider the potential scope of their role in championing top-down innovation in both governance and strategy but also in their engagement with management and stakeholders. By demonstrating a commitment to innovation and adaptive change, you can inspire your organization to embrace these values in alignment with broader business strategies, thereby reinforcing the foundation for sustained growth and competitiveness. Some questions to consider in your next board meeting could include:



What technologies pose the biggest threats and opportunities for our business, and what are we doing to adapt? What does this mean for the long-term sustainability of our business model?

What are our top innovation priorities, and what is the anticipated strategic value they may likely help unlock? Are we prioritizing internal or external investments to support these initiatives?

How are our competitors reacting to changes in the market, and how might this affect our competitive positioning? How will our investments elevate customer experiences and improve value relative to our competitors (both traditional and nontraditional)?

What mix of incremental and transformational projects are we pursuing? What is our success (and failure) rate of these investments—are we being bold enough?

How much are we planning to invest in innovation (in aggregate and as a percentage of revenue)? What portion of our future revenues could be attributable to new products or services? What type of efficiency gains or return on investment (ROI) might we be able to unlock?

What leading practices, such as "open innovation" models for external collaboration and ecosystem participation, are we incorporating across the organization to support greater agility?

What governance functions are in place to support strategically aligned innovation investments and leadership's ability to measure innovation progress?

As we look forward, there is an opportunity for boards to evolve beyond oversight to engaging in driving innovation, and therefore this shift in thinking is essential for guiding the entire organization through periods of change—with innovation at the top of the board's agenda.

Enhancing today, creating the future

In a world in which disruption and rapid shifts in market landscapes seem to be the norm, innovation should be at the forefront of every board's agenda. As the cost of complacency mounts, those who don't anticipate and embrace change run a greater risk of being trapped in outdated business models and left behind their competitors' progress.

Boards wield immense strategic power, but their potential can remain untapped if innovation isn't given due importance. By establishing a culture that celebrates experimentation and calculated risk-taking, boards could set a course that is hyper-fueled by creativity and gain an outsized competitive advantage.

If boards choose to lean into their role as champions of innovation, they could turn disruption into opportunity and lead their organizations boldly into the future. Innovation is not only a growth strategy—it's a necessity shaping organizational success and resilience in the face of tomorrow's challenges.



Endnotes

1. Deloitte and Fast Company, "**2023 Survey of Innovation Excellence**," 2024.
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5. Defined as when organizations more proactively engage startups, alliances, academics, venture capitalists, private equity, industry forums, and other external forces in a broader innovation network.
6. Deloitte and Fast Company, "**2023 Survey of Innovation Excellence**."
7. Tobias Heizer and Laura R. Rettig, "**Top management team optimism and its influence on firms' financing and investment decisions**," *Review of Financial Economics* 38, no. 4 (October 2020): pp. 601–22.
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