



# Executive *action* series

No. 159 September 2005

Strategic HR Management...

## HR's Role in Building a Culture of Innovation

by Stephen Gates

While some companies enshrine innovation as a strategic goal, others consider it a critical enabler of strategy. In either case, encouraging innovation is a high priority. However, the challenges can be formidable, depending on how a company defines innovation, how it succeeds in aligning its management systems and processes, and whether its culture is supportive.

Although research and development professionals might “own” innovation in many companies, human resource executives can take an active role by ensuring the corporate culture, including HR systems and processes, foster innovation. Through survey results and interviews, this Executive Action report suggests how HR professionals can help implement an innovation policy that demonstrates their contribution to a culture of innovation. Whirlpool Corporation offers a case example of what concrete actions can be taken to embed innovation processes.

### Establishing an Innovation Framework

To gain a place at the strategy table, HR professionals need to tailor their contributions to senior management's priorities. In The Conference Board 2004 CEO Challenge report, innovation ranked as the fourth highest priority from a list of 62 challenges. (see Chart 1).

Moreover, in some companies, innovation is considered an enabler of customer loyalty, the third highest priority, thereby increasing its strategic importance even more. In interviews, CEOs explained that developed economies and companies must concentrate more on innovation because the outsourcing and offshoring of cost-sensitive activities will continue unabated. Innovation can enhance developed economies' competitiveness.

## What is Innovation Anyway?

The first step in promoting innovation is to define it. Survey results from The Conference Board study *Making Innovation Work: From Strategy to Practice*, (R-1348-04-RR) say that 45 percent of companies focus narrowly on products, services or technologies, while 55 percent say their definition is broader. In the broader sense, companies may innovate by:

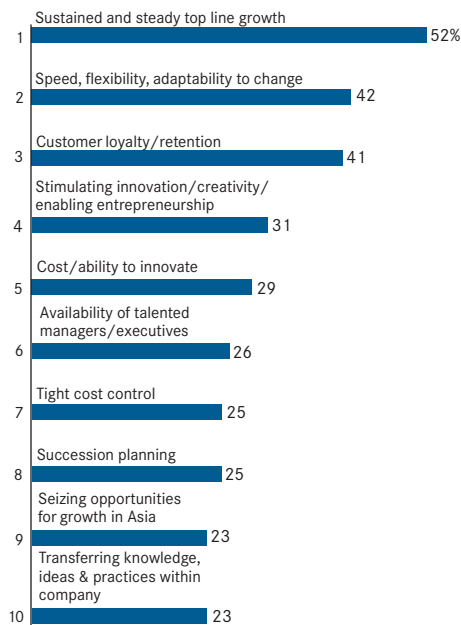
- Introducing new products and services or technologies;
- Developing new business models and strategies; and
- Establishing new business processes

As the definition of innovation widens, HR has more scope for demonstrating its contribution.

Chart 1

### Top Ten Challenges Worldwide

(Percent of CEOs)



Source: *CEO Challenge 2004: Perspectives and Analysis*, The Conference Board (R-1353-04-RR)

## The Challenge of Alignment

However, the greatest obstacle lies in aligning an innovation process across all businesses. “Our challenges include process integration of multiple new product groups, management of information technology resources to develop and support new product development, and integration of sales and marketing of products across major business units,” says one survey respondent.

Alignment is achieved, most often, with cross-unit project teams, but also with senior-level coordinating councils, cross-business strategy setting sessions or plans and special cross-unit meetings to showcase and recognize innovation.

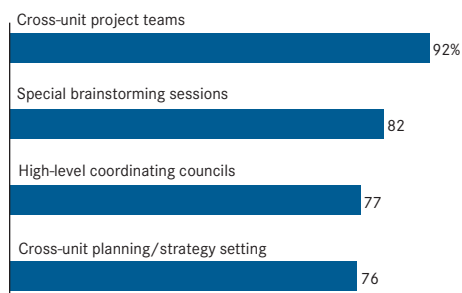
## How HR Can Foster Innovation

### *Origination of innovation*

Innovation, it seems, is driven almost as much from outside an organization as from within. Respondents reported 55 percent of new ideas come from inside the company and 45 percent originate from collaboration with outside partners, from an outsourced group, or from an acquisition. Going forward, strategists expect less innovation will originate inside organizations and more with outside partners. HR departments can play a critical role in breaking down cultural barriers against information sharing and actively managing change to lower the NIH (Not Invented Here) cultural barrier against ideas coming from outside the company.

