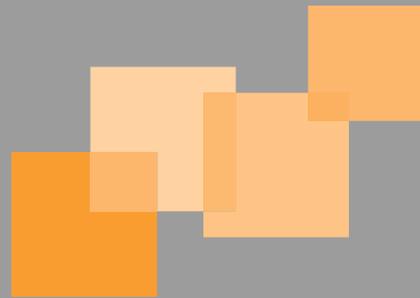


How Companies Incentivize Innovation

Insight Paper by SIT



Opening

Why this research?

When it comes to driving growth through innovation, we've observed a trend over the last five years of companies investing more effort and resources in organic innovation i.e. innovation that stems from within the company. While, M&A and "crowdsourcing" are seen as effective ways of importing fresh talent and new ideas into an organization, a great majority of the companies we talk with still view their own employees as major source of innovation. Furthermore, many companies understand that encouraging their employees to be more innovative is one of the best ways to make innovation sustainable - in part, by retaining their brightest talent. However, the bottom line: employees' buy-in and motivation can be the decisive factor deciding whether an idea or initiative succeeds or fails.

The Approach

This research explores how companies incentivize their employees to engage more actively in innovation. **How do you get staff to move out of their comfort zone when sticking to regular things on one's plate seems like a safer bet? And most innovation efforts never see the light of day?** We interviewed more than 20 companies from around the world, ranging in size from >200,000 employees to <200. These multinationals and SMEs are cross-sector, from finance, healthcare, consumer goods, marketing, agriculture, food, hardware and more. The interviewees themselves come from all reaches of the organizations, including senior management, innovation managers, engineers, marketers, and others. The one common denominator was: Innovation is important to our organization and we want to see more of it.

Executive Summary

- a. Most companies do not 'as of yet' have a formal mechanism for incentivizing and rewarding innovation. Almost 90% of companies we interviewed reflect the opinion "*it's something we should be doing better*".
- b. Think carefully what you're rewarding. For example, if you reward only product innovation, you may be ostracizing a large group of people from participating in the innovation culture. "*You want it to be inclusive and not divisive*", advises a Sustainable Development Manager and Innovation Coach. And, realize the implications if you reward just for success or just for effort. "*If your products take a long time to reach the market, the reward may seem too far away from it to act as a practical motivator*".
- c. Innovation rewards need to compensate for risk of failure – thus should be viewed differently from general performance rewards. As one of our interviewees who deals with disruptive innovation in a multinational explains: "*You've got to do innovation in addition to your day job. You'd only do that if you believe that your idea is going to succeed and that you are more likely to be valued*".
- d. Without the hope that something might actually be done with their ideas, there is little motivation for people to participate. "*People need to feel that their ideas have an avenue. That there is a chance that their ideas mean something, and – if in fact they are good and feasible – that there is a chance they will be implemented*", explains a former Marketing Director for a Fortune 100 Healthcare company.

- e. Understand exactly what it is you are rewarding. Is it behavior that demonstrates creativity is it an actual measurable outcome? ***“The biggest thing for innovation is really to reward failure as well, as long as it brought learning to the company.”*** (An Innovation Platform Director in the food industry).

- f. You can't reward innovation if you don't have the systems in motion that encourage innovation to happen in the first place. ***“We feel that a mechanism on its own doesn't do much good. It must be a part of a broader innovation program which includes training, management and recognition.”*** (Manager in the food & beverage industry).

Findings

1. Do you have a Reward mechanism? If not, why?

We approached 20+ companies with the following question: Do you have a mechanism for rewarding employees for their innovation? Although a seemingly simple yes or no answer, we were met with a pregnant pause roughly 80% of the time. Based on the answers we found that companies fit into one of four categories:

- a. **Yes** - We have a proper mechanism with criteria established within the organization that creates an “automatic” reward.
- b. **Occasionally** - Employees are rewarded for innovation, but it’s not an actual mechanism. More like – “Wow - that was really showing innovative thinking, they deserve a reward!”
- c. **Not really** - It’s a mechanism, but not for innovation per se: Employees get different rewards for different aspects of their performance. If they used innovation to get there, we are pleased, but it’s not mandated.
- d. **No** - We do not reward at all. It’s just not our company culture. Exclusions in this case might be an end of year bonus.

