



cutting through complexity

HR as a driver of organisational innovation

Innovations in People Management

Bulgarian Association of People Management

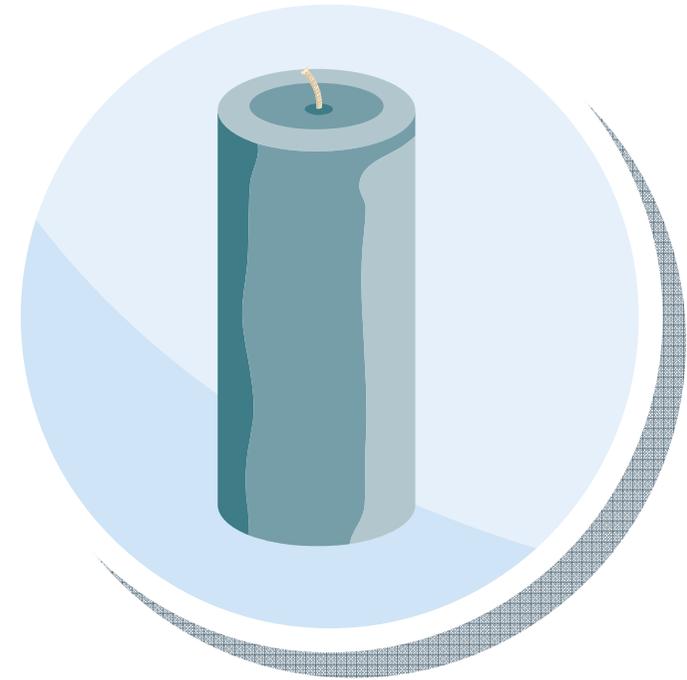
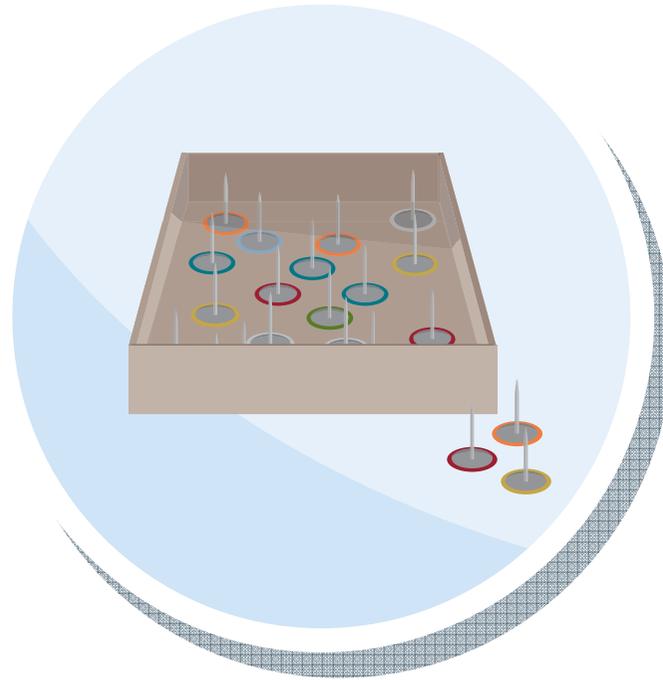
13 November 2014, Sofia



