

# HR: Innovation's Accelerator

A CAHRS White Paper

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# Part 1: HR & Innovation Introduction

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Amazon and Borders. Netflix and Blockbuster. Uber and taxi drivers. Digital camera makers and Kodak. The list could go on and on.

Individual stories of disruptive innovation such as these are some of the most well known—and cautionary—business tales of our times. Yet, many firms remain blindly confident that such an outcome will never happen to their company. Recent research suggests otherwise.

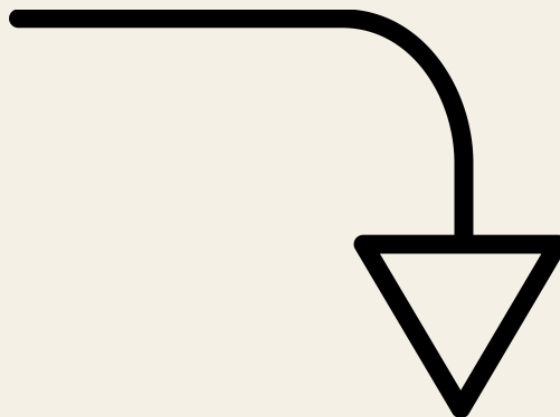
According to a 2016 report by the innovation-focused firm Innosight, high M&A activity and billion-dollar startup valuations are creating significant market turbulence, with 28 companies being replaced on the S&P 500 index in 2015 alone. At current churn rates, Innosight estimates that by 2026, half of the entire S&P 500 will be replaced—a staggering and sobering figure. As such, the ability to develop deep innovation capabilities has never been more important, for both growth and survival.

This year's CAHRs Research Assistant (RA) project takes on this very topic, examining the intersection between HR & Innovation, and how progressive HR leaders can create value and impact through a range of human capital strategies and solutions.

Consistent with past CAHRs RA projects, the research methodology this paper was qualitative in nature, including 4 interviews with HR and business executives at 32 different partner companies, all within the Fortune 500. Unique to this year's project, and in addition to the traditional focus on HR leaders, research assistants also spoke more than 10 business and innovation leaders, to get a richer, deeper view of innovation. Interviews consisted of 11 questions, but largely focused on three key categories: Why is innovation often so hard? What factors lead to innovation success? How can HR leaders be innovation change agents within their company?

Our findings and recommendations follow below.

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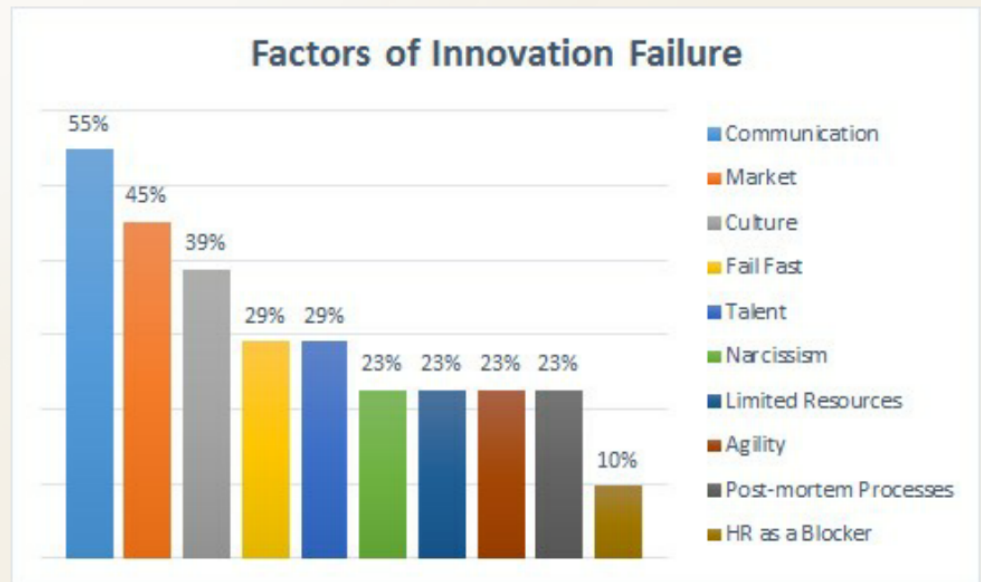