2. What’s the barrier to rewarding?

Given that all these companies stated that innovation is something important to them, we asked companies who fell into categories b, c and d: “Why?”, and met with a range of answers:

- a. **Price** – these companies are uncomfortable with the resources that would go into developing such a mechanism, or even occasional rewards. They also feel uncomfortable tagging a price (whether tangible

or not) to employees’ work that will never be equal to the actual value it poses to the company.

- b. **Priority** – These companies have talked about it before, but have never actually gotten down to the nitty-gritty of the business. They are not opposed to giving rewards, or even setting up an actual mechanism, but it’s never been made a high enough priority for someone to design and set up. While the idea has surfaced, it has never reached fruition.
- c. **Culture and Beliefs** – Company culture is one where people are expected to do their jobs, and do them well. The company believes that for their employees, an excellent performance and seeing the good they create, is enough of a motivator without tying it to an external stimulus. *“We’ve had different programs but they never worked”*, explains an interviewee overseeing materials innovation for a large company of several thousand employees around the globe. *“Our view is that it’s part of your compensation and responsibility to execute innovation without having to reward it in addition.”*
- d. **Product** – The products that the company produces, which they feel is their main strive for innovation, have a long project cycle from ideation to actual implementation and offered on the market. *“In our line of business it could take 2-3 years to get a patent”*, shares an interviewee in the medical device industry. In this case a reward at the end of that process would need to be extremely meaningful in order for it to act as a motivator. *“It’s really doing your daily job that keeps you at it”*.

3. Rewards vs. Recognition

Although many companies believed they did little to encourage their innovators, we were unconvinced that this was actually the case. Therefore, we asked them: Does your company differentiate between rewards and recognition? We see that these two concepts are basically intertwined – when you give a reward, it's because you are recognizing someone's effort. When you are being recognized – there is some action that is taking place in order for this to happen. That action is the giving of the reward. Employees who receive rewards and recognition get satisfaction from both.

Amongst our interviewees:

The reward is most commonly associated with prize (monetary or other) something tangible, whereas recognition is viewed as something intangible. (Why this is, we'll leave for the organizational psychologists.) With this framework defined, most of our interviewees were happy to share that their companies do acknowledge employees at various points, whether through large ceremonies or the company intranet, examples of which we will get into later.

'Reward' as: something given in recognition of service, effort, or achievement.

'Recognition' as: the action or process of recognizing or being recognized, in particular.

4. Reward-worthy: What does an employee need to do to get rewarded?

Since companies are split on whether they reward innovation or performance (in some way related to innovation), we will address the two separately:

Innovation: Companies generally welcome anything that brings value to the company or strengthens its brand

such as new or improved patents, products, productivity, and processes. Doing something that is able to be quantified is often more helpful in the eligibility for the reward, but it is not always a necessary characteristic.

Performance: Companies reward employees who meet their goals, or go “over and beyond” the call of duty for their team or others. If we set reaching goals aside, there is an opportunity for employees to be rewarded without real criteria defined as to what they need to do. This encourages people to work harder, but without necessarily placing the reward as the goal since it is

unclear if with all their hard work they will still achieve it. In this case, the reward generally comes as a welcome surprise.

Rating on performance does not usually require innovation to be a part of the evaluation, unless innovation happens to be in your job title, or in your goal plan. As this is the case, all positions in the company are eligible to receive performance awards, provided they excel in their department or roles.

 **ASK YOURSELF:**

Does your company:

- Reward**
- Recognize**
- Both**

SIT Speaks: It is important to note, that based on these categories, often the employees eligible for rewards fall under R&D and manufacturing. If you are serious about pushing innovation to the forefront, it's important to see how you can involve everyone in this, regardless of their role. Think how you can demonstrate the innovation opportunities for the admin team, or bookkeeping.