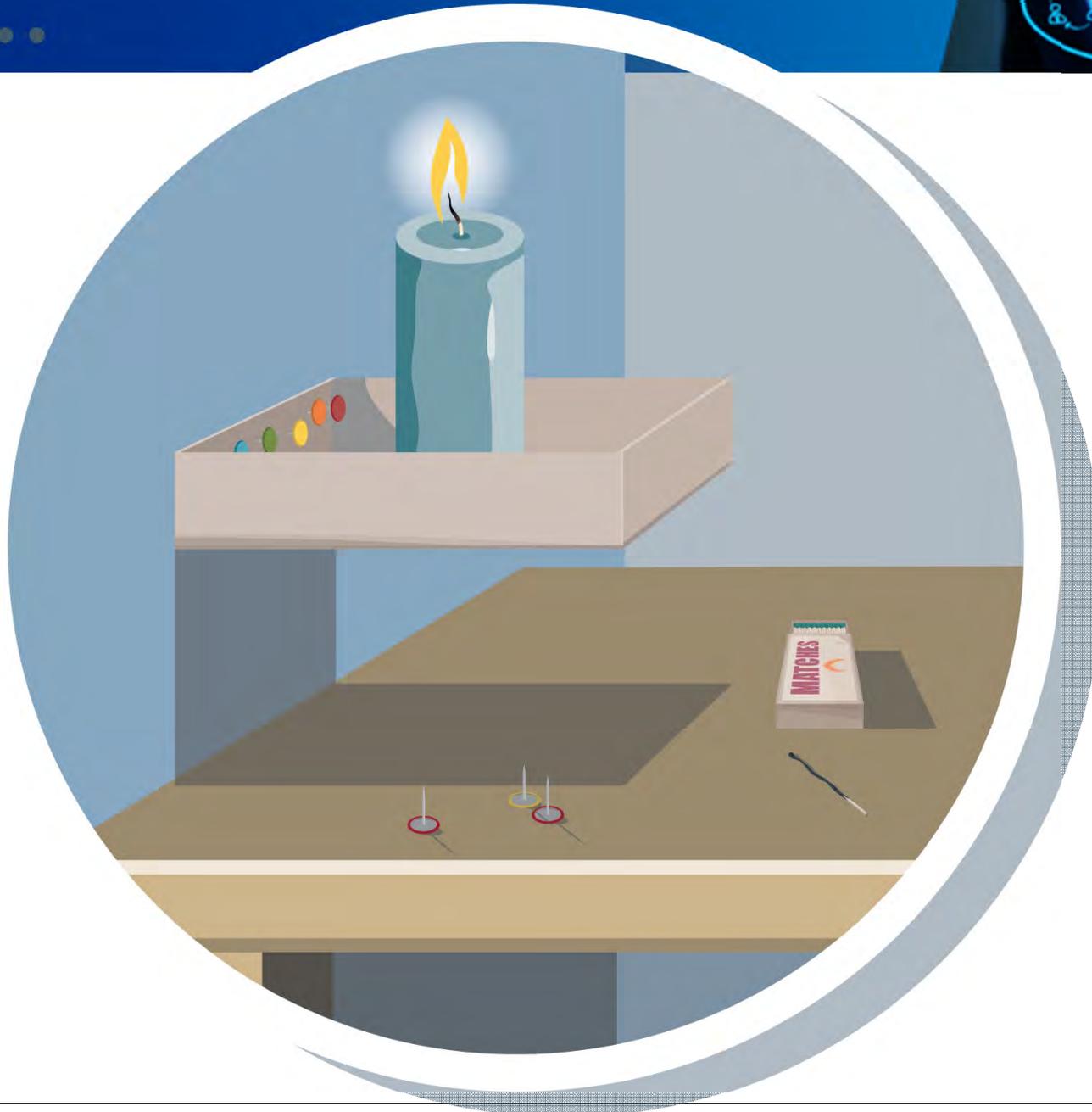
The Innovation Dynamic

- Reward and Recognition
- Talent Management
- Critical Roles
- Organisational Design
- Internal Communications
- Performance Management
- Change Management

The Candle Test



The Answer





“Innovation is the single most important predictor of future growth.”

Economist Intelligence Unit: 2009

“Innovation is a top 3 challenge for CEOs.”

The Conference Board Global Survey 2013

“The biggest obstacle for innovation is the fact that the existing organisation has to deal with the here and now – that’s their task – and they will see innovation as a threat.”

Ben Verwaayen CEO, Alcatel-Lucent

What is the opportunity for HR to contribute to innovation? Innovation should form part of the 'day job' for HR



2.5% - 14%

of revenue is spent on R&D by the 10 most innovative companies



There is no statistically significant relationship between financial performance and innovation spending

Source: The Global Innovation 1000 – Booz&Co

30%

greater enterprise growth is seen in companies with highly aligned cultures and innovation strategies



Supportive cultures and strategic alignment are the key to outperforming competitors

Source: The Global Innovation 1000 – Booz&Co

3 of 5

of the top global innovation strategies are people orientated



Innovation requires high levels of collaboration between the business and HR

Source: CEO Challenge 212, The Conference Board

49%

of organisations do not benchmark innovation metrics, 16% do not use any metrics



Innovation requires 10-12 metrics to effectively manage the innovation process and ROI

Source: The Global Innovation 1000 – Booz&Co

HR has the opportunity to move past the standard people and cost reduction agenda towards an active role at the heart of the innovation agenda

But HR has a big issue to address....



“It seems that, in HR, you can have no intellectual curiosity and this will not disqualify you as a competent practitioner, the level of ignorance and indifference is astounding, and perhaps explains why HR has such a poor reputation.”

Jeffrey Pfeffer, Professor of Organizational Behaviour at the Graduate School of Business, Stanford University; from KPMG’s forthcoming EIU research on Evidence Based People Management

Approaches to innovation



There is increasing awareness of the **importance of innovation for competitive success**, but a **recognition of the difficulties** in exploiting its potential.

