## Igniting Innovation

**RFG Perspective:** Digital Business Transformation (just another word for innovation) is one of the latest buzzwords pushed down into the organization without any process defined on how to gain employee buy-in and drive success. Innovation can come from anywhere or anyone and can lead to quantum gains in productivity or revenues. But like any other successful program, innovation must be approached as a process. Business and IT executives need to establish viable innovation processes and programs that get employees excited to gamble on suggesting and contributing to innovation.

Innovation programs can be extremely successful. Studies have shown that innovative enterprise offerings drive revenues and improve margins. In fact, wealth creation truly comes from new innovative solutions, in that they provide companies with higher margins than their traditional offerings. Moreover, out-of-the-box approaches to standard operating procedures can reduce the cost of operations significantly, and, as always, every dollar saved goes directly to the bottom line.

However, the issue most executives have is not with innovation but with creating the environment that facilitates the production of creative solutions. Three components must be in place for this atmosphere to work well – an effective, open, transparent process, supportive management, and meaningful incentives.

### The Plan

Every program begins with a plan and this is no different. Executives need to determine the vision, goals, mission, objectives, and scope of the innovation program. Some companies seek to use this process to make major gains or business transformation while others see it as merely a continuous improvement effort opened to all players. Thus, it is important that, as a first step, executives decide what role the innovation program will play, who can participate, and how it will be communicated and rolled out.

The program's vision and objectives need to be clearly established and agreed to by all relevant senior management. In fact, executives should be satisfied that they have properly included or excluded those eligible to participate, as it can impact company morale. RFG has found that some companies open the program to business partners, customers, and suppliers as well. Executives should recognize that individuals that are external to particular functions may still be able to provide creative solutions to problems, as their "outsider" or user view may give them a better perspective than those on the inside.

Innovation programs gain traction by both traditional communication modes and word of mouth. For the latter to play a critical role, executives will need to provide open access to the program and incentives strong enough to activate employees' juices to want to play. Therefore, executives need to build a communication plan that not only makes people aware of the program's existence at its inception but pushes them to want to contribute as the months wear on.

Thus, as part of the program, the company should publish on a quarterly basis (or post on a company innovation Web site) information on how the innovation program is progressing and adding value to the enterprise. Metrics should be provided as well that show the success of the program. The metrics should at a minimum show the number of innovation suggestions submitted and the benefits derived as a result.

## Management Support

Executives need to have management buy-in at all levels for the program to work. Managers that are non-supportive dampen worker support and can inhibit suggestions from being offered. A best practice is to have executives and managers supporting the program but, for the most part, external to the process itself. Management support is best accomplished through an innovation incentive component as part of their performance plan. Other best practices are to establish an executive steering committee to evaluate the suggestions and to build a small team that can rapidly prototype or model (within days or weeks) the new processes or solutions for further evaluation or actual development.

Some companies have incorporated innovation into executive and employee performance plans. How this is done depends upon the corporate view of the program. That is, if it is viewed as a continuous improvement program, then this is needed so that those units impacted by change are incented to want to cooperate and not actively or passively resist change. For programs designed to be global in nature, innovation becomes part of the corporate responsibility component of an executive's performance plan.

Other organizations develop employee innovation programs that have incentives not tied to performance plans but are supplemental programs. This approach is valuable when the goal of the program is more strategic and all-encompassing. This method is appropriate when trying to create new products and services or enhance processes that cut across a number of business units. For example, companies that are trying to change their business models are looking for input into ways to improve enterprise-wide processes in all aspects of the business.

## The Process

There are four phases to the process: focus; ideation; ranking; and execution. In the focus phase, a target area or areas are identified. Also defined is the expected level of gains to be achieved. For example, if it is a new product or service, executives could specify that revenues need to be able to exceed $500 million to be considered. Or if it is a productivity improvement, it needs to save at least $10 million to qualify. The person with the suggestion may or may not be required to do the sizing. In either case the evaluation team will do its own sizing, at it will have better access to information and should be responsible for a cost/benefits analysis.

