

PEOPLE POWER SETS THE PACE FOR INNOVATION

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As the economy struggles to rebound from the financial crisis, companies need to re-engage their people and re-focus on growth. To generate growth, these strategies must maximize the value of people versus minimizing their cost. Innovation is an opportunity to maximize human assets, and leaders can take positive steps to engage their people – the human capital of business – thereby driving behaviors that encourage innovation.

Introduction: Putting People 'On Game'

The massive employment reductions over the past several years occurred with little thought about the effect on employee engagement strategies, leading to potentially dangerous consequences. As companies look for ways to grow, the need to maximize the talents and ideas of all stakeholders – employees, suppliers, and customers – is more important than ever before.

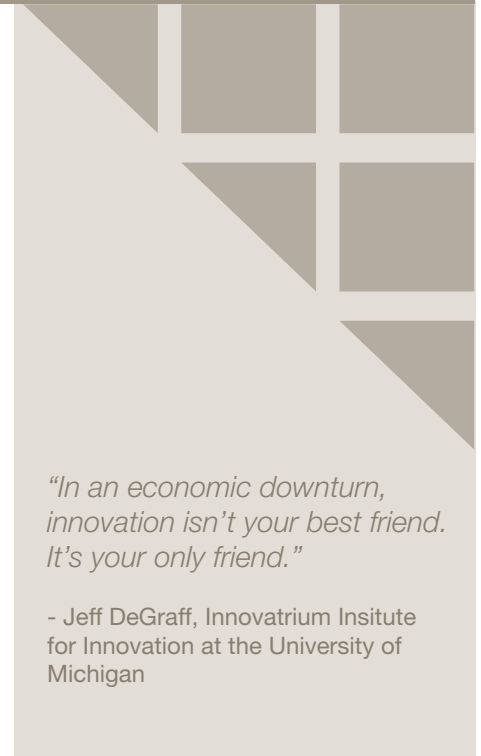
Among its other effects, the recession has left a productivity deficit in the workforce. According to a study published by the Corporate Executive Board in 2009, employee performance has been declining, with 53 percent fewer employees exhibiting high levels of discretionary effort in their jobs. Up to 20 percent of employees are "disengaged." At the same time, 25 percent of top-performing employees plan to leave their companies when the right opportunity present itself.

Innovation is an opportunity to re-engage the workforce. "In an economic downturn, innovation isn't your best friend. It's your only friend," says Jeff DeGraff of the Innovatrium Institute

for Innovation at the University of Michigan ("How to Innovate: A Step-by Step Guide," Fortune Small Business, downloaded April 12, 2010). A recovering economy with stiff competition will only heighten the importance of innovation, so the time to act is now. "If you don't take the right actions in the recession, you don't participate in the expansion. There are going to be new winners and new losers," predicted Vijay Govindarajan, chief innovation consultant for General Electric (HR Magazine, Sept. 2009, p. 31).

Senior leaders charged with modeling the work ethic and fostering engagement share the blame for the fading pattern of engagement. A vice president at a major electronics company remarked, "Leaders are so frantically focused on the business we can't make a case for engagement – they don't see the big picture" (Corporate Executive Board Report, "Improving Employee Performance in the Economic Downturn," 2009, p.10).

It's no secret that in downsized organizations, people are being asked to do more with less. As they do more,



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people become more experienced in a broader scope of the enterprise. They gain visibility across greater parts of the business, which results in a resource pool ripe for innovative ideas. And, innovative ideas often originate in the front-line ranks of employees closest to the customer. Since front-line employees are a rich source of innovation that can lead to growth, how can managers and leaders tap into these ideas?

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Engaging People for Innovation

Innovation begins with dynamic leadership. According to the Boston Consulting Group's latest survey on corporate innovation, the right kind of leadership may not be present. "CEOs are the most visible champions of innovation at most companies," the BCG report noted, "yet fewer than 30 percent of survey respondents identified them as such, reflecting a void in leadership and a real opportunity for many companies" (BCG Report: "Innovation 2009: Making Hard Decisions in the Downturn," p.6).

Leaders need to appeal to the unique skills and talents of their people to foster a culture of innovation. "For successful management of innovation, managers must think differently about innovation and act differently to mobilize the organization," wrote C.K. Prahalad in his book, "The New Age of Innovation." He added, "Within the corporation, engaging employees emotionally and intellectually in the mission of the firm will require that each employee is treated as unique. Individual employees strive to seek different personal 'meanings' in their work, they also bring

unique skills and capabilities." Prahalad emphasized that recognizing people as unique in all of their roles, whether they are employees, suppliers, investors or customers, is the prerequisite for success in creating value for any company. Hence, maximizing the unique skills of each employee requires new leadership behaviors.

Fostering Innovative Thinking Among Employees

Leaders can create a culture that fosters creative, innovative thinking. Judy Estrin, author of "Closing the Innovation Gap: Reigniting the Spark of Creativity in a Global Economy," identified five core values for innovation to occur. They are:

- Curiosity and a natural ability to question the status quo.
- Risk-taking and a willingness to learn from failure.
- Openness. Organizations with strong silos tend to be less innovative.
- Patience, tenacity and the sense of giving an idea a chance to grow.
- Trust, which underpins the other values.