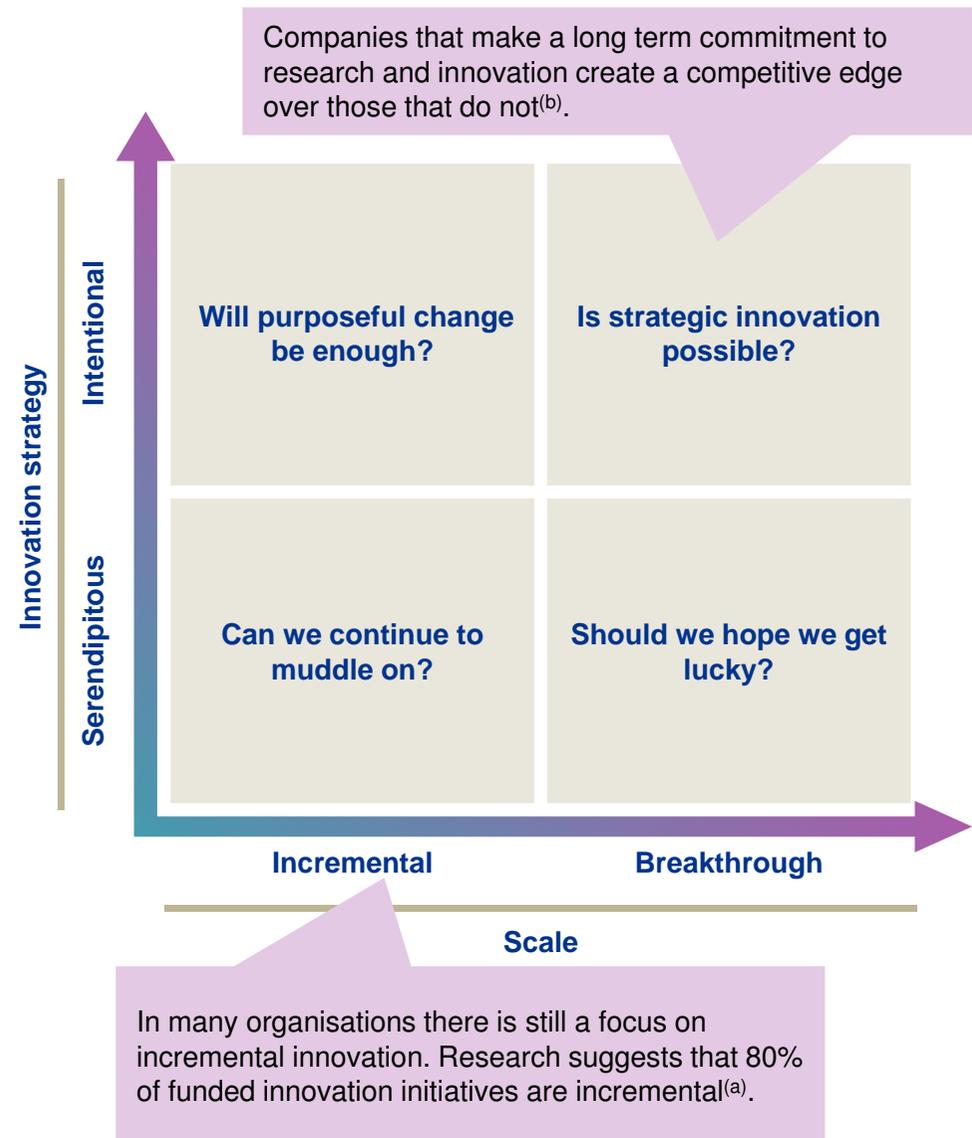
Classic responses have either failed or are no longer relevant:

- hire creative people and set them free
- serendipity to hope for the best
- ad hoc unstructured approaches
- attempt to 'do an Apple' and replicate another organisation's successful strategy
- buy in innovation consultants to kick start the process through creativity exercises.

There is now a better understanding of innovation at the levels of the **individual, the team and the organisation**; and an emerging evidence base that indicates the practical ways to improve the innovation enterprise.

This includes a shift from the individual genius and the 'aha' insight to the discipline and process of connecting ideas through open collaboration.

Note: (a) CEB CHRO Quarterly 2012
(b) Conference Board CEO challenge 2012



What can we learn from established innovators



It's not about R&D spend

“There is no statistically significant relationship between financial performance and innovation spending”, Booz & Co, Global Innovation 2010. So what works...?

- **The mind-set that sets the expectation that this is how we operate**
- Creating a corporate identity and mission around a decision to accept risk, experimentation and failure, and honesty to learn.
- **The alignment of strategic positioning and organisational execution to combine and integrate key capabilities.**
- It requires coordinated effort over time to build and sustain innovation. There is a requirement for organisational capability to manage risk and convert creativity into value.
- The **premium placed on shifting work activity from functional silos to facilitate ‘the clash and connection between different perspectives’.**
- The importance of networks – internal and external – in innovation.
- **A constant attention to ‘the small things’ that build a culture to reinforce innovation.**
- A focus on the detail (e.g. design of the work-place, the conduct of meetings, and the work-a-day things that make it more and or less easy to be innovative.



What can we learn from failure



Which dynamics underpin the trajectory from initial innovation to business decline?

- An arrogance about past and current success to assume competitive bases are covered and lacks awareness of the emergence of new threats.
- A concern for existing customers that ignores the profitable customers of the future.
- Caution to protect current revenue from existing products and services that ignores the potential of new ideas.
- Tired leadership that begins to want an easy organisational life or reckless leadership that gets greedy and opts for short cuts.
- Functional interests that block those ideas that challenge the current power dynamic.