# Part 2: Consistent Drivers of Innovation Failure

When it comes to delivering meaningful innovations—whether a product, service, or operational improvement—there are many roadblocks that can prevent organizations from achieving success. We interviewed CAHRS partners for stories related to when an innovation project did not go as planned and the factors that influenced the outcome. While we received scores of insightful responses, the top five trends that emerged were: a lack communication and information sharing, missing the market, poor culture, an inability to fail fast, and talent gaps.

The percent of total interviewees that cited these five factors is as follows:

*Exhibit 1: Top Drivers of Innovation Failure Across All Companies*



## Lack of Communication and Information Sharing

Within this category, CAHRS partners identified two broad ways that communication had a negative impact on innovation outcomes: (1) inability to communicate internally, both across functions and upward and downward; and (2) a lack of external communication with key stakeholders. Often the failure was linked to critical information becoming siloed within a single function, team, or person, and not available to those who needed it most. If precautions are not taken to ensure the dissemination of relevant information to the right parties, there may be a negative impact on innovation, creating misalignment at key steps in the innovation process. Such an impact may cause an innovation project to flounder at the final stages, such as commercialization, as was discovered by one consumer company we interviewed. A second example of an internal communication failure is lacking a process of documenting failed innovations and “lessons learned” through post-mortem review processes. As such, many CAHRS partners feel that there is more that can be done to keep past failures from reoccurring by capturing and communicating these lessons throughout the organization. Similar to lacking internal communication, not sharing information with external stakeholders is also a barrier to innovation success. One example of this was a large pharmaceutical company we interviewed who was trying to streamline a set of processes that involved government regulatory groups. This company tried to develop a solution on their own, but discovered that without the buy-in and cooperation of these external parties, the innovative solution they had developed was unachievable.





# Missing the Market

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CAHRS partners frequently cited market troubles or “missing the market” as a barrier to delivering successful innovations. Market troubles included but were not limited to: missing the market because the development process took too long; the product did not fit what customers wanted; or a lack of lack of collaboration between key functions or teams. One consumer packaged goods organization, for example, took note that a competitor’s product was becoming increasingly popular. Feeling that they needed to react, the organization created and released a similar product as quick as possible, without sufficiently differentiating their offering, or asking how their product’s brand would influence consumer perception and general viability. In the end the product failed to resonate with consumers, and sales were flat. Although many thought the idea was flawed from inception, nobody was willing to jump in and stop the bad idea. Organizations must be in-tune with the market trends and customer needs in order to prevent innovation failure from occurring. In other cases, CAHRS partners spoke of missing the market by having an escalation of commitment to an inappropriate solution. Of particular interest to HR leaders may be when the failure was driven by an individual leader who pushed for an off-base solution. One manufacturing company we spoke with shared a story where months of time and resources were wasted on pursuing a solution that had little to no commercial viability. This innovation project dragged on simply because the solution was the pet-project of an influential leader.

## Poor Culture

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Culture was a topic that many CAHRS partners cited as a source of innovation failure. Often the failure was related to a culture that did not support risk taking, or a culture that did not align with the organization’s innovation strategy. Risk is an important aspect of the innovation process, an inherent aspect of trying to bring new products and services to light. If an organization’s culture does not support risk taking, innovation can be hampered. This culture of risk taking must be deeply ingrained within the organization and backed up through words and actions, rewards and recognitions. For example, one pharmaceutical organization we spoke with discussed how risk taking was critical to their business, yet immediately after shared with us how the organization fired people who took big risks but failed to immediately deliver successful innovations. To be truly effective an organization’s culture must align with its stated innovation strategy. For example, one large manufacturing organization stated their innovation definition was broadly embraced through a strategic framework to quickly come up with ideas while also getting people all rallied around one common approach.

