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What Policies and Practices Can HR Utilize to Promote an Innovation Based Culture and Help Drive Business Outcomes Through It?

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Abstract

[Excerpt] Innovation has evolved from a mainly scientific activity of research and development to a complex system of interactions among various participants both inside and outside of a firm. In an economy where the innovation cycle is shrinking, characterized by disruptive innovations and changing customer needs, it is crucial for companies to keep up with emerging trends and stay on top of factors that enhance their capacity for innovation. Innovation should not be limited to new products, it can lead to new processes as well. An idea may not work for one department, project, or product, but may be a good solution for another. Innovative firms effectively work across organizational boundaries and connect great ideas with the right people. Despite the importance of innovation, managing and promoting it in a company is not easy, especially when the payoff is often multiple years away. Human Resources, through various policies and practices, can play a vital role in promoting an innovation based culture.

Keywords

innovation, culture, business outcomes, innovative firms, organizational leadership, strategy, rewards systems, failure, risk taking, collaboration, workforce, intelligent risk, HR, Human Resources

Comments

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Research Question

What policies and practices can HR utilize to promote an innovation based culture and help drive business outcomes through it?

Introduction

Innovation has evolved from a mainly scientific activity of research and development to a complex system of interactions among various participants both inside and outside of a firm. In an economy where the innovation cycle is shrinking, characterized by disruptive innovations and changing customer needs, it is crucial for companies to keep up with emerging trends and stay on top of factors that enhance their capacity for innovation.[7] Innovation should not be limited to new products, it can lead to new processes as well. An idea may not work for one department, project, or product, but may be a good solution for another. Innovative firms effectively work across organizational boundaries and connect great ideas with the right people. Despite the importance of innovation, managing and promoting it in a company is not easy[2], especially when the payoff is often multiple years away. Human Resources, through various policies and practices, can play a vital role in promoting an innovation based culture.

Critical Factors and Practices that Promote Innovation

Factor 1: Leadership.
Throughout all of the research concerning innovation, there is no factor that is more critical than organizational leadership[1]. Leadership impacts innovation in several ways: setting the vision; demonstrating commitment; allocating resources; encouraging tactics for promoting innovation; and creating open communication within the organization. 94% of business leaders say innovation is key to their company's success, yet only 14% are confident in their organizations' ability to drive innovation. Much of the disconnect involves the leaders themselves. Traditional business strategy is about removing ambiguity and driving short term results. Leaders who want to encourage innovation must learn to defer judgment, embrace ambiguity, and be comfortable with the unknown. <u>Figure A</u> highlights the differences between traditional and innovative business thinking.
Practices in action:
  ➢ NBCUniversal's innovation based training program for senior leaders. It develops innovative leaders by utilizing their corporate university named Talent Lab, with a six-month DRIVE program designed for senior leaders. They visit their incubator in Silicon Valley and are challenged with rethinking the industry's business model. Along the way learn about new mindsets and strategic frameworks specifically focused on innovation.[12]
  ➢ 3M's has created an environment that fosters critical thinking and balance in their leaders. One critical learning at 3M is the balance between present and future results. Employing the Thirty Percent Rule, 30% of each division's revenues must come from products introduced in the last four years. This is tracked rigorously, and leader bonuses are based on achieving this goal.[14]

Factor 2: Attitude towards risk and failure
In order to foster innovation, it is critical that failure is recognized and forgiven as part of the innovation process[4]. Rewarding failure is not the same as rewarding bad results. The learnings from failure can be the most valuable innovation a company can have.[8] **People cannot be afraid to fail!** This is often one of the biggest challenges for traditional organizations to overcome. Most traditional rewards systems are structured in a way that discourages risk and most perceive that failure will result in termination or other dire consequences.
Practices in action:
  ➢ Intuit's "Greatest Failure Award" (awarded to the team whose idea ultimately failed but provided the business with the most valuable learnings). It celebrates the creative thinking and learning with a

"failure party."[5] This not only encourages individuals to think creatively, it also changes the social norms of risk taking.[12]

➢ Tata Company's "Dare to Try Award". It was introduced in 2007, recognizes sincere and audacious attempts to create a major innovation that failed to get the desired results. The idea is to encourage a culture of 'risk taking', perseverance and sharing openly. This award is a celebration of the spirit that propels individuals and teams to try and innovate and is a reward for the risk-taking capability that is necessary for path-breaking innovation.[11]

Factor 3: Idea exchange.

To create a culture of innovation, it is important to foster an environment that encourages employees to exchange ideas freely[3]. It can stimulate thinking, create friendly competition and ultimately lead to more new ideas. Innovation portals and innovation tournaments are tools that help track ideas from seed to implementation that makes ideas and their origins transparent and allows any employee to submit a product idea or process improvement idea. These initiatives stimulate thinking, help create friendly competition, and encourage idea sharing. <u>Figure B</u> highlights the various employee motivators in participation.

