

REBA Innovation Day: How technology affects reward and engagementOr better.....

How can total reward support greater employee innovation?

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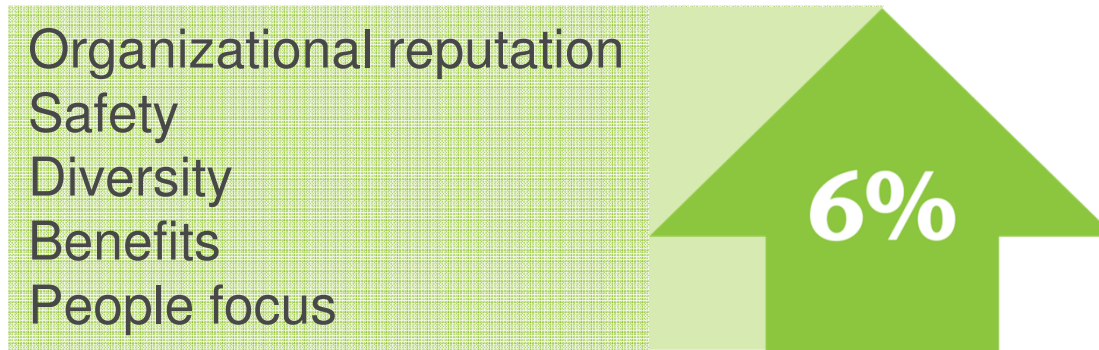
Why does it matter?

- Growth of the knowledge-based economy:
 - Economic growth
 - Job growth and skills
- Lack of investment and innovation in the UK and aim to 're-balance' the economy
- Declining productivity of R & D in some sectors eg pharma
- Low levels of employee engagement
- “In order to generate extraordinary value, a company has to learn and apply knowledge through its businesses faster and more widely than its competitors” Lord Browne
- Europe’s declining competitiveness as “research systems remain structurally ill-adapted to the challenges of the coming decades...it is difficult to attract the best young brains - career structures are rigid and financial rewards better elsewhere” Vice Chancellor, Oxford University
- “Economists are increasingly convinced that innovation rather than allocative efficiency is key to the dynamic potential for growth in the economy” Nick Pearce, IPPR
- Dr Jules Goddard of London Business School a 'perilous, nonsensical and lazy option: The Fatal Bias: the prevailing managerial bias towards cost efficiency is seriously harmful to corporate performance”
- “People’s hearts may be aligned with innovation, but their minds and wallets are focused on how they will be evaluated and compensated...the over-riding focus on efficiency” Jeff Philips

What would happen in your organisation if.....

- Someone invested a huge amount of time and money in a project, and it failed in bringing a product/service to market?
- One of your junior staff came up with an idea to improve the organisation's efficiency by 30%?
- You proposed to give everyone a day a week to do what they liked at work?
- You proposed to pay everyone to go to the pub on a Friday lunchtime on the condition that they came back with at least one business improving idea?

Engagement levels flat but perceptions of innovation are down (Source: Aon Hewitt)



There are signs that the employee value proposition is breaking down.

Performance management: technology help or hindrance?

Forbes

“The Performance Appraisal: A Workplace Evil That Must Be Destroyed Like a Blood Sucking Vampire”

- July, 2012



Microsoft



Adobe

Rank & Yank

No formal performance management

THE WALL STREET JOURNAL.

“Yes, Everyone Really Does Hate Performance Reviews”

- April, 2010



So how should we motivate and reward innovation? Three big questions

- “A field replete with splintered and perplexing theories of motivation that only create conceptual clutter for researchers and confusion for practitioners” Nancy Leonard

Does money matter, does it motivate innovators?

- Yes: “A winner-takes-all economy is spreading...’star’ systems in pay: Diana Coyle
- Yes: “Amounts of money matter in the new economy” Ed Lawler
- No: “Do not rely on pay, a different set of rewards needs to be available” Peter Reilly
- No: “They were there to be at the technological cutting edge, for the intellectual challenge, the teamwork, the pride of achievement” Tracey Kidder
- Yes: “No longer nerds in the backroom: they want ownership, they want money” Pete Bronson

Does performance pay (cash or shares) work?