## Inability to Fail Fast

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The importance of risk taking, as mentioned above, naturally means that not every innovation will be a success. In order to make the most of limited time and resources, innovative organizations must quickly weed out which ideas work from those that may not. Therefore, a key to driver behind innovation failure is the inability to fail fast. While CAHRS partners shared a variety of definitions on what it meant to fail fast, key characteristics included: starting small with many projects, iterating, and then scaling up, knowing when and how to pivot. Despite acknowledging the importance of this principle, many organizations found the art of failing fast to be exceedingly difficult. While there are many drivers that can prohibit an organization from letting go of an idea, CAHRS partners repeatedly shared the role that leadership plays in failing fast. One CAHRS partner said they learned the hard way to not invest too heavily or get too excited until something is proven. Early on the leaders became invested in one specific type of technology, they continued to invest in this technology for months even when it was shown to be not-viable commercially. If the team had been open to failing fast, they may have avoided the heavy inefficient investment.



# Talent Gaps

A final cause of failure cited by many CAHRS partners included gaps in the critical talent and capabilities necessary to innovate. Many organizations expressed that they struggled to attract the right talent necessary for innovation, especially for those positions which required digital or analytics capabilities. Not only did partners mention intense competition as one aspect of the problem, but many companies also found that talent viewed the organization as too “old school” to be an attractive employment option. These challenges can be especially deep for companies located outside of large markets, which top young innovation workers tend to prefer. While HR is directly responsible for the acquisition, development and retention of key talent, some of the business leaders we spoke with touched on how they viewed their HR department as not adding enough value when it came to talent. This is a misstep for HR in terms of shaping the organization's innovation capabilities.

In summation, while causes and failures may differ across companies and even innovation groups within a single company, we would suggest using these five themes as a screening tool to understand if one or more of these barriers may exist in your organization. As such, organizational self-awareness, supporting data, and the willingness to act are the first steps to breaking down barriers to innovation. As such, we suggest CAHRS partners engage in frequent and long-term analysis to assess how effectively they are partnering with the business units and innovation groups they support; how deeply they understand the process, capabilities and interactions that innovation requires—and how those elements might be changing; identifying and pursuing the right metrics to track; and canvassing leaders to understand how the organization is doing related to these barriers to innovation.

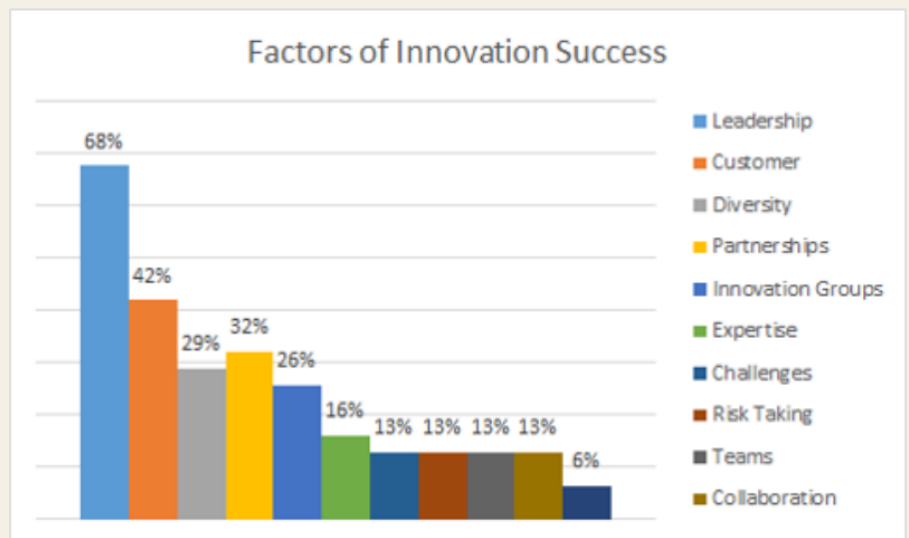


## Part 3: Consistent Drivers of Innovation Success

Along with the drivers of innovation failure, we asked CAHRS partners to tell us about a specific innovation that their organization considers a success—and the factors that made it possible. This simple question opened the door for a wide range of insightful innovation stories, with five key factors rising to the top: leadership, understanding and serving the customer, partnerships and external efforts, diverse teams, and disruptive innovation groups.