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- Thomas Koulopoulos, author of "The Innovation Zone"

Disney's Academy Award-winning Pixar Animation subsidiary is an example of a culture which encourages innovation. They use patience and encourage risk-taking to give ideas a chance to grow. Pixar's 1,000 employees learn a practice called "plussing" in their orientation and training. When an idea is offered, it's restated and added to, Estrin explains. "We don't say no, but we say yes, and..."

Innovation also requires risk-taking – which calls for a leap of faith in people. "You need to give people the license to take risks and to fail often enough to realize that they will not be punished for doing the right thing even though the outcome might not be what they expected," said Thomas Koulopoulos, author of "The Innovation Zone," a study of corporate innovation. "Small failures," he added, "encourage big successes."

By fostering openness and trust, managers encourage innovative thinking in their people. Trust in people is a necessary condition to build grass-roots innovation efforts that tap into the collective skills and experiences of those closest to the work and closest to the customer.



Fostering Innovative Thinking Among Business Partners

The assumption that innovation can be generated wholly within the firm's four walls no longer holds true. Rather, innovation is increasingly generated through collaboration with partners and customers. Prahalad argued that "company-centric innovation (work within the confines of the company) is giving way to 'co-creation,' in which firms collaborate with their customers and business allies" (The Economist, April 24, 2010). Prahalad referred to this collaborative effort as the "dynamic configuration of talent."

An example of innovation based on customer input is the DVD movie provider Netflix, which carved out an innovative, high-value business model based on home delivery of DVD and Blu-ray movies, and online wireless streaming of movies over computers and game consoles. Netflix partnered with analysts from around the globe to build a highly sophisticated analytical database, providing a better understanding of customer preferences.

Netflix built an innovative business model by actively engaging its customers and its knowledge suppliers. Prahalad calls this "The Velcro Organization," in which teams of employees, suppliers, and other stakeholders come together and collaborate on a project. Virtual teams encourage out-of-the-box thinking and engage stakeholders beyond the walls of a company.

The "new thinking" required to engage suppliers, customers and other stakeholders in innovation requires that both leaders and employees extend their networks as they think about how to solve business problems.

The Importance of Recognizing Innovators

Innovation requires people to adopt new ways of thinking, then to apply

new ways of doing things to existing situations. Recognizing innovative thinking from both individuals and groups ensures that such behaviors will continue. Recognition helps to break down the barriers to thinking about the same problems in the same old way.

The American Productivity & Quality Center (APQC) has found that to drive innovation in products and services, an organization must develop innovative approaches to rewards and recognition, such as creating a design team, sharing success stories, and promoting innovative behaviors. The leaders and organizations providing structure and consistency in rewards will in turn motivate employees to pursue creative and effective ideas.

Leading organizations that drive innovation through rewards and recognition subscribe to several basic principles for encouraging innovative behaviors. They include:

- Linking innovation to the core values of the organization.
- Sharing success stories across the enterprise about successful new products or approaches.
- Using a cross-section of leaders from HR, R&D, and business units to develop guidelines and suggestions to encourage innovation.
- Recognizing and rewarding positive contributions to sustain momentum

It is critical that organizations have a consistent structure to administer the reward and recognition system for innovative behaviors. Elements of recognition for innovation that are based in best practices include: enthusiastic management commitment and leadership; clear definition of procedures; communications; and a system to apply rewards for innovation consistently and equitably.

Innovation will not occur unless it is part of an organization's strategy and is supported by all levels of management and leadership.

Rewarding and recognizing innovation doesn't have to be expensive – a positive for today's budget-conscious companies. An effective, well-designed reward and recognition program demonstrates to employees and other contributors that their ideas matter. If leaders want to go beyond engagement and energize their workforce to help them grow, they need to promote and recognize behaviors that give their people a real stake in the business.

The path to innovation requires several conditions:

- Leaders who recognize people as unique and nurture their special skills.
- A culture based on trust that fosters creative thinking and risk taking.
- Processes to reach outside the four walls of the firm to develop innovative practices that are market-driven.
- Recognition and rewards for repeated behaviors that lead to innovation.

Innovation will not occur unless it is part of an organization's strategy and is

supported by all levels of management and leadership. By building a culture of risk-taking, openness and trust, leaders empower their people. Smart businesses maximize the value of their human capital by encouraging all employees to think creatively about the business. With the support and encouragement of leadership, organizations can engage and enable their people to be creative and innovative, and position themselves for growth.

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The Performance Improvement Council (PIC), a professional organization of performance marketing executives is a special industry group of the Incentive Marketing Association (www.incentivemarketing.org), is collectively focused on helping companies optimize their investment in human capital through proven and innovative reward and recognition solutions. To learn more about the Performance Improvement Council, please visit <http://www.thepicnow.org>

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