- Partly: “We need to move from job-based pay to rewarding the market value of someone’s skills and knowledge” Lawler
- No: “non financial motivators and a trusting environment not money were the prime motivations for scientists” Gupta and Shaw
- Yes: Katzell: positive association of performance/merit pay and motivation of pharma and IT workers

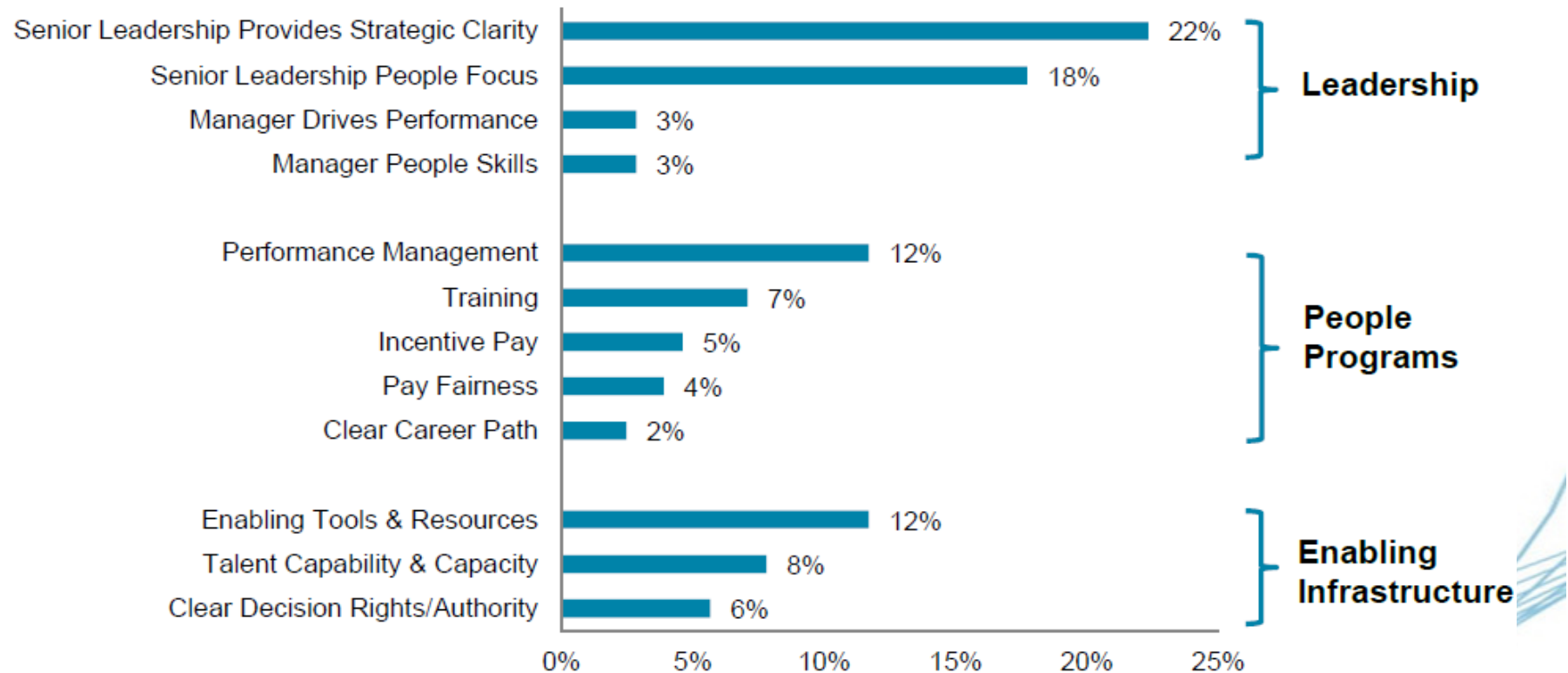
What role does total rewards play?

So how should I motivate and reward innovation? What's the problem?

- Different view and 'myths' on sources of innovation in the economy:
"Successful start ups almost always begin with an idea from the research organisation of a large company...low quality entrepreneurs emerge from small firms"
(Hvide 2009)
- Totally different views and findings on the role of money/financial motivation
- Difficulties in classifying and disaggregating rewards eg stock
- Differences in setting eg start up versus new business in a corporation
- Differences in sources and organisation of innovation eg R & D lab versus general staff
- Do most employers really want innovation versus standardised behaviour from identikit competency models?!
- Innovation challenges many of our existing assumptions eg Crick and Watson vs Franklin:
 - Pay in relation to time/effort/volume rather than quality
 - Pay in relation to achievement/performance rather than failure

High and sustainable performance requires a holistic approach and multiple initiatives

Relative Impacts on Creating a High-Performance Culture



What does the research say? Research findings on rewarding innovation and fast growth firms

“Rewarding risk taking and innovation requires companies to treat people who are taking risks very differently from other members of the organisation, though this inevitably leads to issues of fairness”, (Lawler and Worley, 2006).