The percent of total interviewees that cited these five factors is as follows:

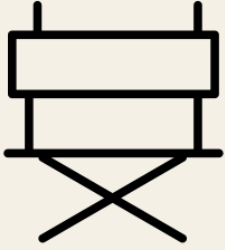
*Exhibit 2: Top Drivers of Innovation Success Across All Companies*





# Leadership

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Time and time again, CAHRS partners pointed to leadership examples that were fundamental to their organization's ability to innovate. A key observation that emerged was the importance of leaders in setting a clear and distinct vision, communicating it, and securing meaningful buy-in across the company. When one considers the time, resources, and cross-functional collaboration that innovation truly requires, getting the entire company on the same page seems especially critical. Participants also noted the importance of how leaders influence and drive culture, especially when it comes to role-modeling the words and actions that innovative cultures demand. For example, the CEO of one partner company in the healthcare space routinely sends out company-wide emails that underscore the importance of innovation, and that the obligation and opportunity resides with everyone, and not just innovation groups. Leadership actions such as these can have a strong trickle-down effect, getting all to take part in new products or operational improvements. Finally, many partners pointed to the importance of individual leaders that went above and beyond to bring an innovation to market, motivating a team or overcoming corporate barriers to make it happen. Two leadership stories from CAHRS partners stand apart. In the pharmaceutical industry, the CEO of one company challenged his regulatory approvals team to achieve a 100% rate of new drug approvals—an impossible benchmark. The team pushed back at first but eventually took the challenge seriously, reinventing their entire regulatory process from the ground-up. A few years later, this company is now the industry leader in the rate of new drug approvals, nearly doubling their rate of success. In the manufacturing industry, an engineering leader felt strongly about the potential of a new recreational product, but corporate leadership resisted. The individual persisted, shepherded the product from development to market, and it now accounts for two-thirds of company revenue.

## Understanding and Serving the Customer

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Since true innovation is the art of not just inventing but commercializing new products and services, it is no wonder that a deep customer orientation was the second most common driver of innovation success for CAHRS partners. The companies that stood out for their customer focus seem to be adept at finding a certain “sweet spot,” which combines two pools of critical knowledge: understanding where the customer is now and where they're going. To understand the customer in the present, partners emphasized the importance of field research, Net Promoter Scores (NPS), Design Thinking methodology, and creating experiences for employees to get close to and learn from the customer. To understand where the customer (and the market) is headed, partners spoke about tracking megatrends, constant sharing of data and industry reports, and learning from external parties such as think tanks, universities and start-ups. As a result, companies who leverage both can be better positioned to carry out both sustaining (or incremental) innovation and disruptive, long-term efforts. In addition, a true customer orientation can be a valuable deterrent to falling victim to “flavor of the month” technologies and projects, which can drain valuable time and resources. One partner company in the consumer space shared a classic story of great customer focus, observing that a subset of customers loved a certain quality of one of their products, but disliked a very modest tradeoff that came with it. In response, the brand took this singular quality and made it into a standalone product, giving a large swath of customers exactly what they wanted, without compromise. The product has since become a steady, high-growth performer.



