

• brighter ideas

TO STIMULATE INNOVATION, EXPERTS SAY COMPANIES SHOULD UPDATE THEIR APPROACH TO COLLABORATION, COMPENSATION AND CULTURE.

Story by Todd Henneman • Illustrations by Mark Hess

WHEN STANLEY WORKS MERGED WITH BLACK & DECKER CORP. in 2010, it inherited a floundering power-tool unit. "We were losing our way," says John Cunningham, president of the consumer products division of Stanley Black & Decker Inc., who had been with Dewalt, part of Black & Decker, before the merger. "As we changed leadership, we were faced with turning the brand around and reinvigorating it."

One of the new leadership team's first moves: Carve out innovation teams freed of daily time-to-market pressures. Now, one team based in Maryland focuses on applying new technology to current products and a second one in the U.K. develops what Cunningham characterizes as "disruptive technologies." They're given time, money and regular access to senior leaders.

"Give me the solution," Cunningham tells them. "I'll make the decision about whether we can make money at this idea."

One of the first hits: a motion-activated screwdriver. The Black & Decker Gyro grew from a Maryland engineer's curiosity about applying the concept behind a Nintendo Wii controller to a screwdriver. *Time* magazine dubbed it "one of the best inventions of the year."

Stanley Black & Decker and others know that clinging to convention can be fatal. That's why innovation has become the top priority of CEOs worldwide. More than 80 percent of respondents to a recent *Workforce* survey said innovation had become much more important to their organizations and they expected it to remain so. But more than 40 percent considered their organizations ineffective at fostering innovation. So what can be done?

Delivering innovation relies on managing people correctly. But there's a new formula for brewing up great products and services.

The new recipe: Lay a base of trust. Mix risk-taking with job security. Subtract strict chains of command and barriers that impede ideas from rising. Add professional development. Separate rewards into two units: excellence in routine activities and efforts to find breakthroughs. Don't forget a dash of fun. And when trials result in errors? Openly discuss failure to learn from it.

That's not to say it is easy or inexpensive to cook up greater creativity. Experts agree big breakthroughs typically are years in the making, and shifting a corporate culture to ignite innovation takes time and resources as well.

But there's a payoff. Some consultants and researchers call it the "innovation premium": higher market value based on Wall Street's belief that the company will continue delivering new products, finding new markets or creating better processes.

"Great innovative companies have created the right environment, attracted the right em-

ployees who constantly want to learn, and they've figured out how to get people highly engaged in innovative processes without fear and without the dominance of quarterly earnings," says Edward Hess, a professor of business administration at the University of Virginia Darden School of Business.

CREATIVE CONCERN

Concern about innovation dominates everything from water-cooler conversations to keynotes at conferences. It ranked as the top challenge in the most recent survey of executives by The Conference Board, a nonprofit economic research group. It has become so important that some CEOs track promising ideas that need their personal protection to ensure the ideas are given time to incubate.

Organizations also are starting to measure innovation efforts and results. One metric: track how much of a company's revenue comes from products introduced within the past five years. Creating the right environment for such innovations starts with building confidence among the workforce that leaders make good on their promises, says former Campbell Soup Co. CEO Douglas Conant.

NOT YOUR GRANDFATHER'S INDUSTRIAL LAB

JUSTIN RATTNER URGED THE AUDIENCE at the U.S. Innovation Summit to see Bell Laboratories as he does: an outdated approach that even in its heyday fell short of getting products to market.

Bell Labs produced inventions, argued Rattner, Intel Labs' chief technology officer, not innovations.

"Every time I hear people reminiscing about the good ol' days of research when Bell Labs or IBM Research was winning another Nobel Prize or Xerox PARC was off inventing the future of computing, I just cringe," Rattner told the 282 executives and government leaders at the Washington, D.C., event last year.

They were "great inventors of things" but "absolute disasters at making them practical and getting them to market."

At Intel Labs, he advocates an approach that balances improving existing products with pursuing concepts that have no immediate application.

Intel isn't the only company with sites dedicated to

exploring new ideas. Nowadays, companies ranging from high-tech firms to service companies have invested in a new generation of idea factories. They share one trait: a mantra that time equals money.