- Research on how best to reward managers to encourage innovative behaviour is a controversial, contradictory field, although generally it seems to support an orientation towards higher levels of incentivisation and a longer-term orientation.
- Some researchers have argued that rewards need to reflect the different stages in company and product life cycles. Bruce Ellig (2001), argues that senior management packages need to vary through the life cycle:.

Reward	Start up phase	Growth	Maturity	Decline
Base salary	Low	Low	Moderate	High
Annual bonus	Moderate	High	High	Moderate
LTI	High	High	Moderate	Low
Benefits	Low	Low	Moderate	High
Perquisites	Low	Low	Moderate	High

Research findings on rewarding innovation (contd)

- Other researchers argue that particular **business strategies are associated with variations in the rewards package**. Schuler (1988) believes companies with an innovation strategy are characterised by extensive use of cash incentives and a longer-term rewards focus; Lawler (2003) argues for high variable and person-based pay in innovative companies.
- A number of research studies contradict these findings, suggesting innovative employees need the security of fixed pay and are motivated by the non-financial rewards such as autonomy (Reilly 2006). Brown (2001) found that small firms had to pay base salaries above their 'oldd' equivalents to recruit.
- Lawler (2006) believes that *“the reward practices an organisation adopts early in its life cycle are particularly important in shaping its identity”* and that in reality, reward practices are difficult to change.
- Small start up businesses tend to make extensive use of share grants. Some businesses carry through these practices as they become much larger.
- There is also evidence of a **positive impact of incentives on corporate venture capitalists**. Dushnitsky and Shaprio (2010) compared the performance of independent venture capitalists, typically rewarded with 2% of their total assets under management and 20% of the profits, with those of corporate venture capitalists typically on a standard corporate package. They found that compensation had a large effect on performance
- 10 ▪ Around 1/5 of companies have distinct incentive plans for new venture divisions

Does stock/shares help or hinder? An example



- Google: make extensive use of stock, particularly for recognition.
 - Google Founders award (\$12 million to 24 people)
 - Wave: funded like a venture capital firm
 - Assessments based on users/user adoption
- But part of wider 'open innovation' model (Chesborough) and top down/bottom up approaches: 'the business of Google is innovation'
 - Flat structure
 - 20% own time policy
 - Development
 - Tools
 - Rewards

See Savoia and Copeland (2011)

PRP and Bonus Schemes: do they work?

- There is evidence that high performing companies make greater use of performance pay, for example from the major WERS study (1999).
- Research also suggests that profit sharing & share schemes are associated with high organisation performance, ‘the John Lewis model’.
- The evidence on executive bonus plans is much more contradictory, with the majority suggesting only weak associations at best between executive pay levels and institution performance.
- The SSRB summarised common problems with PRP as being:
 - Poor performance management and objective setting;
 - An unclear justification and rationale;
 - The small size of opportunities and payments.
- Burgess and Metcalfe’s(2007) review of PRP in the public sector paints a mixed picture, with evidence that incentives have positively affected behaviour and performance in some settings, including education and health, but points to difficulties in alignment.
- There is also evidence that knowledge workers prefer pay to be based on performance, and that the public also believe that it should be based on performance.
- Armstrong and Brown (2010) conclude there is no universally successful PRP, no “best practice, only best fit”.
- PRP’s success is therefore highly situation-specific.