The innovation program must have an automated entry and feedback process in place. A best practice is to create a Web site and database for it. This will allow for time stamping of entries and a good tracking mechanism that will support the measurement and reporting metrics. It is quite important to have a time stamp capability, as there will likely be multiple similar suggestions and the only way to determine who submitted the idea first is with a time stamp. This will eliminate any suspicion of human arbitrariness and provide transparency.

As part of the submission process, the form or Web page should ask "killer" questions so that individuals think about the big picture. That is, force the individuals to examine the challenge or opportunity holistically. This will result in better, more comprehensive suggestions. RFG believes it is best to post all of the suggestions received. This can act as creative fodder for those desirous of making suggestions and can eliminate a number of potential duplicate entries.

The steering committee needs to rank the ideas to determine which ones will be acted upon. Submitters should know the ranking criteria. In addition to financial impact, executives should predefine the other criteria and weighting factors. One company, for example, deems that in order for a concept to move into the prototype phase at least two of the following three questions must be answered positively:
- Does the idea fundamentally improve the overall customer experience or expectation?
- Does the idea fundamentally improve the company's position in the marketplace?
- Does this fundamentally change the economic structure of the industry?

The execution may be in multiple phases. It may be necessary to do a rapid pilot or prototype to test out the concept. A small dedicated team should be in place to develop the test solution. The objective of the team should be to validate the idea as rapidly as possible. It is acceptable for the prototype to be a throwaway and not be the cheapest or optimum solution.

If an idea does prove to be valuable and gains approval for implementation into production, then executives that will have to adjust their operations to include the changes will need to buy into the concept's implementation. As this can sometimes prove to be a stumbling block, it is useful for management to have the incentive program as part of their performance criteria.

## Meaningful Incentives

A successful program requires participation, which only occurs if people are motivated. Some are encouraged to contribute because they have ideas or due to company loyalty. But for maximum involvement there needs to be some level of recognition. Acknowledgement comes in many varieties – publicity, monetary rewards, non-monetary recognition such as honorary appointments or parking spaces, or participation in the implementation process. Reassigning the individual to the project team as an advisor, contributor or a lead (depending upon skills) can be very rewarding; however, executives

must be sure there is a home for the person once the deployment is completed and production begins.

One of the thorniest issues is the monetary compensation package. Some companies have a fixed sum that they award for suggestions that are acted upon while others have varying payouts based upon the size of the savings or new revenues or net income. RFG has also found some companies that base the innovation award upon a percent of the net income, revenues, or savings. The monies have usually been a percentage, up to 20 percent, of the first year's gains. Furthermore, some firms put a cap on the payout. Executives should consider the scope of the program and establish a clear reward system that they can commit to without modification should an idea prove to be exceptionally financially beneficial to the company.

## Summary

There is always room for improvement and innovative ideas. Executives should encourage business partners, customers, and employees to participate as often as possible in the program. Individuals should know that no idea is dumb and that all will warrant consideration. It is also important that the steering committee and dedicated innovation team is staffed with people that are open to out-of-the-box thinking. Too many ideas are killed by the NIH (not invented here) syndrome or by those resistant to change, especially in their own areas of expertise.

**RFG POV:** RFG believes all companies should be open to innovation and have programs in place to facilitate the flow of new ideas. Senior management should also ensure that all levels of management are receptive to change and new concepts; bureaucracy and closed minds can prevent an organization from being agile, which can cost the enterprise customer loyalty, market share, and new business opportunities. Business and IT executives should create environments that facilitate the flow of new ideas and then proactively stimulate individuals to contribute innovative solutions to global opportunities and problems. Companies today are valued more for their creative assets than for book value and gaining maximum value from an enterprise's human assets will only occur if the environment is conducive to change and sensitive to ideas from all sectors.

*Additional relevant research is available at www.rfgonline.com. Interested readers should contact RFG Client Services to arrange further discussion or interview with Mr. Cal Braunstein.*