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HR and innovation: the intersection



How does HR contribute to the innovation agenda?

1. **Do nothing**; accept that HR does not have a role to play in innovation.
2. **Minimalist**; a drive on simplicity to eliminate those employee policies and work patterns and processes that are operating as constraints to innovation. An agenda of ongoing and incremental improvement in current HR practice.
3. **Moderate**; targeting and enhancing specific HR practices with high leverage for innovation, notably in **recruitment, reward and retention**. Here the focus is to make innovation an increasingly important element of the organisation's way of doing business.
4. **Proactive**; HR is repositioned to:
 - Support **HR strategic planning** to ensure HR priorities are consistent with the innovation imperatives of business strategy.
 - Advance **leadership development** and succession to embed innovation within leadership performance and progression.
 - **Talent management**: acquiring, developing, motivating and retaining those who will make innovation happen.
 - **Organisational effectiveness**: facilitating organisational design and cultural change and renewal to ensure innovation is part of the organisational DNA.

“The Chief Human Resource Officer must be a key player in the company’s ability to innovate and outpace the competition.”

Managing Talent for Innovation and the HR Function of the Future, Heidrick & Struggles

Our KPMG Innovation framework provide a starting point



What role does innovation play within our business strategy?

What is helping or hindering our innovation activity?

Is HR well aligned to the innovation enterprise?

The Innovation Imperative

Mapping out the specific focus of the innovation effort within overall business strategy

Context: the business environment in which we operate

Priorities: the focus of our efforts

Philosophy: the way in which we tackle the innovation challenge

The Innovation Dynamic

The “Big 11” factors that are helping or hindering the innovation enterprise

Process

- 24/7 Radar Screen
- Nuts and Bolts Obsession
- Spanning Boundaries
- Courageous Conversations

Culture

- Current World is Not Enough
- Diversity Gains
- OK to Fail
- Everyone's Job

Structure

- Room at the Top
- Connectivity of Networks
- Employee Discretion

The role of HR in Innovation

Profile to establish credibility

Priorities to:
Eliminate the blockages

Do the basics phenomenally well

Implement high impact practices

Support strategic change and renewal

The Innovation Imperative

What role does innovation play within our business strategy?

The Innovation Imperative

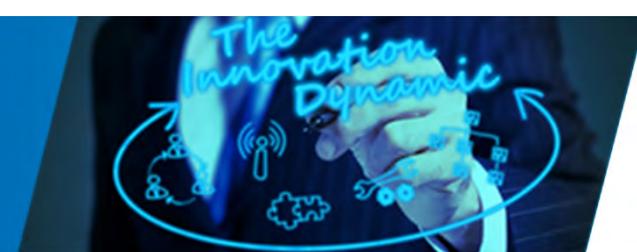
Mapping out the specific focus of the innovation effort within overall business strategy

Context: the business environment in which we operate

Priorities: the focus of our efforts

Philosophy: the way in which we tackle the innovation challenge

The Innovation Imperative – Key questions



Context	Priorities	Philosophy	Snoopology metrics
<ul style="list-style-type: none"> ■ What is the business environment in which we operate? ■ How clear is the organisation about current and emerging opportunities within the market place? ■ What does customer feedback indicate about shifting expectations? ■ How effective is competitor intelligence in identifying the strategies and tactics of established and new players? ■ Are we in the innovative game, or lagging some way behind? 	<ul style="list-style-type: none"> ■ How clear is the organisation about its innovation focus? ■ What are the key battle grounds for future competition? Directed in one area or across several arenas? ■ Which of the following 'value disciplines' are the focus of innovative efforts? ■ Product Leadership. ■ Operational Excellence. ■ Customer Intimacy. 	<ul style="list-style-type: none"> ■ Is innovation seen as fundamental to the organisation and how it operates or a discrete activity within specific functions? Why? ■ How open versus closed is the organisation's approach to innovation? ■ How ambitious is the organisation in committing resources to move quickly to advance the innovation agenda? ■ What are the opportunities and risks in making progress? 	<ul style="list-style-type: none"> ■ Percentage of airtime spent on innovation in top management briefings, meetings. ■ Frequency of the innovation word in publicly available information (e.g. web site, corporate reports). ■ Frequency of the innovation word in internal communication. ■ Percentage of executive directors who have led a significant innovation. ■ Innovation ratings from employee engagement surveys.

The Innovation Dynamic

What is helping or hindering our innovation activity?