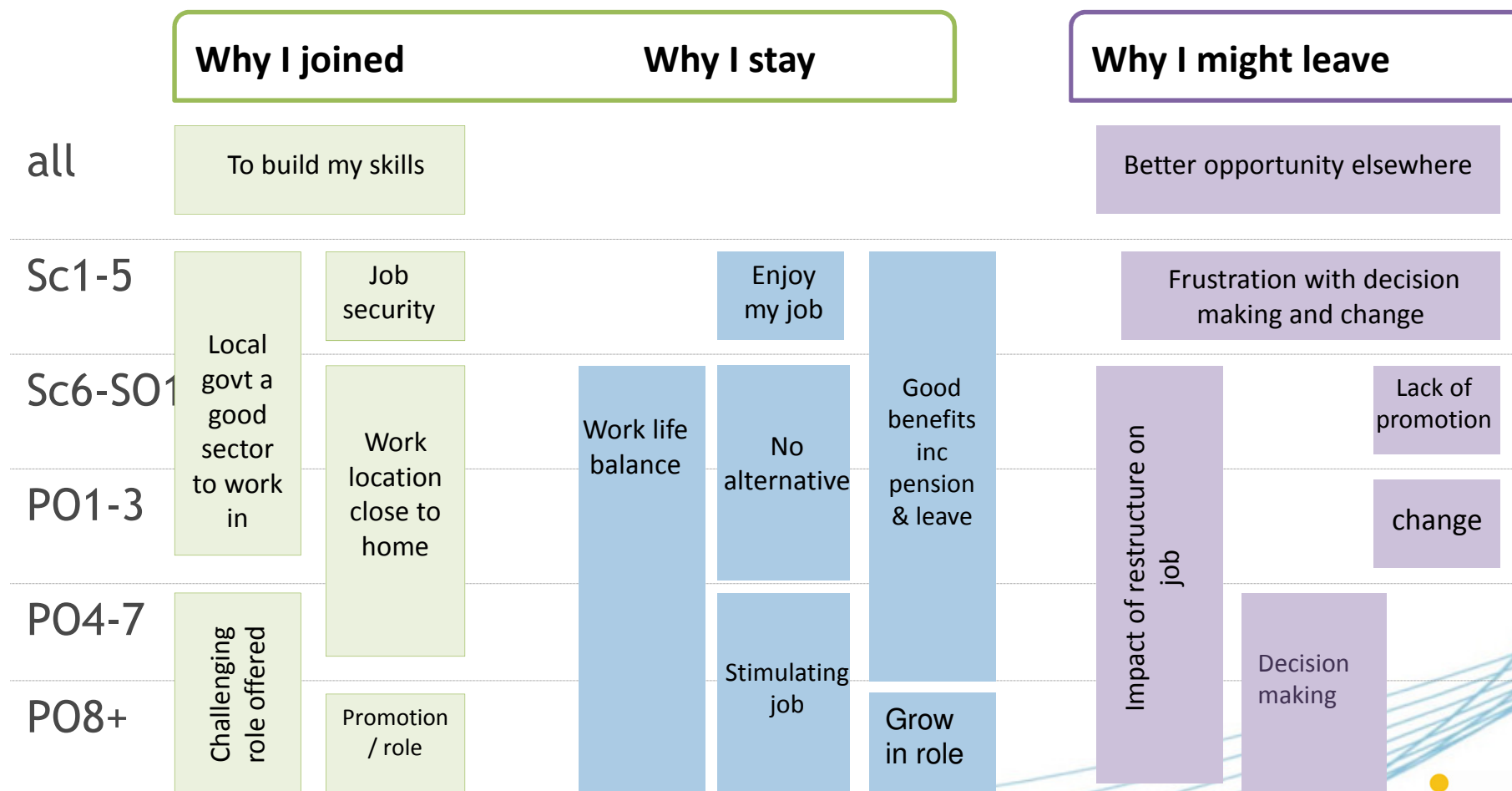
Conclusions: Three key lessons

- Get to know your employees
- It's the total rewards
- HR needs to be more innovative with its reward and performance management approaches