Consider water-equipment manufacturer Xylem Inc. In recent years, it has emphasized rapid prototyping in its research and development efforts. Xylem's lab shaved six to nine months off its product turnaround time, resulting in such new offerings as a solar-powered rain-barrel pump.

"The key thing for us is: Let's fail fast so we don't waste time on a concept that's not going to get us anywhere," says Rocio Echeverria, a director at Xylem.

—Todd Henneman

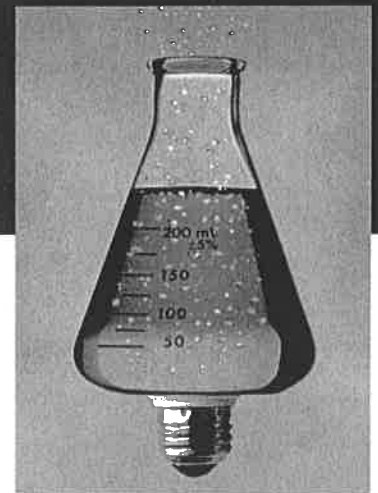
"You have to create a high-trust culture because you need to take risks with innovation," says Conant, who ran Campbell from 2001 until his retirement in July 2011. "In low-trust cultures, people are unwilling to lean into ideas because they feel it's a high risk and they don't have confidence that they will be appropriately recognized for taking those kinds of risks."

Conant oversaw the rollout of a ready-to-eat microwaveable line of soup during his second year at the helm. Campbell's Soup at Hand opened up what Conant estimates to be a \$500 million market. "It didn't seem like a breakthrough idea," he says, "but all of a sudden we were making the soup portable and we were making soup that was relevant to a whole new generation of consumers."

You also need the right talent. Don't confuse valuing trust with sacrificing performance standards, Conant says. At Campbell, he replaced 300 of the top 350 executives during his first three years in what he calls "probably the most substantial turnover out of any *Fortune* 500 company."

"People welcome high standards as long as they know you care as well," Conant says.

Then you need to declare your innovation ambition. "Say it out loud—what are you trying to accomplish with and through innovation," says Lisa King, vice president of insights and in-



INNOVATIVE THOUGHTS ON INNOVATION

INNOVATION ISN'T JUST A PRIORITY for company executives. It has also become a field of study for academics and consultants. *Workforce* interviewed leading thinkers on the topic. Here are some central points they make about how companies can do a better job of managing their workforce for innovation success.



Jerald Hage

Hage is co-director of the Center for Innovation at the University of Maryland and author of *Restoring the Innovative Edge: Driving the Evolution of Science and Technology*

1. Companies seeking to generate technology innovations should give their STEM professionals—those with a science, technology, engineering or mathematics background—a say in decisions. This includes a voice in strategy matters as well as how they accomplish their immediate jobs. "The more innovative organizations have more decentralized decision-making," he says.
2. Select four or five high-risk, high-payoff projects and stick with them for five to 10 years. The iPhone is a case in point. "If you really want great breakthroughs, that's the only way you're going to get it," he says.
3. Precise formulas for innovative products and processes vary by industry sector. But CEOs across the board should avoid a penny-pinching mind-set. "Stop emphasizing productivity and cost. It leads you to think the best thing to do to reduce costs is to fire workers."
4. Assess innovation achievements. Metrics may look different depending on the sector of the economy. But take stock in some fashion. "A simple measure for a manufacturing [company] is what percent of sales stem from new products introduced in the last five years," Hage says.



Hal Gregersen

Gregersen is a professor of leadership at graduate business school INSEAD and co-author of *The Innovator's DNA: Mastering the Five Skills of Disruptive Innovators*

1. Innovative leaders tend to have five "discovery skills": associating, questioning, observing, networking and experimenting.
2. Leaders seeking to foster an innovative workforce should focus first on demonstrating these behaviors themselves. "Walking the talk when it comes to innovation is critical," he says.

3. Don't expect big results overnight. Building a culture of productive innovation—where employees practice the five discovery skills—takes time. Just opening the floor to suggestions can lead to a flood of low-value proposals. "Those organizations will get lots of ideas, but most of them aren't worth pursuing."
4. Less is more when it comes to team size. A group of six to eight people—a team that can be fed by two pizzas—is best for solving tough problems. Larger groups can get bogged down in bureaucracy. "Big problems get tackled by small teams in innovative companies."