The Innovation Dynamic

The 'big 11' factors that are helping or hindering the innovation enterprise

Structure	Process	Culture
Room at the Top Connectivity of Networks Employee Discretion	24/7 Radar Screen Nuts and Bolts Obsession Spanning Boundaries Courageous Conversations	Current World is Not Enough Diversity Gains OK to Fail Everyone's Job

Culture: Current World Is Not Enough

What are the innovation and business challenges?	What is helping or hindering your innovation activity?	Is the world aligned to the innovation endeavor?															
<p>The Innovation Roadmap</p> <p>Mapping out the specific focus of the innovation effort and related business strategy</p> <p>Clarified the business environment in which we operate</p> <p>Priorities: the focus of our efforts</p> <p>Philosophy: the way in which we tackle the innovation challenge</p>	<p>The Innovation System</p> <p>The Vigor factors that are helping or hindering the innovation enterprise</p> <table border="1"> <thead> <tr> <th>Structure</th> <th>Process</th> <th>People</th> </tr> </thead> <tbody> <tr> <td>Room of the Top</td> <td>24/7 Radar Screen</td> <td>Lead Don't a 1000</td> </tr> <tr> <td>Connectivity of Networks</td> <td>Open and Share</td> <td>Obtain</td> </tr> <tr> <td>Employee Disruption</td> <td>Opening Boundaries</td> <td>Geographic</td> </tr> <tr> <td></td> <td>Conversations</td> <td>Conversations</td> </tr> </tbody> </table>	Structure	Process	People	Room of the Top	24/7 Radar Screen	Lead Don't a 1000	Connectivity of Networks	Open and Share	Obtain	Employee Disruption	Opening Boundaries	Geographic		Conversations	Conversations	<p>The role of HR in innovation</p> <p>Profile to establish credibility</p> <p>Priorities for:</p> <ul style="list-style-type: none"> Eliminate the knowledge gap Do the hard things that are hard to do Implement high impact projects Support all stages of change and renewal
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- Is there a desire to go 'from good to great' and do what is required to sustain success?
- Are individuals and team encouraged to leave their comfort zone?
- Which industries/sectors are utilized as benchmarks of what is possible?
- What stretch goals have been established to indicate business ambition? How does this compare with the aspirations of established and new competitors?
- What are the priorities to make a significant step forward?
- How are these goals reflected in objective setting from strategic planning to performance management?

Indicators:

- Anecdotes about past success and failure and the reference to humility.
- The absence of CEO and top team media coverage about a 'successful future'.
- Employee performance goals with a distinction drawn between smart and breakthrough goals (all employees are encouraged to have both).

“Systematically fighting complacency and uncovering problems when your company is successful have got to be two of the toughest management challenges there are.”

Ed Catmull

Culture: OK to Fail

What are the innovation and business challenges?	What is helping or hindering your innovation activity?	Is the unit aligned to the innovation mission?						
<p>The Innovation Mission</p> <p>Mapping out the specific focus of the innovation effort within overall business strategy</p> <p>Clarified the business environment in which we operate</p> <p>Priorities, the focus of our efforts</p> <p>Philosophy: the way in which we tackle the innovation challenge</p>	<p>The Innovation System</p> <p>The V.I.T. factors that are helping or hindering the innovation enterprise</p> <table border="1"> <thead> <tr> <th>Structure</th> <th>Process</th> <th>People</th> </tr> </thead> <tbody> <tr> <td> <p>Room at the Top</p> <p>Connectivity of Networks</p> <p>Employee Discretion</p> </td> <td> <p>24/7 Radar Screen</p> <p>Race and Drive</p> <p>Obsession</p> <p>Opening Boundaries</p> <p>Geographical Concentration</p> </td> <td> <p>Lead Don't a Follow</p> <p>Enough</p> <p>Security Open</p> <p>OK to Fail</p> <p>Success is</p> </td> </tr> </tbody> </table>	Structure	Process	People	<p>Room at the Top</p> <p>Connectivity of Networks</p> <p>Employee Discretion</p>	<p>24/7 Radar Screen</p> <p>Race and Drive</p> <p>Obsession</p> <p>Opening Boundaries</p> <p>Geographical Concentration</p>	<p>Lead Don't a Follow</p> <p>Enough</p> <p>Security Open</p> <p>OK to Fail</p> <p>Success is</p>	<p>Profile to establish credibility</p> <p>Priorities for:</p> <p>Eliminate the knowledge on the basis of immaturity</p> <p>Implement high impact projects</p> <p>Support all stages of change and renewal</p>
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- What has been the track record of organisational success and failure in innovation? Why?
- What is the organisation's philosophy and approach to risk management?
- Does leadership understand and manage risk?
- What happens when mistakes happen? Is there a culture of blame and penalties?
- How well defined are the boundaries and ground rules for different types of failure?
- How supportive is the organisation to those who get it wrong and make mistakes? Are individuals or teams ever rewarded for unsuccessful attempts at innovation?
- What processes are in place to review mistakes and capture and share the learning? For the organisation? For work groups?

Indicators:

- Failure parties or other rewards for failure.
- Exit interviews and the reasons for departure.
- Analysis of turnover and who does and doesn't leave.
- Mechanisms in place to evaluate and learn from failure.

“Failure often provides the greatest learning tool that an individual has and, in the end, positions them better to grow and take on more responsibility going forward.”

Peter Grauer Chairman, Bloomberg L.P.

“The most successful businesses come out of a process of trial-and-error experimentation. Failure and false steps are natural parts of that process.”