# Diverse Teams



When it comes to diversity, CAHRS partners were clear in observing that the customer and market are diverse, so companies and teams should be as well. Partners defined diversity in a handful of key ways. Most commonly, it meant bringing together individuals with different education, experience and functional backgrounds, as well as mixing those of different ages, genders, ethnicities and countries of origin. While diversity can be a valuable asset in any corporate function, partners observed that it is especially valuable in innovation work, where the “creative abrasion” of differing viewpoints results in new possibilities and new solutions, and ultimately, better outcomes for the customer. Partners shared a range of illustrative stories with us in this category. A technology company stated they look to bring different approaches and mindsets together by co-locating and mixing day-to-day engineers with deep expert PhDs, with the goal of improving both short term and 5-10-year innovations. Another tech company looked to increase diverse thinking by bringing in an executive from a prominent consumer brand to lead the launch of its e-Commerce platform. A manufacturing company talked about how they dispatch cross-functional teams of experts to diagnose and quickly solve production and customer problems. Finally, an industrial company shifted the composition of its R&D teams to include more “jack of all trades” individuals, so as to innovate faster and more thoughtfully.

## Partnership and External Efforts

One CAHRS partner captured the importance of partnerships and external efforts perfectly, observing that the amount of innovation a single company can carry out is a drop in the bucket compared to the overall market. As a result, most forward-thinking companies must look externally—or risk being disrupted. For CAHRS partners, external innovation efforts largely fell into three categories: (1) Seeking external talent, so as to bring in new capabilities and fresh perspectives; (2) Visiting innovation “hotbeds,” such as Silicon Valley, Austin, TX or research universities, to increase learning and create new opportunities; and (3) Partnering with external groups, whether on M&A deals, joint-ventures, innovation contests, or recruiting campaigns. As a result of these efforts, partner companies are able to diversify and deepen their innovation capabilities, enabling them to better keep pace with turbulent markets. One interesting story came from an HR leader in the financial space, who leads a partnership with the company’s engineering group to produce annual coding competitions at top universities, creating a pipeline of new ideas for the firm and helping to bring top technical talent into the firm.



## Disruptive Innovation Groups

Finally, many CAHRS partners spoke to us about the importance of disruptive innovation groups, which are autonomous divisions tasked with developing breakthrough products and services, and which operate outside a company’s core businesses. Partners shared two especially valuable insights about disruptive innovation groups. First, the autonomy of these groups is essential to their success and must be maintained, as housing them within core business units creates natural tensions, given the very different levels of investment, returns and expectations between the two sides. Second, because disruptive innovation groups are distinct and different from the core, they in turn need to be set up with a distinct and different mix of goals, people, processes and physical workspaces, which work together to create a more lean, entrepreneurial culture. Partners shared many great examples under this category. One company in the healthcare space went to great lengths to defend its “start-up style” workspace to corporate detractors, knowing that such an environment was critical to attracting top talent and to the nature of its work in creating digital products. To create its own in-house “ventures” group, another partner company took a completely holistic approach, having the group report to the CTO instead of R&D; filling its ranks with a unique and dynamic mix of technical experts, commercial people, field researchers, and former entrepreneurs; implementing entirely different compensation models, incentives, and HR processes; and leveraging agile innovation methods, including fast prototyping. In conclusion, to better drive innovation capabilities and outcomes, we suggest CAHRS partners adopt a system-wide view of innovation at their firm, integrating and reinforcing these success factors across the company, and within functions and groups.





# Part 4: Recommendations: How HR Leaders Can be Innovation Change Agents

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HR occupies a prominent role in various aspects of innovation, and progressive HR leaders can serve as powerful change agents for innovation, at the enterprise, function, team and individual levels. To develop a set of recommendations, our team blended insights from innovation failures and successes, along with the top actions HR leaders told us they take to drive innovation. What rose to the top were five key areas: strategic alignment, talent management, culture, knowledge capture and diffusion, and diversity. In conclusion, to better drive innovation capabilities and outcomes, we suggest CAHRS partners adopt a system-wide view of innovation at their firm, integrating and reinforcing these success factors across the company, and within functions and groups.

