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How can HR best support building a "transformation mind-set?" What practices, organizational structures and leadership attributes can fuel innovation?

INTRODUCTION

In order to remain competitive, more and more companies are realizing the importance of innovation. Innovation is instrumental for business growth as well as attracting and retaining employees as half of employees would leave a satisfactory job if it did not meet their expectations concerning innovation.[1] HR can assist by creating an innovative culture where innovation is supported by top leadership, employees are empowered to innovate and risk taking is supported by management.[2] This is critical for organizational growth as innovation is rated as the second most critical long term challenge to drive business growth.[3]

ORGANIZATION PRACTICES & STRUCTURES

Utilizing cross-functional teams is the most common practice to promote an innovative culture (Appendix A).[1] To most effectively create an innovative culture, organizations should be "empowering employees to innovate, seek and retain innovative leaders and take calculated risks to implement ideas" (Appendix B).[1]

Rewarding Innovation

Innovative organizations often reward employees for their ideas through reward models in the forms of bonuses, team recognition, and patent or publication rewards. Nonmonetary rewards are also valuable in recognizing innovative thinking.[1] Clear reward systems encourage employees and teams to contribute and implement innovative ideas.

- The Scanlon Plan utilizes a shared rewards system as it recognizes that innovative ideas often involve more than one person from the aspiration of the idea itself to implementation.[4]
- Creating a reward system that encourages longer term growth and innovation vs. only short term rewards is most effective. Of the top 20 companies, 77% have leadership that recognize or reward employees for new and different business ideas compared with 58% of all others (Appendix C).[5]
- Companies can focus on "incremental innovation" without having to change the whole organizational structure to implement innovation. In addition, they may also set "incremental goals" to drive quicker results.[6]
- Creating a compensation model fuels innovation in an organization by:
  - Implementing a safety net to remove risk that may cause employees to avoid working on innovative projects.
  - Utilizing bonuses, title, and in-house perks to incentivize innovation for employees across all levels of the organization. Sometimes, risk-taking can affect an individual's career negatively if the project fails. Taking away this stigma removes fear of failure and creates a culture that encourages and values creativity.[6]

Encouraging Diversity

Increasing diversity in an organization drives innovation. Employees from different backgrounds and expertise bring in different perspectives and knowledge. They cannot expect others to think the same way and this forces them to think of alternate points. The chief of diversity and inclusion at PwC states that, "Attracting, retaining and developing diverse professionals stirs innovation and drives growth." [7]

LEADERSHIP

Supporting Employees

Support from top leadership is instrumental when developing an innovative culture. However, only half of the top leaders feel they are effective in encouraging an innovative environment. Leaders can encourage innovative culture by collecting customer feedback/external trends (Appendix D).[1]

- Leaders should engage employees from all levels in innovation. An analysis at Google shows that the highest success rate of innovation is found in ideas that were executed without support from the top. Linden Lab also found that the most successful innovative ideas come from employees' own initiatives.[8] Thus, leaders should encourage innovation by showing support and confidence in employees' works. Also, they should protect those who participate in innovative activities from negative comments and corporate environments that are against creative ideas. Finally, they should also demonstrate creative thinking in their own work to set an example in encouraging innovation among employees.[9]
- According to McKinsey's research, executives can implement innovation with these steps:
  - Communicate and define the direction of innovation that drives business outcome.
  - Add innovation to the agenda of leadership meetings. This shows employees that innovation is highly valued in the organization.
  - Set financial and behavioral performance metrics to drive innovation.[10]

Clearing Organizational Obstacles

Bureaucracy can be a barrier to innovation due to risk-aversion. Executives should protect employees doing creative work by clearing obstacles for them. Furthermore, innovation reaches the best point when people know how to implement it. The passion for the idea is usually from those who originally thought of the ideas; however, innovative projects usually lose the drive to finish when they are handed off. Management should recognize this and limit the loss of passion when handling transition of the project.[8]

BEST PRACTICES

- Commitment can cause employees to refuse to give up on an idea even if they know it is going to fail. Merck solves this problem by offering "kill fees". It awards stock options to "scientists who bail out on losing projects." [8]
- Google sets aside time devoted to innovation with its "20 percent time" regulations where employees spend 20% of their time on side projects related to the organization and such projects have resulted in Gmail and AdSense.[1]
- A Scanlon Plan is utilized to inspire innovation among all in an organization and apply that innovation in order to create a more profitable and competitive company. When Atlantic Automotive Components implemented this plan they had an improvement in their economic value as well as increases in employee process improvement suggestions.[4]