Within the company, new ideas are generated through a number of organizational coordination mechanisms (see Chart 2). HR can play a role in creating, facilitating, and animating cross-unit, even global, networks of innovation teams.

Chart 2  
**How Are New Ideas Generated?**  
(Yes Responses)



Source: *Making Innovation Work: From Strategy to Practice*, The Conference Board (R-1348-04-RR)

### Creating a Supportive Culture

HR, through recruitment, talent management, knowledge management, and communications activities, can play an important role in supporting innovation. A majority of firms say they take these actions to support a culture of innovation:

- There is a formal process to collect and harvest new ideas.
- Talent is moved across units to promote learning and idea sharing.
- A targeted portion of senior level positions are filled with outsiders who are passionate for innovation and growth.

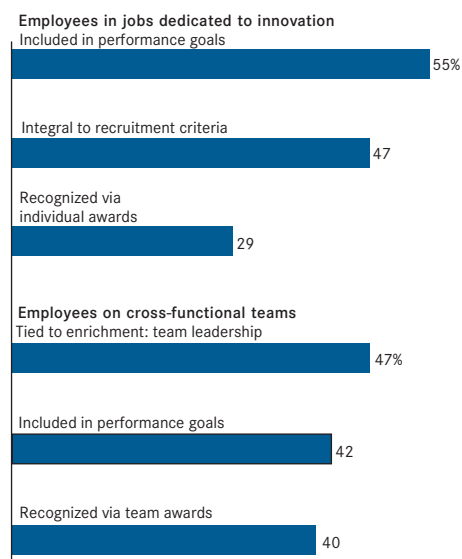
At least 60 percent reported that these practices are in place to foster innovation:

- Leaders visibly promote new ideas from everywhere in the organization.
- Risk-taking and entrepreneurial behavior are encouraged.
- Growth through innovation is as important a goal as cost reduction.

### Reinforcing Innovation

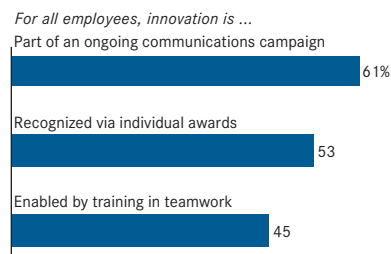
To sustain an innovation program, various HR practices (recruitment, training, performance goal setting, rewards, recognition, and communications) can be employed and regularly renewed. Survey respondents reported that different activities are used (though not often by a majority of firms) to reinforce innovation among professionals dedicated to innovation, on cross-functional teams, and across the entire workforce.

Chart 3  
**How Is Innovative Behavior Enforced?**  
(Yes Responses)



Source: *Making Innovation Work: From Strategy to Practice*, The Conference Board (R-1348-04-RR)

Chart 4  
**Reinforcing Innovative Behavior**



Source: *Making Innovation Work: From Strategy to Practice*, The Conference Board (R-1348-04-RR)

However, many HR executives report that innovation is not a high priority in their firm, and even those who have built adequate support in their home countries' operations are challenged to expand the implementation of innovation globally. Their aspirations include the creation of a better system for knowledge capture and dissemination and a greater capacity to identify the skills innovators need, along with improved integration of these results into screening criteria when recruiting to meet future staffing needs. An HR director from a pharmaceutical firm also stresses the need to "align HR practices, especially reward and recognition, to achieve long term results."

### Measuring the Impact of Innovation

Based on interviews and open-ended survey comments, many executives start with specific innovation goals derived from their firms' annual strategy-setting process, and their self-assessment is based on comparing their performance to these goals. Metrics may be innovation-specific, financial/market performance-related, process-

related, or people-related. Some of the more significant people metrics that show the impact of innovation are:

- Awards and recognition
- Performance based awards
- Internal reward and recognition
- Innovation awards competition; innovation contest participation
- Culture change, based on employee surveys and other indicators
- Number of employees training in innovation skills/abilities
- Growth in qualifications and skills of employees over time

### Signs of a Successful Innovation Effort

Survey results were compared between companies that were the most and the least successful with their innovation programs. (see Table 1)