Renée Mauborgne & Chan Kim

They are professors at INSEAD and co-authors of *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant*

1. Shake up the status quo with a dose of "harsh reality." Managers of a food supplier to hospitals believed their customers had no loyalty. When the managers were brought to hospitals to try the food they supplied, "They gasped. Now they understood why there was no loyalty." This prompted the food supplier to rethink its food items.
2. Focus on fairness. "Fair process builds trust and commitment," Mauborgne and Kim say. In turn, trust and commitment produce voluntary cooperation. And voluntary cooperation leads people to "go beyond the call of duty in executing strategy and in sharing their knowledge and applying their creativity."
3. Allocate and utilize resources wisely. Rather than lower their ambitions or fight for more resources, managers should concentrate on "hot spots and cold spots." "Hot spots are activities with low resource input but high potential performance gains," the authors say. "In contrast, cold spots are activities with high resource input but lower performance impact." To in effect create new resources, "shift resources from cold spots to hot spots."
4. Find the pivotal people. "To trigger an epidemic movement of positive energy, the key is to concentrate efforts on your kingpins," Mauborgne and Kim say. Kingpins are natural leaders, who are well-respected and persuasive, or who can unlock or block access to key resources. "When they are influenced, the rest of the organization follows fast."

—Ed Frauenheim

novations at Newell Rubbermaid Inc., which makes everything from its namesake containers to Lenox saw blades.

There's no ambiguity at Newell Rubbermaid. Every employee and guest at its Atlanta headquarters passes a large display that lists innovation as a core part of its "growth game plan." It's also discussed in regular town hall meetings led by President and CEO Mike Polk.

Recent innovations include a hole saw by Lenox that lets workers cut circular holes faster and quickly eject the plug from the saw cup so they may move on to the next hole. An absence of innovation leads to your products becoming less relevant to consumers, whose needs are al-

ways evolving, King says. She advocates a balance between short- and long-term efforts. "There are innovation sprints and innovation marathons—but both are timed races," King says.

As the Lenox speed-slot hole saw suggests, "innovation" can mean different things to different companies. So you need to define it. "We typically talk about innovation as the successful commercialization of invention," King says.

Rick Lash, co-leader of Hay Group's Best Companies for Leadership study, says once companies clarify what they mean by innovation, those with records of success go on to provide ways

SURVEY SHOWS LACK OF INNOVATION MOTIVATION

CULTIVATING INNOVATION IS NOT a top goal when it comes to managing the workforce, despite the fact that company executives call innovation one of their highest priorities. What's more, 4 in 10 organizations see themselves as ineffective at fostering innovation, and there's a mismatch between what companies are doing to promote inventiveness and what they say is effective.

These are among the findings of the 2012 Workforce Innovation Survey. The survey, which interviewed human resources officials, HR executives and other company leaders, suggests that many organizations have a ways to go when it comes to cooking up creativity.

Many observers call innovation a crucial ingredient for the 21st

century economy, as product cycles spin faster, customer expectations rise and global competition ramps up. Indeed, 9 out of 10 survey respondents expect that fostering innovation will increase in importance over the next five years. But many workforce leaders in our survey are frustrated by their firm's innovation efforts. One respondent suggested a bunker mentality exists in their organization. "During an economic downturn, survival is 100% everyone's focus," the respondent wrote. "No funds or tolerance from investors or senior management to innovate and try new things even if they will ultimately

generate positive revenue to the bottom line."

Our survey found that fostering innovation ranked fifth among a list of 10 workforce goals.

—Ed Frauenheim

MIDDLE GROUND(ED)

In our recent survey, innovation ranked fifth out of 10 choices respondents were given for most-important workforce goals at their organizations.*



*Respondents were asked to choose their top three goals.
Source: 2012 Workforce Innovation Survey (1,015 respondents)

for new ideas to rise no matter their source.

"These best-in-class organizations encourage people to think strategically and provide forums for people's ideas to be heard and, in particular, for younger people to come up with new ideas," Lash says.