CONCLUSION

To remain competitive and adaptive to change, companies are incorporating innovation in organizations. In order to promote innovation, companies can reward employees and teams for creative ideas and when such projects are implemented. Management must clear obstacles in hierarchy to protect employees for their innovative ideas. Diversity and inclusion can also fuel different perspectives and encourage new ways of thinking. Finally, leaders must show support for employees so they can see the value in proposing creative ideas.

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Appendix A

Table 1

Most used human capital practices that support an innovation culture

Utilizing cross-functional teams is the most common human capital practice to promote innovation

RANK	METHOD
1	Utilizing cross-functional teams across multiple projects
T2	Attracting and retaining diverse talent
T2	Leveraging best practices and knowledge sharing across global regions
4	Actively developing leader's innovative mind-set, capabilities, and skill sets
5	Rewarding individuals that demonstrate innovative capabilities

Note: Respondents could select all that apply (N=320). T=tie.

Source: The Conference Board

Source: *A*bel, A. L., Brock, S., & Popiela, A. (2014, May). Building the Foundation of an Innovative Culture. Retrieved November 01, 2017, from
https://www.conference-board.org/ea/search/file.cfm?fid=execaction%5CA-0428-14-EA.pdf

Appendix B

Building human capital practices that support innovation

Three human capital practices stand out as particularly valuable in supporting a culture of innovation:

1 **Empower employees to innovate.** Encourage new ideas from employees of all backgrounds and levels of experience.

- Make time for innovation.
- Create physical or virtual innovation space.
- Recognize and reward innovation.
- Expand diversity in thought and experience.

2 **Seek and retain innovative leaders.** Develop a senior management pipeline that actively endorses and rewards innovation.

- Advance innovative thinkers.
- Encourage external innovation networks.
- Focus on the customer.

3 **Take calculated risks to implement ideas and measure results.** Create infrastructure to implement new ideas and show a willingness to replace existing products with new ones. Successfully measure programs to make strategic decisions around innovation.

- Promote idea implementation.
- Take risks.
- Measure results.

Source: *A*bel, A. L., Brock, S., & Popiela, A. (2014, May). Building the Foundation of an Innovative Culture. Retrieved November 01, 2017, from
https://www.conference-board.org/ea/search/file.cfm?fid=execaction%5CA-0428-14-EA.pdf

Appendix C

Best Companies for Leadership Study: Reward Research

Question	Top 20	All others
Views employees in new startup or innovation areas as having equal importance to those driving operational improvement.	80%	56%
Rewards and stimulates collaboration across business units to develop new lines of business.	76%	54%
Rewards and stimulates collaboration across business units to improve performance.	81%	59%
Encourages people to use appraisals and other feedback to improve their performance.	89%	72%
Recognizes or rewards employees for really new and different business ideas.	77%	58%
Uses rewards or reprimands that are based on a rigorous measurement of performance against goals.	82%	58%
Encourages people at my level to set challenging/aggressive goals.	89%	69%
Leadership development programs better enable employees to deliver on my company's goals/strategies.	84%	62%
Employees are encouraged to learn in areas outside their area of expertise.	70%	48%

Source: "Best Companies for Leadership" study, Hay Group

Source: McMullen, Tom & Lash, Rick. (2014, February). How the best companies for leadership reward innovation and growth. Retrieved November 1, 2017, from https://www.worldatwork.org

Appendix D

Table 2

Ways in which leaders encourage an innovation culture

Leaders are most likely to promote active gathering of customer feedback

RANK	METHOD
1	Promotes active gathering of customer feedback/ external trends
2	Nurturing ideas to implementation with supportive processes
3	Encouraging and rewarding new ideas
4	Supporting risk tolerance to think/act differently
5	None of the above

Note: Respondents could select all that apply (N=320).

Source: The Conference Board

Source: *A*bel, A. L., Brock, S., & Popiela, A. (2014, May). Building the Foundation of an Innovative Culture. Retrieved November 01, 2017, from
https://www.conference-board.org/ea/search/file.cfm?fid=execaction%5CA-0428-14-EA.pdf