Better measurement: Variations in engagement drivers by generation

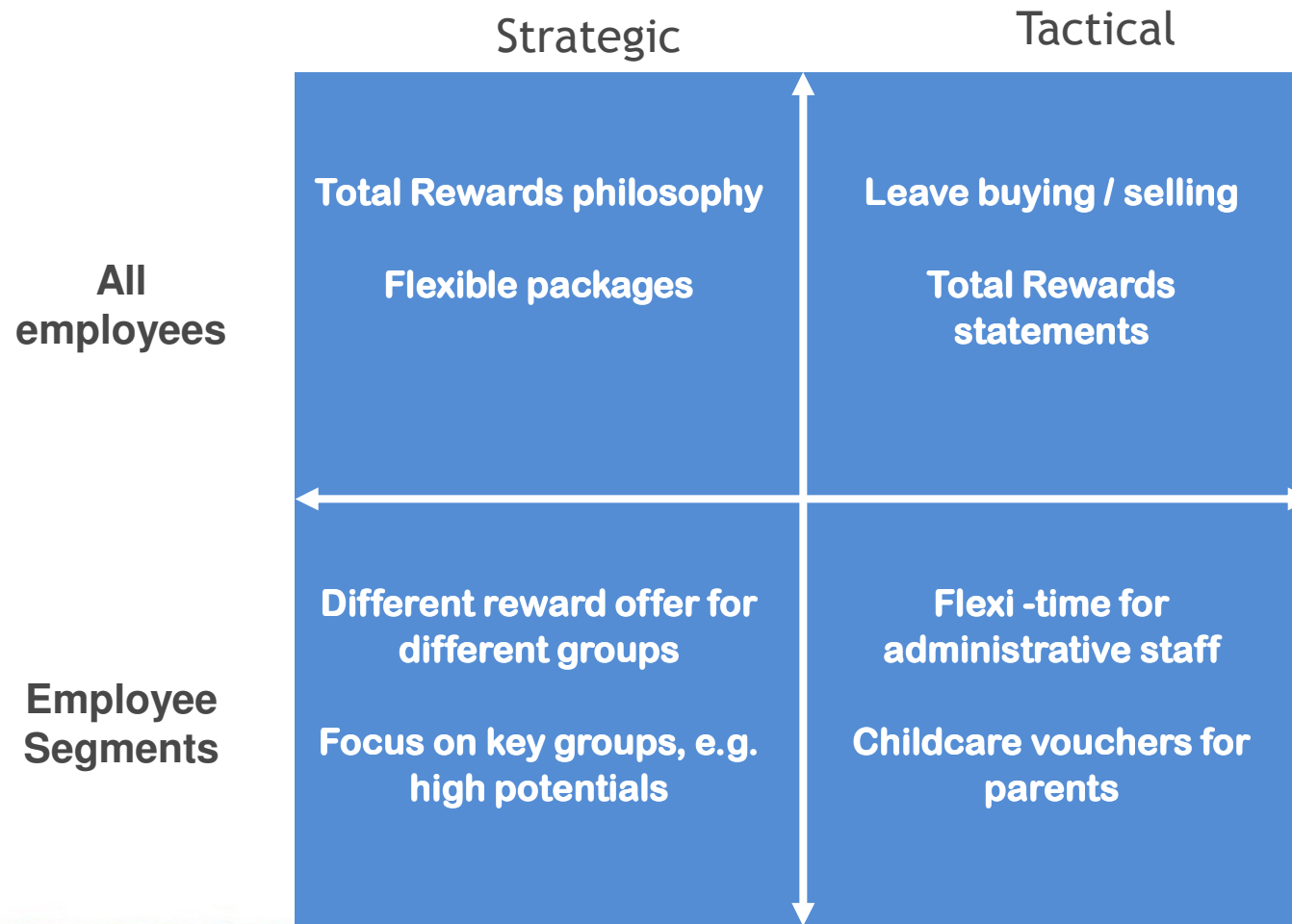
	2012 Global		
	Millennials	Generation X	Baby Boomers
Career Opportunities	1	1	1
Recognition	3	4	4
Organization Reputation	2	2	2
Communication	4		3
Managing Performance			
Pay	5		
Innovation		3	5
Work Processes		5	

Why staff join, stay, and might leave in a public sector organisation



Conclusions on Total Reward and Innovation

- Know your values and what you mean by total rewards
- Know your people and engage and involve them
- Be innovative and evidence-based
- Use technology to empower not control



Further resources

- Armstrong and Brown: Strategic Reward, Making it Happen (Kogan Page)
- Reilly: *What do Knowledge Workers Really Want?* (IES)
- <http://www.employment-studies.co.uk/>
- <http://patrickcopeland.org/papers/EntrepreneurialInnovationGoogle.pdf>
- <http://abfer.org/docs/track2/track2-non-executive-employee%20-stock-options-and-corporate-innovation.pdf>
- <http://www.ccf.org.cn/cicf2012/papers/20120128161154.pdf>
- <http://www.fastcodesign.com/1669136/the-right-way-to-reward-your-employees-for-innovations>
- <http://cbr.sagepub.com/content/46/1/6?etoc>

Duncan Brown



Duncan leads the HR Consultancy and Research work at IES, a leading independent research-based charity which supports improvement in HR and employment practice.

He has more than 25 years' experience in HR consulting & research with Aon Hewitt, PwC and Towers Perrin. He spent 5 years as Assistant Director General at CIPD.

His clients have included major companies such as National Grid and Lloyds Banking Group, public sector bodies such as the Cabinet Office and National Health Service, universities such as Southampton and City, and not-for-profits such as Cancer Research and the United Nations.

Duncan is a leading commentator on HR, publishing many articles and books. His last book was on HR effectiveness.

He has participated on Government taskforces concerned with fair pay, engagement, pensions and human capital reporting. He advises a number of remuneration committees

Human Resources magazine placed him in its listing of the top 5 most influential thinkers in UK HR.

Duncan has an MA from Cambridge University, an MBA from the London Business School and is a Fellow of the CIPD. He is a Visiting Fellow at Kingston University.

Read his blogs at:

<http://www.employment-studies.co.uk/news-press/ies-reflects>

<http://www.cipd.co.uk/pm/members/duncanbrown9000272/default.aspx>

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