

# CIO – Innovation management best practices

## On-line survey data analyzed by Factor

**Factor #7 – the availability of rewards and career opportunities for innovators and**

**Factor #14 – whether the corporation has specific mechanisms available for rewarding innovation**



### 'Thinking about' series

*On-line lab data analyzed by Factor along with other references*

May 6, 2017

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 of their business. On the other hand, Factor #14, CIO believes, is more directly aimed at incentivising ideas with either monetary or non-monetary rewards and is therefore better set in the theme ‘idea generation and realization’. In any case, both are important management practices which can significantly impact corporate innovativeness.

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.

### On-line lab results

*Users believe that rewards are necessary but dissatisfaction dominates results*

Users believe overwhelmingly that there should be rewards for innovators but while ok with the use of career ladders, powers and titles, users are somewhat less convinced that there should be specific mechanisms for awarding innovation.

	In favor	Opposed
F#7 – Should there be career ladders, powers and titles for innovators	92%	8%
F#14 – Should specific mechanisms be available for awarding innovation	74%	26%

Perhaps the latter is that there is a sense that everyone should be innovating as best they can and to single out individuals or groups may be unnecessary or even counter productive.

**Building, sustaining and articulating innovation management best practices**

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User's also registered their 'Ideal' and their 'Reality' for Factors #7 and #14.

	Average 'Ideal'	Average 'Reality'	'Delta' average	Median 'Ideal'	Mode 'Ideal'
F#7; the corporation provides career ladders, powers and titles for innovators	<b>2.2</b>	<b>-.6</b>	<b>3.5</b>	<b>3</b>	<b>3</b>
F#14; the corporation has specific mechanisms available for rewarding innovation	<b>-1.5</b>	<b>.8</b>	<b>4.7</b>	<b>-3</b>	<b>-4</b>

For Factor #7, the 'Ideal' was an average of 2.2 thus indicating a strong view that innovators should be specifically encouraged through having available a career path i.e. not being cut off due to a belief that their expertise is best suited for them to stay in their area of expertise. Powers and titles should be available to innovators.

User's 'Ideal' for Factor #14 was -1.5 suggesting that while career ladders, powers and titles are important and ok, the provision of specific rewards – monetary or non-monetary one presumes - was slightly less popular.

Re Factor #7; sixty-percent of users indicated that their 'Delta'<sup>1</sup> – the difference between their stated 'Ideal' and their 'Reality' - was three or greater; the average was 3.5. The inference is that their own company's practices left much room for improvement.

For Factor #14, the percentage of users with a 'Delta' of three or more was even greater at sixty-eight percent. The average 'Delta', however, was 4.7 suggesting that users' organizations did not pay sufficient attention to this Factor - i.e. innovators were not rewarded as they should.

The overwhelming response is that some recognition should be made of those in the organization who are seen to be innovators. It is less clear, however how that recognition should be implemented.

Three examples illustrate the practices of highly-innovative, idea-intensive companies which CIO has researched.

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<sup>1</sup> <sup>1</sup> 'Delta' is the difference between a respondent's 'Ideal' rating and their rating of their own situation – their 'Reality'. The larger the gap the greater is the dissatisfaction, the smaller the gap the more the satisfaction.

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#### **Whirlpool Corporation**

*Whirlpool deliberately organizes to innovate*

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 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.

#### **3M<sup>2</sup>**

*3M has recognized the need for special recognition by all means*

3M has programs for rewarding and recognizing innovation and has set up specific awards that differentiate between traditional technological innovations and those more closely associated with other functional activities.

One of the key outcomes of an early Innovation Task Force led by Gary Pint was ‘the confirmation that innovation thrives on personal recognition matched with financial and moral support’. ‘Other grant and recognition programs to spark creativity would later be added to time-honored programs such as the Carlton Society and the Engineering Achievement Award of Excellence’. Alpha grants for innovation in administrative, marketing and other non-technical areas were made available in 1986.

3M<sup>3</sup> relies on a few simple rules. Motivate the champions. When a 3Mer comes up with a product idea, he or she recruits an action team to develop it. ‘Salaries and promotions are tied to

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<sup>2</sup> See latest IM (Innovation management) report by CIO, 2017.

<sup>3</sup> Business Week, June 11, 2007

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the successful shepherding of new products from inception to commercialization. The fanatical 3Mer who champions a new product out the door then gets the chance to manage it as if it were his or her own business’.

It seems clear that 3M has recognized that monetary, as well as non-monetary mechanisms, are an essential motivating mechanism for most of their personnel.

Phil McKinney<sup>4</sup> provides a full exposé of 3M’s use of metrics around research and development spending and its relationship to gross margin.

*This is what I call the “3M Metric”. 3M is famous for pushing their executives to embrace the new by putting in place a metric that reinforces the need to constantly reinvent itself. So, what constitutes a new product? Rather than describe what it is, it’s easier for me to describe what it isn’t. It’s not the next generation of an existing product (the next year’s model of a car or laptop doesn’t qualify) or a line extension (a new flavor of soft drink doesn’t qualify).*

It is hardly useful to repeat here what McKinney has already set out; except for one key metric; “% of revenue from products launched in the last XX years”; a very common measurement of innovativeness<sup>5</sup>.

### Deere<sup>6</sup>

*Incentives and rewards are group focused*

Deere is committed to a system of rewards with the emphasis on team work and less, apparently, on rewards for the contribution of individuals.

Robert W. Lane, ex CEO stated that ‘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’ to encourage high-performance talent to work together’.

‘To create an aligned, high performance team at John Deere, our salaried employees create annual performance plans with objectives that support unit, division and enterprise goals. Likewise, we have developed what we understand is a "best-in-class" compensation system that rewards good performance with good bonuses, and great performance with *outstanding rewards*. As a result, John Deere people are working together like never before, with a clear purpose in mind’. Other remarks state that stretch-type goals are a part of this process.

From an address given by Robert W. Lane; ‘To give you an idea of how serious we are about innovation at John Deere, each senior officer reporting to me is required to have a breakthrough

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<sup>4</sup> Phil McKinney.com

<sup>5</sup> ibid

<sup>6</sup> See latest IM (Innovation management) report by CIO, 2017.

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innovation-related performance management objective, and compensation at year-end will be impacted based on whether the goal is met'. Deere has an explicit and transparent system in place for rewarding innovation.

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 a team effort.

The company<sup>7</sup> 'remains a world leader by emphasizing not the superstar, but the accomplishments of many'. Group performance is emphasized rather than the individual – in some contrast to the practices of many highly-innovative companies.

There are no separate or distinctive awards for innovation, but 'employees will receive job enrichment and monetary fulfillment awards for meeting and exceeding short-term, medium-term, and long-term objectives according to the Deere's; 'The Three A's That Key Business Success'. Compensation was restructured to be more directly tied to achieving high performance at all levels in the company, but these compensation targets are much broader than innovation per se and have to do with meeting financial goals as well as other targets.

It is interesting to note that the philosophy of emphasizing group rewards is carried through to the promotion and advertising of company products. Deere<sup>8</sup> 'does not pay money to any specific athlete or celebrity to promote the brand because of the risk in relating too closely to an individual who might become diminished in the eyes of the public'.

### Conclusion

*Rewards and recognition play a significant role in innovation management*

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.

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.

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<sup>7</sup> The John Deere Way

<sup>8</sup> The John Deere Way

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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 can 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.

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

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.

For further information go to <http://www.corporateinnovationonline.com>. – ‘thought starters’ – under ‘Ideas’ by Factor.