**Table 1**

<i>Obstacle or Impediment</i>	<i>All Companies</i>	<i>Most Successful</i>	<i>Least Successful</i>
Organizational alignment issues	52%*	10%	75%
Lack of resources to support promising new ideas	48	50	42
Lack of a coherent innovation strategy	47	36	75
Need for performance goals and metrics to measure progress	42	20	67
Inadequate leadership of the effort	40	20	58
A culture that resists change/new ideas	40	18	42
Lack of senior management commitment	34	27	50

\*Percent reporting as a major obstacle

Source: *Making Innovation Work: From Strategy to Practice*, The Conference Board (R-1348-04-RR)

The most successful companies say that organizational alignment is a minor problem for them, but 75 percent of companies reporting low success rates see this as a major impediment. The highest ranking concern for successful companies, chosen by 50 percent of high achievers, is lack of the proper resources needed to encourage innovation.

The maturity of the innovation process in the successful companies may be one explanation for these differences but clearly does not account for all of them. Although 75 percent of the most successful companies have been emphasizing innovation for over ten years, this is also true of 50 percent of the least successful companies. The latter firms appear to be struggling with culture, strategy, and leadership issues. Some of the more successful firms continue to have strategy and resource issues, but overall they appear to be fine-tuning a working innovation process.

### Characteristics of Successful Companies

What distinguishes the handful of companies in the highly successful group from those reporting low success? In general, differences are not related to industry segment or end markets. The maturity of the innovation process may be an important but not a critical factor—42 percent of the least successful firms have

created an innovation initiative within the last five years, but 50 percent of this group has pursued innovation for over 10 years. Instead of these broad categories, the data indicate that in the most successful companies for innovation achievement:

- Senior management is more likely to emphasize innovation.
- Innovation performance is tied to the performance management/reward structure.
- The innovation portfolio has a higher percentage of breakthrough and disruptive innovation.
- Greater emphasis is placed on working with outside partners.

Finally, HR professionals in more successful companies are more likely to:

- Follow a practice of recruiting “high potential” employees for team assignment.
- Use recognition and reward to support innovation.
- Mount special cross-unit meetings to showcase and recognize innovation.

Whirlpool Corporation provides an in-depth example of how many of these activities can be put into practice to promote innovation.

# Innovation at Whirlpool Corporation

With \$13 billion in 2004 revenues and 68,000 employees, Whirlpool is a leading global player in the highly competitive white goods industry. It creates value by pursuing its three strategic goals: EVA, customer loyalty and innovation. At Whirlpool, innovation is generated from “everywhere and everyone” through stimulating projects and managing closely the health of the innovation pipeline. Among other tasks, Dr. Nancy Snyder, Corporate VP, Leadership and Strategic Competency Development, is accountable for developing the infrastructure to support innovation embedment.

During a recent web cast at The Conference Board, Dr. Snyder explained her approach to embedding innovation which is summarized in the diagram below.

## *Set goals and accountability systems*

Whirlpool uses the balanced scorecard to translate its three strategic goals into corporate and individual objectives for senior leaders. While it has taken several years to put the system in place, long and short-term incentives strengthen the annual performance management and appraisal system.

Specific goals for innovation are to increase growth from innovation by attaining I-criteria and to improve the health of the pipeline by analyzing the anticipated revenue streams from various projects. Innovation goals are coordinated with specific customer strategies.



Every home...Everywhere Every home...Everywhere Every home...Everywhere Every home...Everywhere Every home...Everywhere Every home...Everywhere

## Embedment Wheel



© 2002 Whirlpool Corporation. All rights reserved.

1

### *Enlist and engage leaders*

Strong support from company leadership breaks down barriers and encourages taking the greater risks that innovation requires. However, senior managers often have a lot to lose and offer resistance which was overcome through a number of programs:

- Leadership boot camp and champions program
- Innovation I-Boards/VC Boards
- Senior leaders as sponsors for innovation projects
- Unique ways to train senior leaders
- Constant focus on innovation in every leadership development activity
- Network with senior leaders in other companies

### *Build/amend culture*

To overcome a risk-averse mindset, leaders need to remove cultural barriers encrusted in the company's processes and systems. In particular, it should encourage innovation as a team-based activity and discredit the myth that "garage geniuses" are the real innovators.