Scott Anthony

Culture: Everyone's Job

What role does innovation play in your business strategy?	What is helping or hindering your innovation activity?	Is the work aligned to the innovation mission?												
<p>The Innovation Specialist</p> <p>Mapping out the specific focus of the innovation effort within overall business strategy</p> <p>Conduct the business environment in which we operate</p> <p>Priorities: the focus of our efforts</p> <p>Philosophy: the way in which we tackle the innovation challenge</p>	<p>The Innovation System</p> <p>The Top 10 factors that are helping or hindering the innovation enterprise</p> <table border="1"> <thead> <tr> <th>Structure</th> <th>Process</th> <th>Organisation</th> </tr> </thead> <tbody> <tr> <td>Room at the Top</td> <td>24/7 Radar Screen</td> <td>Lead Sponsor in Charge</td> </tr> <tr> <td>Connectivity of Networks</td> <td>Open and Share</td> <td>Openly Share</td> </tr> <tr> <td>Employee Discretion</td> <td>Opening Boundaries</td> <td>Geographical Concentration</td> </tr> </tbody> </table>	Structure	Process	Organisation	Room at the Top	24/7 Radar Screen	Lead Sponsor in Charge	Connectivity of Networks	Open and Share	Openly Share	Employee Discretion	Opening Boundaries	Geographical Concentration	<p>The role of HR in innovation</p> <p>Profile to establish credibility</p> <p>Priorities for:</p> <ul style="list-style-type: none"> Eliminate the knowledge gap Do the hard things that are hard to do Implement high impact projects Support all stages of change and renewal
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- Is innovation seen as the preserve of specific functions/levels or built into expectations for all employees?
- How is this reflected in job descriptions and the organisation's approach to performance management?
- If it exists, how well does the separate innovation function interact with and engage the wider workforce?
- How prominent is innovation in organisational briefings and updates?
- How much exposure do employees have to the customer experience?
- What events are held to highlight employee achievements and successes in innovation?
- How supportive are work colleagues of those faced with major project demands and tight timescales?
- Does the organisation use crowdsourcing tools and initiatives such as Chaordix (Brave Banana), Imaginatik and prediction markets?
- Are there mechanisms in place for customer facing employees to share views, ideas and feedback?

Indicators:

- Percentage of employees with innovation part of their job description/performance objectives.
- Analysis of employee reasons for job satisfaction and dissatisfaction.
- Employee engagement scores of colleague support.
- Participation in innovation competitions and use of tools such as crowdsourcing.
- Effectiveness of collaboration between central innovation team and the wider workforce.

“Slack has a curvilinear relationship with innovation performance. Too little slack inhibits innovation, whilst too much shows diminishing returns.”

Paul Sparrow

The Innovation gap analysis



What is the gap between where the organisation is now and where it needs to be?

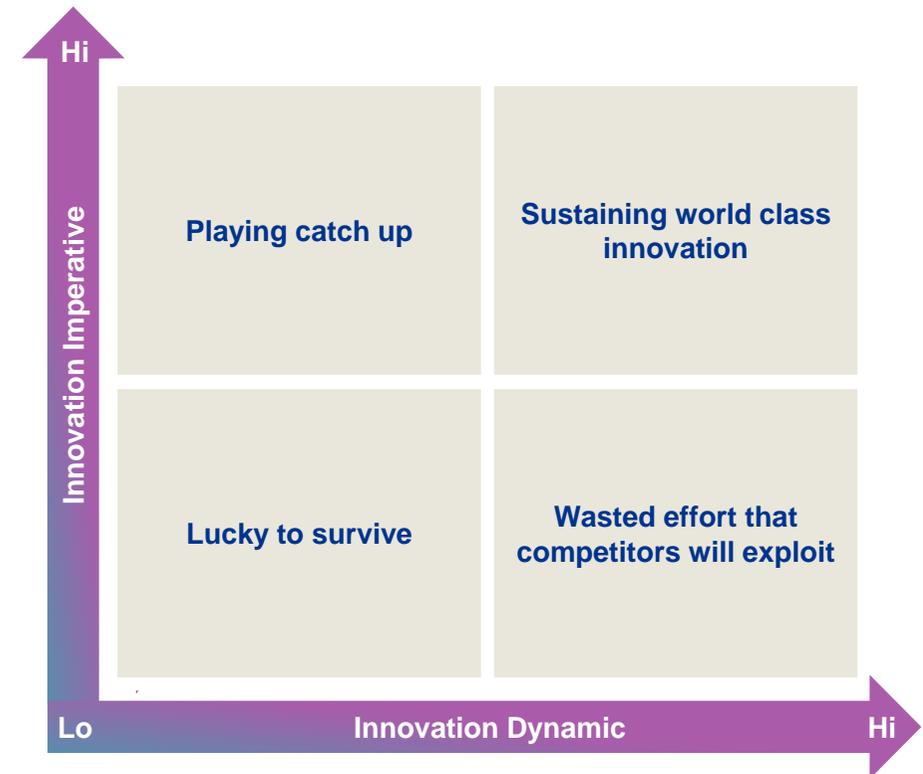
A comparison of the Innovation Imperative with the Innovation Dynamic

How much catch up is required?

