



The Role of Incentives in Creating an Innovation-Centric Culture

Compensation Series

May 18, 2017

Pearl Meyer



Meet The Presenters



Melissa Means is a managing director in Pearl Meyer's Boston office with more than 20 years of experience. Her areas of expertise include executive and non-employee director compensation, designing, implementing, and communicating total compensation strategies, pay for performance alignment, and short- and long-term incentive compensation programs. She works closely with boards and management teams in addressing issues including governance practices, executive transitions, succession planning, and aligning pay with business strategies. Melissa specializes in working with firms ranging in size from small, private and pre-IPO organizations to large multi-national companies across many different industries including materials/industrials, consumer, healthcare, information technology, and biotechnology. Melissa serves on the Nominating & Governance Committee for WomenCorporateDirectors.



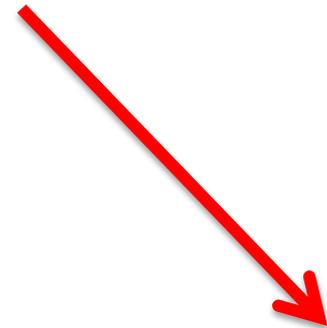
Elaine Eisenman is a recognized expert in entrepreneurship, leadership, and governance, with emphasis on CEO transition and succession, the alignment of strategy, culture, and compensation during periods of growth, mergers, and transformation. For the past eleven years, she was Dean of Executive and Enterprise Education at Babson College. She is currently a board member of DSW, Inc. (NYSE), and the board of Miravan, and is on the Advisory Board of Qwalify. She served on the board of Harvard Vanguard Health Associates, a \$1.5 billion non-profit health care organization and U.S. Tobacco an NYSE listed company, and on the boards of several private companies including Active International, and HRLogic, a Fidelity Capital start-up, as well as the boards of several family businesses. She also serves on the Advisory Board for WomenCorporateDirectors.

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The presentation slides are available for download at
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- **Our interview-style program today is broken into 4 sections based on a director's point of view including:**
 - The board's role in company innovation
 - The board's understanding of the behavioral, cultural and leadership aspects surrounding innovation
 - The board's own innovation governance practice
 - Compensation and innovation
- **This presentation is full of questions individual board members can take back to their own boards to probe further on this topic**

- According to KPMG's 2016 Global CEO Outlook survey:

82% of CEOs are concerned about whether their company's current products or services will be relevant to customers 3 years from now

41% of CEOs expect to be running significantly transformed companies in 3 years' time

Fostering innovation is one of the top strategic priorities for CEOs over the next 3 years

69% of CEOs are concerned about dealing with issues that they have never had to confront before