Practices in Action:

➢ Unilever's Open Innovation submission platform, "Collaborate to Innovate". It has received over 3,500 ideas in two and a half years and the company is so committed to open innovation that 55% of the company's product pipeline comes from Open Innovation activities.[16]

➢ Penn Medicine's "Your Big Idea" Innovation Tournament. It invited the entire company workforce to take part and submit or simply rate ideas specifically aimed at improving the patient experience. The tournament involved 5,000 employees and generated more than 1700 ideas. It was described as a "suggestion box on steroids!"[12]

➢ Dow Chemical's annual innovation tournament focused on reducing waste and saving energy. The tournament calls for ideas that require an initial investment of no more than $200,000, and those costs must be recoverable within a year. Over more than a decade, the resulting 575 projects have produced an average return of 204% and saved the company $110 million a year.[15]

Factor 4: Openness to fresh thinking.

New ideas and perspectives brought by fresh thinking and a balanced infusion of outside talent (both outside of company and industry) and practices are good stimuli for innovation[6].

Practices in action:

➢ Roivant Sciences' talent acquisition strategy. It determined that a lack of outside talent and practices was hindering their ability to build a sustainable innovation engine. They undertook a strategy to buck the "hire from within" pattern that was typical in the pharma industry and recruited non-scientist talent from various industries into drug-development roles to come up with fresh ideas. These new hires have generated tens of millions of dollars in value by taking nontraditional approaches to typical industry challenges.[10]

Recommendations and Conclusion

Innovation and Intelligent risk taking are important to both growing and established businesses alike. Without a culture that fosters innovation, companies risk losing the war for talent, existing employees becoming content with the status quo and ultimately substandard business results. The following HR practices can assist in promoting a culture of innovation:

1. Develop leadership training focused on innovation. PwC's two-day **Disruptive Innovation Leadership Course** is a good place to begin.
2. Establish an award system that recognizes risk-taking and failures. Start by defining **smart failure** and reward smart failures in addition to successes.[11]
3. Create an Innovation Portal or host an Innovation Tournament to spur an innovative culture. A good way to start is with a <u>narrow, well-defined, highly unstructured</u> problem that needs resolved.
4. Balance external hiring and growth from within talent acquisition strategy.

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Additional readings

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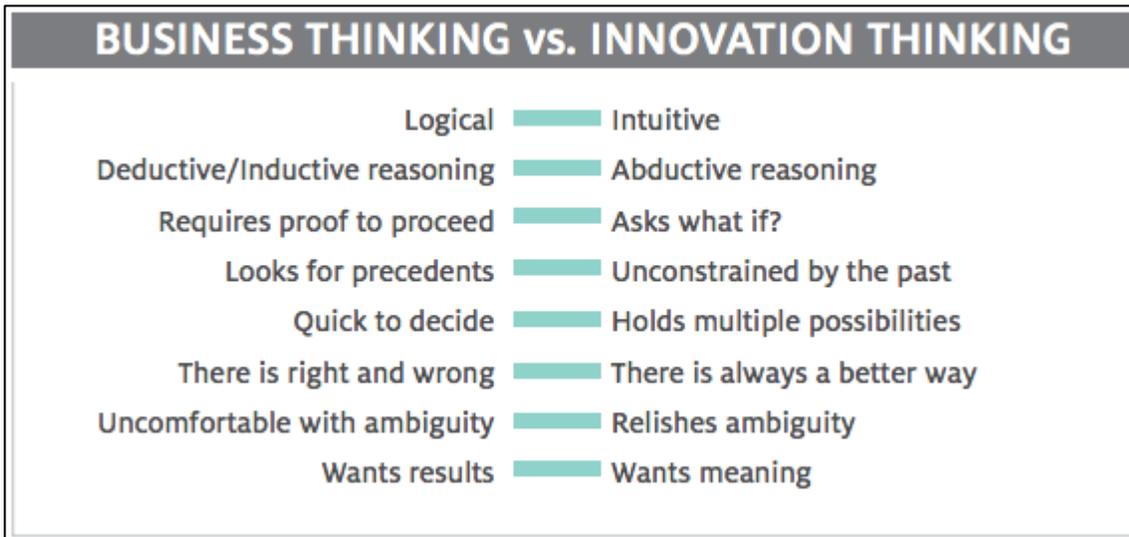3. http://www.pwcdisruptiveinnovation.com/#disruptiveinnovation

APPENDIX:

Figure A:

Figure B:

Figure 1. Results from Deloitte Germany's innovation contest (n = 35)