- we're almost there and need to maintain momentum.
- we see the goal but need to redirect our efforts.
- we're not at the races and need to 'get real'.

"The problem with innovation is it is a multi-layered problem. There are several different types of innovation in terms of scale and scope, each bringing a different set of challenges to manage."

Paul Sparrow



"A survey of global business leaders revealed that three out of four executives think their firms lack the kind of ideas needed to drive growth."

CEB Research and Technology Executive Council 2012

The role of HR

Is HR well aligned to the innovation enterprise?

The role of HR in Innovation

Profile to establish credibility

Priorities to:

Eliminate the blockages

Do the basics phenomenally well

Implement high impact practices

Support strategic change and renewal

We have helped other HR organisations look at these issues



HR's Profile

- How well regarded is the HR function within the organisation?
- What are its current strengths and constraints?
- What has been HR's role in supporting innovation? How well understood is this role within the business?
- How effective has it been in fulfilling this role?
- What metrics are used to measure HR's role generally? Specifically within the area of innovation?

Priorities for HR

- How well is innovation embedded across a range of people practices and within the organisation's culture:
- The way we conduct recruitment
 - The criteria applied in selection
 - The key messages within induction
 - How individuals and teams are appraised
 - Training and development activity; content, format and delivery
 - Who gets more or less reward
 - The set up of new teams and team development
 - Redeployment within organisational restructuring
 - Promotion and progression criteria
 - Talent profiling and succession planning
 - Career development
 - The introduction and implementation of major organisational change

Snoopology Metrics

- HRs board presence and reporting line relationships
- HR's involvement in innovation project set up
- HR's role in integrating knowledge management within talent databases
- Social media feedback from applicants about the recruitment experience
- HR score card of short, medium and long measures of impact and outcome

HR and the innovation agenda

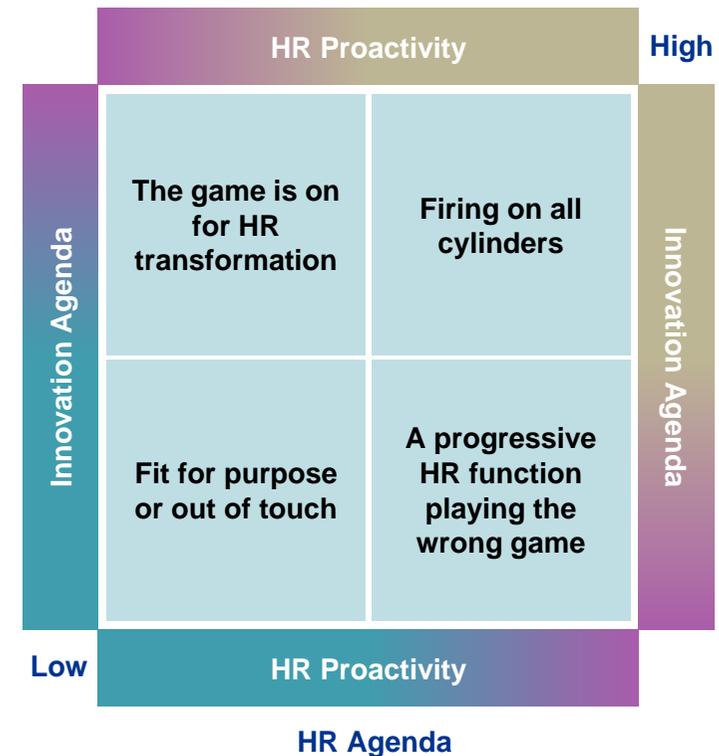


Is the HR function well placed to support the innovation agenda?

- **Profile** to operate as a credible function throughout the organisation.
- **Priorities** to direct effort where it is required.

“If HR is to respond to the challenge of innovation it will need to move beyond some current accepted doctrine about innovative cultures, and develop a more sophisticated understanding of the challenges associated with managing innovative performance under a number of different organisational models.”

Paul Sparrow



Moving the HR agenda forward



- What is the size of the HR innovation gap?
- How well established is HR's profile within the business? Does it possess sufficient credibility to take a more proactive stance in the support of innovation activity?
- What current contribution is HR making to the innovation enterprise? Positively and negatively?
- Does the current HR structure help or hinder its contribution? What are the options to re-reposition HR for the future?
- What skill sets are evident or absent within the HR community?
- Is there evidence of HR being innovative in their own work efforts? Are they driving change within their own function?

“True strategic HR is a difficult and complex endeavor, and requires a significant degree of risk taking.”

John Bushfield

Research by the Corporate Executive Board suggests that line leaders consider only 31% of HR business partners as being effective at developing and delivering innovative talent management solutions(a).