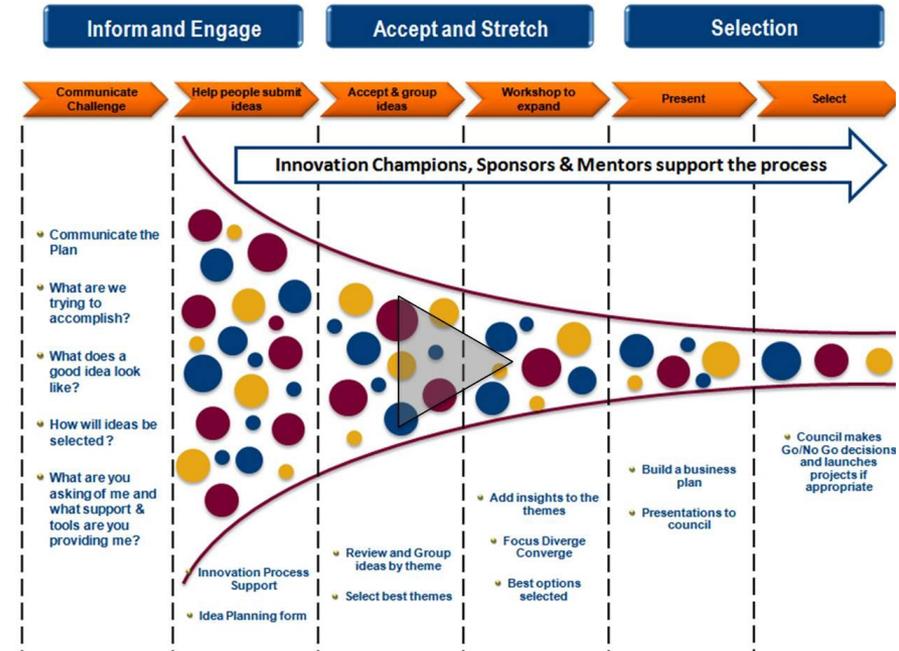
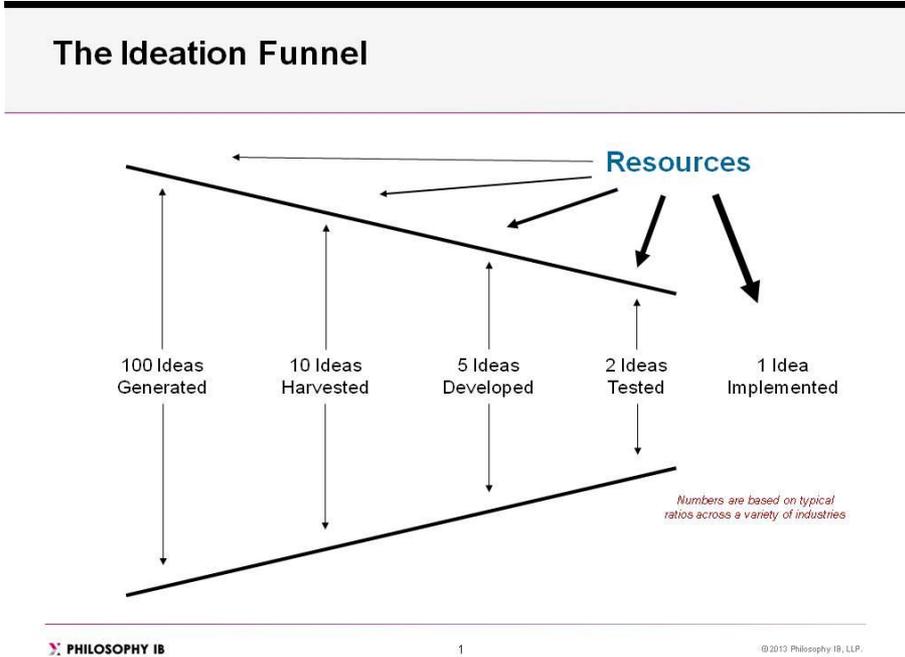
The Boards Role In Innovation



- **The focus of this section is on the following:**
 - Does your company have an explicitly-stated innovation approach/process?
 - What role does/should a board serve in a company's innovation approach/process?
 - How does a board gather information to understand a company's innovation approach/process?
 - What should a board do if it perceives there is a lack of attention/focus on innovation?

- **The focus of this section is on the following:**
 - How can a board help address the element of fear that may come up as it relates to innovation given that so much of innovation ties back to guesses, taking chances, trying something totally new/different and likely failing?
 - Are all executives created equal when it comes to being creative/innovative?
 - How can the board help management (and itself) to make sure it incorporates enough individuals who are comfortable in thinking about & dealing with innovation?

- The focus of this section is on the following:
 - How does a company or its board track innovative ideas and life cycles?
 - Key aspects to track: idea generation, research, viable product, resource needs and funding, cost and risk assessment, go/no go decision(s), revenue from new product, operational efficiency, etc.



Charts courtesy of Innovation Crescendo Blog by Dr. Dennis Nelson

- **The focus of this section is on the following:**
 - Does your board have an innovation governance practice* in place that helps address the following key areas:
 - Strategy review
 - Audit and risk assessment
 - Performance assessment
 - Talent, leadership, culture, and remuneration
 - Where does money come from to help fund innovation?

Compensation and Culture



- **The focus of this section is on the following:**
 - Do any of your boards use innovation goals in its incentive program(s)?
 - The following are examples of potential innovation incentive program metrics categorized as either strategic/leading metrics or results-focused/lagging metrics

Leading/Strategic Performance Metrics	Lagging/Results-Focused Performance Metrics
<ul style="list-style-type: none">- Evaluation/qualifying process for new innovative ideas- Moving ideas through the scorecard- Go/no go determinations- Technology investments- Other milestone-based metrics	<ul style="list-style-type: none">- Percent of sales through new products/markets- Research and development spend (\$ and %)- Employee turnover- Employee satisfaction survey results- Impact to the organization

- It is also important to consider the time period for which to measure any of these innovation metrics; some metrics lend themselves to shorter versus longer time periods



Key Take-Aways

- **Innovation should be a regular part of any company's ongoing business strategy dialogue**
- **Take into account the importance of funding innovation initiatives**
- **Consider implementing a board innovation governance practice**
- **Evaluate the impact of innovation metrics in incentive programs to help drive the right behaviors**
- **Help create a safe environment where fear of punishment and fear of failing does not exist**



Questions?

Pearl Meyer





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