IBM Corp., which ranks No. 3 on Hay's list, has what it calls the Global Innovation Hub—or as Chuck Hamilton calls it, "the world's largest suggestion box"—where employees from any level post ideas online. "People come in and comment on their idea and work with them through their ideas and volunteer to push their ideas further," says Hamilton, the lead for mentoring, social learning and smart play at the IBM Center for Advanced Learning. "They build a community around that idea."

Other organizations have tweaked their structures to provide venues to air proposals. Wanting a more robust pipeline of ideas, building-products-maker Owens Corning Inc. added a cross-functional "innovation council" to each business unit. Anyone from a sales representative to a researcher can pitch an idea. Greenlighted ideas receive staff and funding to move to the next part of the phased-in gate process.

"Even products that are 70 years old can be innovated on," says John Hillenbrand, chief innovation officer of Owens Corning, which used its process to develop its eco-friendly insulation made from natural and recycled content. "It doesn't always have to be iPhones and iPads."

EXPLORING BREAKTHROUGHS

Intel Labs encourages its staff to spend 10 percent of their time on exploratory research. 3M Co.'s "15 percent rule" allows technical employees to spend that amount of time pursuing whatever they want. 3M annually awards 15 grants from \$50,000 to \$100,000 to pursue such ideas, spokeswoman Jacqueline Berry says. The company famously credits the rule as the springboard for Post-it notes.

Not every far-flung thought leads to a \$1 billion market. Given the axiom that 90 percent of innovation fails, leaders must show they don't attach stigma to failures, particularly those that come early.

Companies show that failure serves as a learning experience by asking those involved to write and talk about it so others learn from it and to quickly place them on new projects, says the Darden School's Hess, who is the author of *The Physics of Business Growth: Mindsets, System, and Processes*.

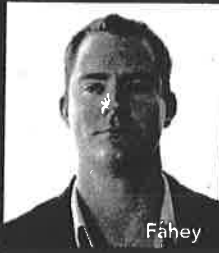
"First and foremost, our approach is that when we try something new that doesn't work, we learn from it," says Rocio Echeverria, director of product management and engineering at Xylem Inc., which makes water pumps. "We never talk about failing in a bad way."

At General Electric Co., executives are assessed on their ability to handle failure. It reflects a culture where innovation has been deemed so important that CEO Jeff Immelt tracks what he calls "imagination breakthroughs," promising but risky ideas that need his help so they have a chance.

GAME CHANGERS CALL FOR MORE ATTENTION TO CHANGES

WHO BETTER TO DROP SOME SCIENCE about managing for innovation than innovators in the people management field? To round out our exploration of innovation in the workforce, we turned to our *Game Changers*. These are the individuals, 40 and under, who we recognized last December as showing leadership and innovation in the realm of workforce management.

We asked a couple of our *Game Changers* for their insights. Sean Fahey is founder of VidCruiter and Danielle Dorter is director of human resources at ID Media Inc.



Workforce: What's the single most important factor in fostering a culture of innovation? Why?

Sean Fahey: Systems thinking. The components of what Peter Senge mentions in his book: having a learning organization, which uses systems thinking to enhance innovation. This means looking at all the parts of a system that can be used in completing a task, not only the ones given to us. Some components of a system are not always clear with linear thinking. But system thinking forces people to look at the whole picture.

Danielle Dorter: Empower employees at all levels to have ownership and accountability without fear of blame or ridicule. You cannot force innovation, and the organization has to be OK with some [calculated] risk-taking. Innovation, and showcasing/rewarding innovative thinking, has to start from the top and trickle throughout the organization.

—Ed Frauenheim

Internally, GE measures the contribution to growth and the bottom line from three "investment horizons": improving its core business, identifying "adjacencies" such as finding new markets for current products, and exploring new areas such as new product lines or new business models. Immelt has seen to it that performance evaluations assess behaviors associated with innovation. Examples include whether employees collaborate horizontally to tie together disparate ideas or whether executives allocate time and money into not only smaller short-term improvements but also bolder long-term possibilities. It's a marked change from the previous era led by legendary CEO Jack Welch, who was known for championing data-driven approaches that drove operational efficiency.