5. Types of rewards: What kinds of rewards do employees receive?

Intrinsic vs. Extrinsic

Intrinsic rewards are self motivators that cause people to want to excel. Many companies believe that the intrinsic rewards that an employee gets from doing their job properly, or performing above and beyond are even more powerful motivators than extrinsic ones. These companies believe that a person's desire to do well, to move ahead in their career is enough for them. *"People contribute because of their enjoyment, and their success allows them getting to work*

on more interesting projects or putting them up for promotions," says a disruptive innovation manager. *"The belief that employees have that they are adding value is more rewarding rather than thinking about what they are going to get at the end."*

Extrinsic rewards are stimulus imposed from above. From our interviews there is a wide plethora of what companies are offering and these are divided into two sub-sets: tangible and non-tangible rewards:

Tangible vs. Non-Tangible

Tangible range from monetary rewards to gifts to plaques to certificates. Monetary rewards are generally a set amount, not connected to the value of the innovation effort. As we mentioned before, money can be a dangerous thing since it will never amount to the actual worth of the idea. Another company shared that when a

patent is created, they receive a letter of recognition and a "crisp one dollar bill". It's obvious in this case that the letter of recognition is what makes the difference.

The most monetary compensation that we encountered throughout our interviews was from a global chemical company who will continuously remunerate for a patent and its earnings. *"However, this is only in a specific division and location in the company"*, the interviewee explains. While this is the exception to the rule, most other companies who provide a monetary reward offer smaller, yet appreciated sums. For example, an innovation manager from a multinational food corporation shared that they allow employees to "win" rewards totaling up to a couple of thousand dollars a year. *"If the reward is monetary, the dollar amount option needs to be meaningful"* she explains. Give too little - it can be viewed as a gimmick, give too much - a company may not be able to withstand it in the long term. It's all about striking the right balance. And, if it's not working, don't be afraid to discontinue it. An interviewee from a competing food corporation confided that *"there was a mechanism in the past which sought to encourage innovation and the "hook" was remuneration in cash. It didn't end up in positive results, so it was cut out."* Companies who still want to show a tangible reward, but are wary of the meaning of the dollar sign often opt for gifts that show appreciation. These can be 'external' gifts such as restaurant vouchers, short vacations, electronic devices, or 'internal' company perks such as better parking spots

ASK YOURSELF :

Which is best for your company?

- Rewarding Innovation
- Rewarding Performance
- Both

SIT asks: What types of policies does a company already have in play that will motivate its employees to want to do better? Is there a good promotional system already in place? Do people who perform well get to choose their next projects?

and extra vacation days.

“We try to find a gift which has a lot to do with innovation, something which has a special design or from an innovative brand,” says an interviewee based in South America, part of a global automotive company.

Plaques and certificates are also included in this category, and although not a gift in the more “exciting” sense, its value comes from being displayed in the workplace.

“As companies have gone leaner, people have to do more with less. Instilling a rewards system in the form of giving people 10% of their time for recess and play is something that needs to be maintained even as times go tough,” an interviewee in global procurement and materials innovation advises.

Non-tangible rewards

Some companies choose to go the route of rewards that cost less, but are by no means less valuable. These include awards ceremonies, public recognition in company intranet and newsletters, letters of appreciation. We are also seeing more and more instances of meetings with company leaders, whether at work or over dinner. Non-tangible rewards also include opportunities for personal development or advancement within the company i.e. choosing to be involved on more exciting



ASK YOURSELF :

What would work in your company? Check all that apply:

- Cash
- Prizes
- Award/Plaque
- Meeting or dinner with CEO and/or company lay leaders
- Promotions
- Ceremonies
- Work related privileges
- Other: _____

projects. Being valued by employers and peers carries a lot of weight. *“We give a lot of impact to recognition, make it public and show the commitment of the Senior Management”*, says an interviewee from the automobile industry.

Some companies make a point of recognizing innovation efforts for each completed initiative before in a very public way. *“At the end of the project we create a video that is distributed via the company intranet. It tells all the employees how the project was carried out. The team is recognized before the whole company.”*

An Innovation Platform Manager shares the example of a nice ceremony practiced in her company. *“We have awards given on a local, national, and global level. The nominees for the global level are invited to meet the founders of the company who are very much involved in the company. The actual winner gets a prize, but that is not as meaningful as the award itself.”*

6. Typical Combinations

While not all companies offer tangible rewards, most of them will offer non-tangible rewards either alone or in addition to a tangible one (that makes the restaurant voucher last longer).

