

## CIO – Innovation management best practices On-line survey data analyzed by Factor

### **Factors #7 and #14 – ask about the availability of rewards and career progression for innovators.**

Both Factors address essentially the same topic, namely, should innovators be singled out for rewards or not.

We usually place Factor #7 under the theme of 'leadership' since it is generally for Boards of Directors and the CEO to decide whether incentives should be a feature or their business.

On the other hand, Factor #14, we believe, is more directly aimed at an incentive, monetary or non-monetary, for innovation and is better set in the theme 'idea generation and realization'.

In any case, both are important management practices which can significantly impact innovativeness.

**Factor #7** addresses the issue of whether there are career ladders, powers and titles for innovators or not. **Factor #14** asks whether or not the corporation has specific mechanisms for rewarding innovation.

These are both contentious issues as some believe in singling out innovators and some do not think this extra recognition is necessary and that the introduction of targeted incentives may even be counter productive for the organization as a whole.

Respondents to the on-line survey have provided their opinion. **Here are the results.**

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<sup>1</sup> 'Delta' is the difference between a respondent's 'Ideal' rating and their rating of their own situation – their 'Reality'. The

### **Factor #7**

The 'Ideal' for this Factor was an average of 2.0 indicating a strong view that innovators should be specifically encouraged through having a career path i.e. not being cut off because their particular expertise is best suited for them to stay in their area of expertise. The provision of powers and titles should equally be available to innovators.

Close to 44% of respondents indicated that their 'Delta'<sup>1</sup> – the difference between their stated 'Ideal' and their 'Reality' was greater than 3. The inference is that their own company's practices with regard to this Factor left some room for improvement.

On the other hand, for the balance of respondents, while their 'Ideal' was not achieved, there was less dissatisfaction with special recognition of innovators. Only 11% indicated that theirs was an 'Ideal' situation.

Our 'Best of Breed' (BofB) was 4.0 (compared to 2.0 for respondent's 'Ideal') for Factor #7 - thus most respondents were nowhere near having even the best as their 'Ideal'. We draw the BofB from an in-depth review of the practices of highly-innovative, idea-intensive companies all of which make extensive use of special encouragements for innovators.

For **Factor #14**, which addresses the issue of incentives for innovators – monetary or non-monetary - the 'Ideal' was -1.9 indicating that there should be specific rewards for innovators. The 'Delta', however, was 4.0 suggesting that respondent's organizations did not pay

larger the gap the greater is the dissatisfaction.

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sufficient attention to this Factor - i.e. innovators were not rewarded as they should

be. 60% of respondents had a 'Delta' in excess of 3, suggesting that their organization fell far short of satisfying them on this issue.

Our 'Best of Breed' was -4.0 for Factor #14, a substantial elevation of the 'Ideal' as registered by respondents.

There are a number of initiatives which can be taken to address both these issues – at least for those organizations which believe that some sort of special recognition should be provided.

As part of establishing incentives for innovators, it is important to recognize that not all innovators want to climb the 'corporate ladder'; rather their interest may well be to carry on innovating - but our findings from highly-innovative companies show that recognition is an important component of managing innovation.

Having a business model for innovation, for example, can be instructive to all aspiring innovators. Knowing that certain steps are likely to be followed based on ideas as they develop will save a lot of time in having to come up with a new 'approach' for each major initiative. Knowing ahead of time that at certain stages, a different organization structure could be brought into play, that funding will arrive in a prescribed manner, and that compensation will follow, etc. will encourage those to stick to making the innovation a success rather than worrying about how the pie is to be divided. In other words, having a no-surprise business model for innovators might prove useful.

Many innovators have the skills necessary to follow the development of their idea, their product, through the many phases it must pass through before becoming commercially successful. Some do not! Providing the opportunity for an individual or small group to accompany and foster the idea through all phases, and to be rewarded for this effort, is a strong incentive to be successful. Success breeds success as other staff become aware of what they too can do for themselves and for the corporation—a win-win situation.

There are some good examples drawn from the highly-innovative companies which we have researched.

**Deere & Company**; Chairman and Chief Executive Officer, Robert W. Lane, from an address he gave on May 7, 2007, addresses how Deere is 'Driving Growth through Innovation'. Emphasis is placed on rewarding 'great performance with outstanding rewards'. The rewards practice is set in the context of a 'commitment to innovation' by a 'commitment to aligned talent' an effort to encourage high-performance talent working together. Salaried employees create annual performance plans with objectives that support goals. There is an understanding of "best-in-class" compensation that rewards good performance with good bonuses. The idea is to encourage more of a team effort than it is related to the individual. Each senior officer is required to have a 'breakthrough innovation-related performance management objective .... and compensation at year end is based on whether the goal is met.

At **Whirlpool Corporation** rewards for innovation are in place for senior leaders of an innovation initiative while others in the corporation receive peer recognition. This

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innovation initiative, which is referenced in an article in Business Week – March 6, 2006 – began as a deliberate attempt to inculcate innovation into the organization and broaden the responsibility for innovativeness. The

objective was to stimulate and better manage the flow of ideas. Prior to this initiative the responsibility for innovation had been the responsibility of a ‘couple of groups; i.e. engineering and marketing’. According to Nancy Snider, who was Vice President of leadership and strategic competency in 2001, the result which the corporation has achieved required ‘a lot of trial and error’.

While employees are encouraged to submit innovative ideas, Whirlpool ‘now relies on 240 full-time employees, dubbed I-consultants, to assess which are the best ideas and then to get them to the market’. An intranet site is used as a focus for the placement of new ideas from employees. People, called I-mentors, about 600 around the world, while having real jobs, have also ‘been trained in how to facilitate innovation projects and help others with their idea’.

The ‘tipping point for us on innovation’ was tying pay to success but in this case to one group; the managers of the innovation process. A ‘senior leader’, one of the I-consultants, is rewarded in the amount of one-third of compensation, tied directly to what comes out of the innovation pipeline. While a team approach to innovation was the desired norm, it was believed necessary to also provide specific rewards for individuals. The reward for others in the corporation is by peer recognition. The system had, in 2006, been in place for 3 years.

Over and above stock options and bonuses; which are the most favored methods of

providing incentives to employees, there is a need to provide additional incentives and rewards to innovators, i.e.; cash rewards, in recognition of special achievements by honoring individuals or groups, and broadcasting the reward to all concerned.

The creation of special forums is one way to recognize innovators. Drawing in customers by way of user-conferences and featuring the innovation team can be an effective way of ensuring innovators receive recognition while at the same time securing feedback from the customer group. Internal trade shows can draw together the innovators and those in the company that are involved in the selling or distribution of the product or idea.

Four areas make for an effective program for innovators: base pay, incentive pay, recognition devices, and career development.

Key characteristics of such arrangements includes;

- meeting or exceeding externally competitive salary levels,
- emphasizing incentive pay,
- cafeteria approach to benefits,
- bonus eligibility to all employees,
- widespread availability of rewards (not just to senior management),
- active ‘suggestion box’ programs,
- well publicized rewards and not hidden arrangements,
- patent and royalty payments available to individual innovators, and
- availability of dual career paths of significance for innovators
- For further information go to <http://www.corporateinnovationonline.com>. – ‘thought starters’ – under ‘Ideas’ by Factor

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