"Jack Welch did not have imagination as a core value of the company," says Rob Reilly, chief marketing officer for GE Healthcare. "We did not assess employees on their imagination on their annual reviews under Jack Welch. That's a big statement: One of the five or six things we're going to assess you on is your imagination. Then people say, 'I get it. Maybe I'm not very good on that.' That's when you say, 'OK we need to give them the skills and tools to be able to do that.'"

Among other tactics, training comes in the form of a course called Leadership, Innovation and Growth. More than 10,000 GE executives have completed the course.

Professional development plays a key role at McDonald's Innovation Center, which tests everything from new menu items to workflows. For example, employees visit competitors and retailers and then discuss what they observed. "Learning is part of the culture," says Laurie Gilbert, vice president of restaurant innovation at McDonald's. "Candidly, fun is a big part of the culture."

Once a quarter, the center has its own version of the Food Network TV show *Iron Chef*.

Upon arrival, a group of employees is given a theme and told to create a lunch for everyone else inspired by the theme, using only ingredients available in a McDonald's kitchen.

REWARDING INNOVATION

Zebra Technologies Corp., which makes bar-code printers and radio-frequency-identification printing systems, has a special banquet for employees who have earned patents in a particular year. The company also offers cash awards, and honorees receive certificates or plaques and are recognized at quarterly meetings broadcast globally. "We do a variety of things to encourage people to take some shots at the basket," says Michael Terzich, senior vice president of global sales and marketing at Illinois-based Zebra.

WHEN INNOVATION TURNS INTO EXASPERATION

THE UPS AND DOWNS OF INNOVATIVE WORK demand resiliency. But not all innovators rebound quickly. Instead, some suffer what's known as "innovation trauma" when their concept fails despite their dedication. They feel a sense of devastation. Sometimes cynicism about innovation replaces enthusiasm for it or fear of another failure paralyzes team members.

Innovation trauma is often found in a situation where a team has become close and worked together in startuplike conditions during an intensive period, says Liisa Vallikangas, professor of innovation management at Aalto University in Finland and a research affiliate at the nonprofit research organization Institute for the Future in California.

Valikangas studied one case on innovation trauma at Sun Microsystems Inc., which had hyped its JavaStation network computer as the product to dethrone Microsoft Corp. Instead, JavaStation fizzled. The JavaStation team was merged into a rival group working on Sun Ray, another new network computer. JavaStation's failure left the sales department skittish and the JavaStation team disgruntled that their project was killed in favor of Sun Ray. Instead of bringing knowledge, the JavaStation team was viewed as bringing a "culture of failure," Valikangas says. The result: Sun Ray failed to meet expectations as well.

Investing in organizational healing helps avoid innovation trauma, Valikangas says. Discuss lessons learned: What was behind the failure? Was it just bad luck or wrong timing? What can we do differently next time? And honor the team's efforts, she says. Celebrating the team's high commitment to innovation will help the team remain engaged and willing to try new things.

—Todd Henneman



Bally Technologies Inc. offers rewards such as iPads to the top-rated inventions posted online and voted on by employees. The slot-machine-maker also honors "inventor of the year" and "inventor of the quarter."

But if you have a team dedicated to innovation, you may want to rethink some elements of your compensation strategy. New research suggests companies should think twice before using a standard pay-for-performance strategy for such teams.

"For most of the tasks out there, standard pay-for-performance works really well because they're routine tasks," says Gustavo Manso, an associate professor of finance at the University of California at Berkeley. Manso's research looks at compensation for innovation. "Innovation tasks are very different. We don't know what the best way to succeed is."

The trick: tolerating short-term failure and rewarding long-term success that benefits from it. Effective rewards range from promotions to stock-option re-pricing, with a lower exercise price. Researchers are less likely to chase bold ideas if they're worried about job security, he says. He holds up tenure in academic settings as a model that doesn't incentivize only small quests.

All of this places human resources professionals at the fore of discussions.

"All of a sudden HR is at the table in innovation," Darden's Hess says. "Why? Having the right people, having the right environment, defining the behaviors, having leaders role model the behavior, training—all of this is mission critical if you want to be an innovative company." **wfm**

TODD HENNEMAN is a writer based in Los Angeles. To comment, email editors@workforce.com.