“We get a cash bonus for patents, but we also have a big dinner with VPs where the patents are presented, and spouses are invited,” shares our interviewee in the medical device field.

An idea that has a long-lasting edge is the Hall of Fame, from a finance consultancy in NY. *“The winner gets a plaque and we have a wall in the company with all the winners on it. The extra punch is dinner at the CEO’s house”.*

7. Choice in the Matter

Interestingly, it is rare for employees to be able to choose their reward. Apart from receiving cash that can be spent as one wants, one company after much contemplation, offers a gift card to a website similar to amazon.com, where their reward points are translated into monetary values, and employees can purchase what they like with the amount they have, or save up for something larger.

8. Public or Private?

For most companies, giving rewards has a public dimension - whether it's a big ceremony or publicizing the recipient in the company news. This supports the theory of intrinsic rewards that makes people feel appreciated and valued in front of their peers. It is also a company's ways of showcasing talent and role models for others. However, the fact that the reward is made public doesn't necessarily mean that all the details are disclosed. Generally cash amounts or the actual prize is undisclosed, whereas plaques and certificates are shared.

Companies whose reward systems are not standardized throughout the company, often shy away from public affairs in order to prevent antagonizing employees. One interviewee shared that at their finance company, they try to take into account the person's preference in the matter. *"Some people are private, and don't want their achievements boasted in front of the whole company. We respect that."*

9. Time to Reward

Deciding at which stage in the innovation process to reward depends on the company's culture.

"Our company culture encourages people to take risks. We informally celebrate when someone does something innovative or shows creativity." (Manager

at an international marketing firm).

Early on: Companies wanting to spur people to come up with new ideas will provide incentives even in the early phase of ideation. Although this may create a situation of quantity over quality, organizations serious about creating an innovation culture tend to see this 'discipline' as a necessary step to jumpstart the process. If choosing this approach companies can impose specific hurdles to

SIT Speaks: Invest the proper time to determine which reward would work in your company, if at all. This is not a case of one size fits all, whether between companies or even within the same company. If you choose rewards as tokens of appreciation, that could provide more flexibility in the terms and criteria in which it is given. However – if it is to act as a motivator, ensure that it will match up, otherwise you won't see the benefits you had hoped it would achieve.

deter poor quality or half baked ideas.

Criteria usually involve filters such as feasibility, value to the company, strengthening/supporting brand image, and productivity.

At Implementation: Most companies agree that the implementation hurdle is the big one. A company can have a series of great ideas, however, time and resources prevent them from coming to life. The select few that do get chosen often meet with bumps along the way, require persistence and motivation. Reward kicks in only when the idea is "on the shelf". This is the stage that most companies choose.

After confirmed success: So the product/strategy/patent is now launched – but is it a success? Companies who choose to reward at this phase look at the business success of what was done before they decide if it's

award-worthy or not. Our research showed that this is the minority by far. Connecting rewards to bottom line can be counter-productive – as this leads to expectations that will never be filled, resulting in reduced motivation.

Reward at Intervals: A golden rule is quite possibly to reward twice: Once upon ideation, and once upon implementation. The rewards or recognitions need not be the same. But if you're struggling to get those ideas into your pipeline, the reward may be the way to do it. And if you're struggling with meeting your targets, the reward may serve you there as well. A leading company in the agrochemical industry worked for close to four months to put in place a rewards system to kick off the innovation initiative launched in the company. The important thing to them was that the rewards would be fair.

“It could be that it takes a couple of years until the innovation is implemented, and so we reward 75% during the evaluation phase (which includes feasibility filters) and another 25% upon implementation - we recognize effort, and reward success.” (Financial Services company).

10. How often should you reward?

Rewards don't need to kick-in every time someone has an idea or implements a new product or system. Some companies who have established mechanisms for incentivizing innovation hold that rewards can be monthly or yearly. *“We used to have an annual party in*

ASK YOURSELF :

When should you reward?