## Strategic Alignment

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HR plays an instrumental role in aligning employees to the overall innovation strategy, driving a clear vision that enables employees to understand their involvement and what actions and behaviors will drive organizational outcomes. CAHRS partners support strategy alignment through a variety of measures. One example that many companies shared is driving alignment by distilling innovation strategies into simple frameworks and branded programs, which can help with buy-in, recall, and engagement. This can be an especially valuable step for companies that want all employees to take part in innovation--and not just R&D or technical groups. Others see themselves as the “steward” of strategic communications. For example, one CAHRS partner shared that they infuse their company’s innovation strategy into all of their interactions with the group they support, including leadership meetings, email, one-on-one sessions, and other forms of communication. Earlier, we established that CAHRS partners believe leadership is a top driver behind successful innovations. As such, it is essential that HR “holds up the mirror” and routinely coaches leaders, helping them to avoid innovation pitfalls while reinforcing the behaviors and actions that bring about success. In conclusion, to better drive innovation capabilities and outcomes, we suggest CAHRS partners adopt a system-wide view of innovation at their firm, integrating and reinforcing these success factors across the company, and within functions and groups.

## Talent Management

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Along with strategic alignment, talent management is one of the most important ways that HR drives innovation forward. As CAHRS partners shared, most often this starts with deeply understanding the business one supports and strategically mapping out the talent needs, solving for short-term gaps while preparing for long-term priorities and key capabilities. As talent comes into the company and moves around, HR creates further alignment by creating the right mix of performance management, training programs, and reward systems, making sure innovation priorities and capabilities are reflected in all aspects of the talent process. Another important tactic that some partners utilize is being highly familiar with key players and facilitating when to move individuals based on the gaps or needs of the business, which can deliver the exact expertise or viewpoint that a business or team might need. Working with leaders, HR can also help create the right mix of people on teams, making key hires or rotating individuals to ensure diversity of thought is always present. To build out its refreshed innovation group, one partner company told us that they spared no expense and conducted a global search to get the right leader on board, knowing that one key leader can set the vision, culture and process necessary for success in today’s trying times. Finally, partner companies should be mindful of the importance of when to bring in external talent to augment innovation teams. Key drivers of looking externally might include talent shortages, missing capabilities, or a change in strategic direction. However, as new talent comes into the company, partners noted the importance of assessing for capabilities and culture fit, as well as matching the right person to the right group or type of innovation work. In conclusion, to better drive innovation capabilities and outcomes, we suggest CAHRS partners adopt a system-wide view of innovation at their firm, integrating and reinforcing these success factors across the company, and within functions and groups.





# Culture

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In partnership with leaders, HR helps to create and manage a culture that facilitates innovation. As such, HR leaders should deeply understand what innovative culture looks like, how their company measures up, and be willing to take long-term actions towards a desired future state. Among others, HR leaders can drive a culture of innovation through talent selection, organizational design, physical workspaces, training and development, internal “Hackathons” and crowdsourcing campaigns, and coaching leaders to be role models. Collectively, these levers can help to create a spirit of risk taking, experimentation, failing fast, and approaching innovation with a “why not?” mentality, as one partner shared. To drive a more inclusive and far-reaching culture of innovation, some HR leaders have seen fit to engage corporate leaders and employees that would not normally see themselves as creative or innovative. These actions have included “creativity assessments,” which help people to see and understand their innovation style, as well as offering Design Thinking workshops, to give individuals a process and mindset to help them innovate within their own realm, from customer service to marketing to supply chain. Design Thinking can also be an effective means of driving the “fail fast” mentality, which earlier analysis showed is vital to success. In other cases, HR leaders can build and protect innovative cultures by taking note of the important differences that exist between corporate functions, R&D and disruptive innovation groups, designing HR strategies and support structures to match the group, and not trying to implement “one-size-fits-all” approaches. Lastly, if innovation is truly important to the entire organization and defined as “everyone’s job,” HR leaders should note that the cultural drivers above may mean little if rewards, recognition and performance management are not in alignment. As multiple partners observed, if you want people to innovate, you have to measure and reward for it.