### *Resource the effort*

By putting innovation seed funds lower in the organization and freeing them from the budget cycle, Whirlpool broke down some of the bureaucratic barriers that derive from budget control processes. Another key change to support innovation was to steadily increase the percent of capital allocated to more risky projects.

As for people, the right talent should be recruited to lead the embedment effort despite the ongoing challenge to "free up" these individuals' time to work on innovation. The company is making progress in dedicating an increasing number of people to I-mentor and I-consultant roles. These people train other employees, counsel innovation teams, ensure the quality of the projects, and accelerate the progress of projects through the I-pipeline. They lead the project down a migration path from identifying best ideas through nurturing and executing them via focus groups, surveys and business plans.

### *Knowledge management*

Just as innovation funding was freed from overly restrictive budgetary processes, information about innovation projects was also made widely available through a knowledge management system. It enabled access to knowledge bases about customers, innovation and trends. It also provided details about the innovation pipeline so that anyone in the company could review the projects and contact the innovation team. In addition, brand-pipe, a senior leader knowledge management tool for innovation, tracks all aspects of innovation. To accomplish this, it was necessary to overcome the cultural barrier against sharing knowledge widely for fear competitors will gain access to it.

### *Change management and communications*

The innovation program energized the workforce which often went out ahead of management. Managing this change actively and communicating constantly should accompany the roll-out of the program. At Whirlpool, some of the communication efforts included:

- Innovation fairs, awareness building, communications and excitement to get everyone involved; as well as
- Newsletters, quarterly meetings, value challenge meetings.

### *Rewards and recognition*

While Whirlpool offers a stronger incentive program for leaders, team-based incentives now drive innovation embedment. There are spot awards, promotions, and long-term incentives that match balanced scorecard objectives. Moreover, recognition from peers is a major driver for many people. External recognition is also encouraged.

### *Systems alignment*

The most challenging task is to hardwire innovation by redesigning business systems and management processes. Innovating management systems is a major task that takes a great deal of time. After five years, Dr. Snyder believes that the company has institutionalized innovation within these systems and processes:

- Strategic (resource allocation, product plans)
- Operational and technology (product development, goal alignment)
- Management (tracking, reporting, communicating)
- Performance (rewards, incentives, results reporting)
- Human (appraisals, pay, development, selection, assessment)

Some examples in the human category include innovation training and assessment through personal development plans. Employees are assessed on the quality of their plans and whether the plans are implemented. All employees are expected to complete innovation training and to be certified at the basic level of proficiency in innovation.

### *Measurement and reporting*

Measures were revised for both systems and individual change with visible, best practices from the quality movement. Individual changes were tracked through appraisals, pulse survey, census survey, dialogue and interaction with thousands of people on innovation and overall change management measures.

### *Tools and processes*

Often companies start by building a foundation of innovation skills, but do not embed the systems, structures and processes necessary to embed innovation. At Whirlpool, the innovation effort began by sequestering 75 diverse individuals from their jobs (hourly to VP) for nine months. Rather than mandating the group to generate innovative products or services, they were asked to propose changes to the company's systems and processes in order to support innovation.

Innovation heads were designated at the business unit level to drive local interest and ownership. Specialized skill tracks were created for rigorous skill development (I-Mentors and I-Consultants also known as Black Belts in Six Sigma). Tools and skills sets were designed for these specialized skill tracks.

Dr. Snyder concludes that a broad and deep innovation process is incredibly energizing for employees even though change is tough and requires patience. She cited several lessons learned from her experience:

1. Early on – focus on embedment more than outcomes – have goals for both.
2. Align all key systems and processes very early to support the innovation effort
3. Align goal setting and recognition and reward systems very early while building innovation capabilities
4. Innovation must start with the customer – who can't describe the innovation that they want.
5. Without CEO/Executive Office as champions, the effort would have failed.

*Further information about embedding innovation at Whirlpool Corporation can be heard by accessing Dr. Nancy Snyder's web cast on The Conference Board's website. Dr. Snyder is also the co-author of Strategic Innovation: Embedding Innovation as a Core Competency in Your Organization.*

---

### **About the author**

Dr. Stephen Gates is Principal Researcher at The Conference Board, and has written over 15 reports on issues in strategic and financial management. Before joining The Conference Board, Dr. Gates, a Certified Financial Analyst, worked for seven years as an investment and securities analyst at JPMorganChase and Crédit Agricole Indocam.