- A. Ideation
- B. Implementation
- C. Proven Success
- A + B + C
- A + B
- A + C
- B + C

SIT Speaks: Where do you want the main impact to happen? Once you know that, you know where to place or how to divide the reward. And nothing is set in stone, so you can change it up as you hit milestones. If you are just jumpstarting your process, you can place an emphasis on ideation – and even put a time limit on it (e.g. all ideas put in the system by December 31st). Once you have the desired amount of activity, you can change the reward focus to later stages of implementation or market success.

which the innovation projects of the year were presented. There was a committee that voted and rewards were given out.” (R&D Manager of a cosmetics company). Yet some companies believe that at the beginning, in order to establish a culture of participation, it's important to show acknowledgement and celebrate the small things, and later on reward the bigger scale, game changing innovations.

11. Who do you reward?

There are generally three candidates in the running for a reward:

- a. **The person** who **thought** of the idea (i.e. the author)
- b. **The team responsible** for the idea
- c. **The person/team** who **implemented** the idea (i.e. the doer)

Why the individual level? Companies want to prevent piggy backing and be sure they're putting the spotlight on the person actually responsible for the work.

Individuals are sought out for their performance – whether promoting an innovative product, efficiency proposition, getting a job well done, and mainly – going above and beyond the call of duty. However, while most of the cases show that the reward is on an individual

level, a CEO of a company manufacturing pipe systems disagrees: *“I believe that it’s very rare to identify a single individual who’s responsible for innovation”*. Reward for a team effort can come in the form of all getting the same amount, or it being divided amongst them. Team efforts are sometimes rewarded in terms of internal perks like a nice lunch or a vacation day.

The question of rewarding the author or the doer stimulated heated debate. What is interesting is that some companies use this tension to incentivize ‘authors’ to become more engaged in the implementation process. When the person who thought of the idea is involved, they have a stronger vested interest in making this idea come to life. *“At our company the person who had the idea has to participate in implementation”*. (Automotive employee).

However, this is not an option for some companies whose products have a complex lifecycle of design, patenting, manufacturing, and testing can take years. Often the ‘author’ is very unlikely to be ‘doer’ or involved in seeing the idea come to life.

“We want to make sure everyone who is taking part of the innovation process gets rewarded”, Innovation Manager from the agrochemical company explains. *“So we reward not only the authors, but also people that are evaluating the ideas. The work needs to be recognized. The most important thing here is to show that everyone gets a little bit of the cake.”*

12. Who decides who gets rewarded?

If there is a specific mechanism in place, the reward system is more or less automatic.

Passing the filters and meeting the criteria means you get the reward. Where companies do not have a proper reward system in place, the decision is placed in the hands of:

- a. **Managers** – who either can provide rewards themselves or can nominate their employees for company -wide initiatives.
- b. **Peers** – a peer review system where co-workers can nominate and vote for each other.
- c. **Employees** – Employees can anonymously (or not!) nominate themselves to be acknowledged for their work and effort.

Nominations for more prestigious company awards usually go higher up the corporate chain to be decided by managers and VPs, whereas smaller types of recognitions can be decided within the department. Be

cautious of rewards that

fall under managers’ discretion and are not necessarily an organized company initiative.

Some companies have shared that specific departments have managers who use rewards more often than others. This can create

a divide and a sense of unfairness within the company. The important thing is that whatever you choose should be uniform throughout the company. *“It’s*

demotivating when you feel that you should be eligible for an award

and you don’t receive one”, observes an interviewee from the ongoing in her company.

ASK YOURSELF :

Who should be rewarded in your company?

- A. The person who thought of the idea (i.e. the author)
- B. The team responsible for the idea
- C. The person/team who implemented the idea (i.e. the doer)
- A + C
- B + C

SIT Speaks: The important message from these last two points is Be Fair. Firstly, employees need to feel they are being recognized for their work and that no one is stealing their thunder or taking the credit. Secondly, they need to feel that they all have an equal chance at receiving a reward. If you choose a voting system, and some departments are bigger than others, the smaller ones may feel that they will be outnumbered, and their efforts will go unnoticed regardless of their contribution.