## Knowledge Capture and Diffusion

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HR should have a strong hand in managing knowledge capture and diffusion in an organization. Such efforts can help to improve connections internally and externally, facilitating diversity of thought, and ultimately bringing employees together to break down siloes. HR can ensure external information makes it into the innovation group to overcome market challenges, aligning innovation efforts to include a strong customer focus. For example, one HR leader in the industrial space shared that they proactively lead annual treks to innovation hubs and cutting-edge organizations, gathering insights to empower decision-making about partnerships and projects, as well as hiring and capability building. Another partner observed HR can play an active role in exposing talent to the customer through store visits, fieldwork, or bringing customers in for talks and Q&A sessions. Additionally, HR should be involved in the design of physical workspaces, creating open environments that are often better for informal networking and the information sharing that goes with it, which can help to address the aforementioned pitfall of silos and trapped knowledge. In some cases, CAHRS partners have worked with IT to create internal databases to capture postmortem experiences, market data, or projects being worked on throughout the organization. For instance, one company uses an internal database to capture, create and share innovation stories, both successes and failures. The HR leader told us that they recently had a coaching conversation with an engineering leader, and the story they used to inspire them came directly from the company’s internal database.



## Diversity

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Finally, HR is critical in both the creation of diversity, but also in creating the process and context in which diverse teams can effectively work together to drive innovations. HR advises leaders on the importance and ability to create diverse and inclusive teams, ensuring people who bring divergent ideas and viewpoints are not marginalized, which helps to create culture in the process. In order to improve diversity of thought, HR should not be afraid to partner externally or use external hiring such as campus events or hackathons to create recruiting pipelines outside of their internal talent. HR can also help to minimize the interpersonal relationships that can affect innovation by managing organizational politics or providing feedback and coaching to those that have strayed from culture and strategy. One of the best examples of spurring innovation with diversity came from a

company in the agricultural space, which took the unprecedented step of swapping two of its top R&D leaders, who led entirely different groups. In time, this movement of two key leaders infused each group with new viewpoints and new expertise, which led to a higher degree of collaboration, information sharing, and creation of ideas.

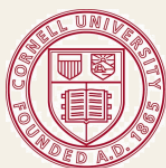
While HR's role and the business' innovation strategy may differ across companies and even within a single company, we would suggest using these recommendations as a guide to understand if how and where HR can better drive innovation efforts. We would also suggest ensuring your employees have a consistent and clear understanding on the company strategy, and exactly how they can play a role in the work of innovation. Lastly, we suggest your firm dives deep into the trenches of the knowledge management systems in order to facilitate proper communication channels inside and outside of the organization.

## Part 5: Conclusion

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In conclusion, perhaps the greatest insight that CAHRS partners can take away is to understand just how important innovation and its related capabilities are to their company's long-term growth and survival; and that they as HR leaders--and not just R&D or the C-suite--can play a vital role in driving meaningful innovation outcomes. By viewing innovation in its proper light, as a truly holistic and cross-functional effort, HR leaders are uniquely positioned to add value at virtually every step of the innovation process.

As a closing recommendation, we would advise CAHRS partners to consider ways that HR can better unite the various functions and groups within the innovation value chain. Since HR is the only function embedded within all of these disparate groups, and since HR is often privy to insights, data and observations that others might lack, there exists a unique opportunity for HR leaders from each group to come together for system-wide discussions to improve innovation outcomes. While exact approaches would need to be customized within each firm, worthwhile options might include forming an "HR Innovation Task Force," where HR leaders come together for regular meetings; designating a role where one HR executive connects the innovation dots between different groups; or simply making innovation a standing and prominent agenda item for when senior HR executives come together. By doing so, HR practitioners can play a powerful role in getting leaders, functions and groups on the same page, driving the level of alignment, collaboration and knowledge sharing that is necessary to stay vibrant in today's turbulent markets.



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