13. How do employees view the rewards system?

The way employees view the reward systems depends a lot on the nature and type of reward and the company's culture. There is an element of risk taking when dealing with innovation. You're taking a chance of doing something new, your own project, that might never take off. The time that you spend working on it (whether through company policy or in your own spare time) is time that could have been spent on approved projects that are the bread and butter – and tie into existing performance reviews. In order to motivate employees to become more engaged in innovation efforts that require some level of sacrifice and risk-taking - the reward needs to be significant enough. *“The rest of the company gets really jealous when they see someone being rewarded with a weekend getaway”*. However, another interviewee was careful of saying the \$100 reward they receive doesn't usually cause anyone to bat an eye, people get on with their daily work because they need to get it done, regardless. Also, employees have a sense of realism about their work. If it takes them a few years to come up with a new product, the reward is not the main motivator in this case. There was agreement between all the companies that

non-tangible, intrinsic rewards are perceived by far as more valuable than tangible ones. As one of our interviewees, the former Marketing Director for a Fortune 100 Healthcare company, put it: *“With all the changes companies are going through, you may win an ipod, or cash prize, but if the company needs to make layoffs, the president won't necessarily know or remember your name”*. Formal recognition in terms of dinner with VPs, a letter of recognition handwritten by senior management makes you feel more confident about your position and status in the organization. Other intrinsic rewards are also strong motivators – getting to choose projects to work on, promotions, make employees feel truly valuable to the organization as well.

Culture and demographics also play a part. The former marketing director explains his belief that *“younger employees just joining the working force have an intrinsic need to excel and prove themselves, and climb the corporate ladder”*. Some employers feel that this is motivation enough for them, without having to provide any external rewards in addition. Older, established employees, who have been working hard for years may or may not welcome these kinds of opportunities. Back in the day, you were hardworking, did your job, and if you did it well there was a bonus. You did what you were expected to do. Obviously, since a company's workforce is made up of workers

ASK YOURSELF :

Who should be the judge in your company?

- A. Managers
- B. Peers
- C. Employees themselves
- A + B + C
- A + B
- A + C
- B + C

that cut across generational attitudes - it's important to acknowledge the different personalities and expectations of what would work and what wouldn't. However, in both cases, when the reward does act as motivation, employees will likely try to "win" again.

SIT Speaks: Don't create rewards based on criteria that your employees believe they can't deliver. For example, if your company's products are complex, and you are looking to put in a reward system for innovation, understand that innovations based on products alone might not work.

Conclusion

In Conclusion: Best and Worst Practices

Based on the findings from our research, we have compiled a list of best and worst practices, to help you build your rewards and recognition programs

Best Practices:

- a. Innovate in your own skin: design your rewards mechanism to work with the specific make-up of your company's culture, products, structure and goals. Copy with pride only if you think the model will work.
- b. Involve authors in implementation: they have a strong vested interest in seeing their ideas through to completion – and this is often their greatest reward.
- c. Have something set aside for spot-rewards/awards: not everything needs to be a huge production. Give managers some ideas and budget to acknowledge or reward innovative behavior when they see it.
- d. Uniform method: Try to have some alignment throughout the company of what is being done, and that involves everyone at the company at some level. You'd be surprised at where ideas can come from.

Worst practices:

- a. Short term-ism: – Try to make sure that the reward has a lasting impact. Whereas money can be spent, and vouchers used – a letter can be read over and over and plaques displayed proudly.
- b. A system that causes strife and division: Make sure you reward in a fair and consistent way. For example, if you create a rewards system that is based on managerial discretion make sure that you follow up on it, especially if you see certain managers extending rewards whereas other do not. Another example is

voting systems that refrain from allowing people to win more than once – “just because”.

- c. Give rewards with value, not gimmicks: if you're going to do it, do it right. Otherwise it will be a lot of time and effort for something that won't let you achieve your goals.

Examples of Incentives:

Vouchers – Restaurants, products - Cash - Gift Cards - Dinner with CEO or other VPs - Awards Dinner - Wall of Fame - Promotional Video - Letter of acknowledgment - Gifts - Memos on company intranet - Spot prizes - Extra vacation days - Choosing projects to work on - Gaining time off from regular projects to work on innovation - Joining the implementation team - Joining the innovation team - Receiving company products at a discount

For questions, comments, or to participate in future research opportunities, please contact Robyn Taragin at robyn@sitsite.com

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