Note: (a) CEB CHRO Quarterly 2012

HR and levers for innovation

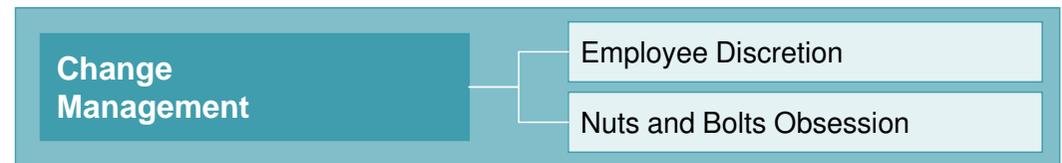
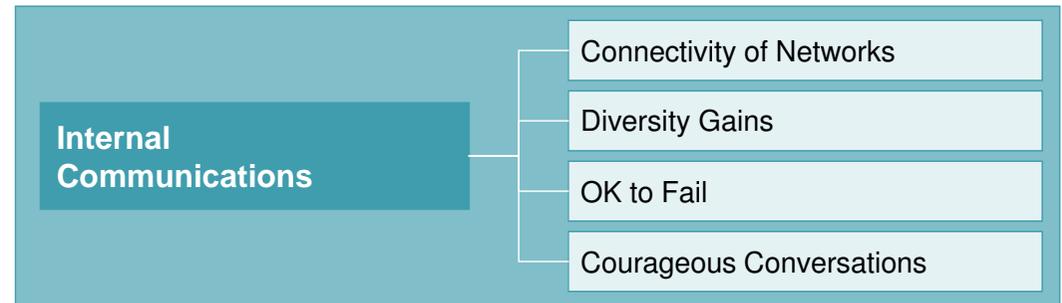
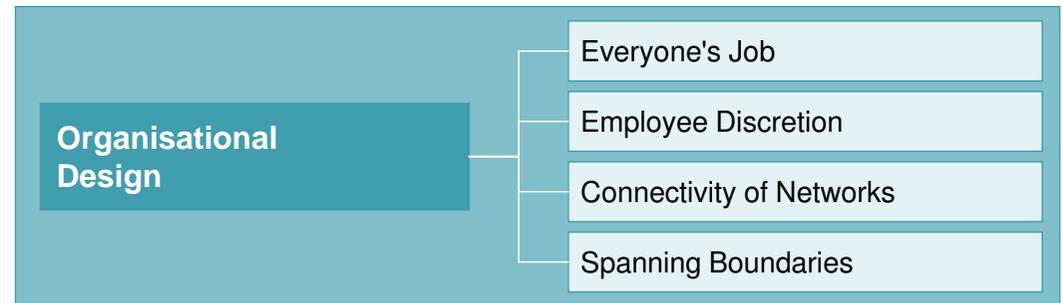
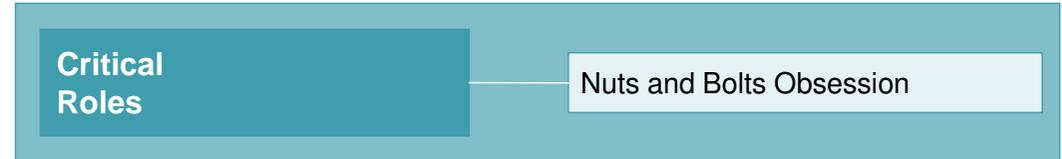
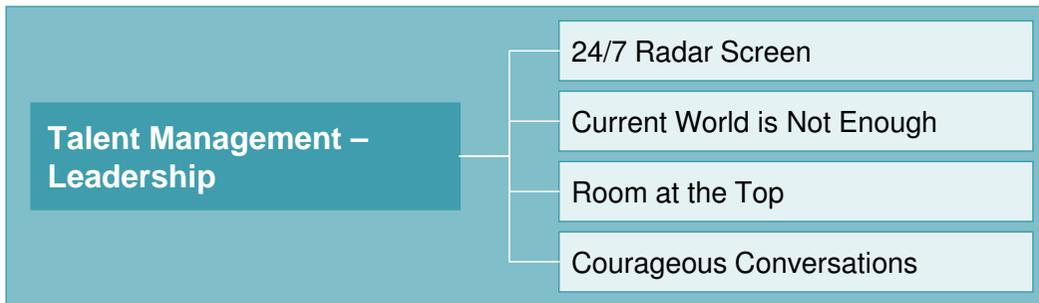
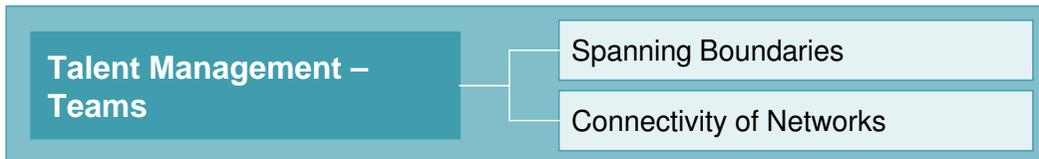
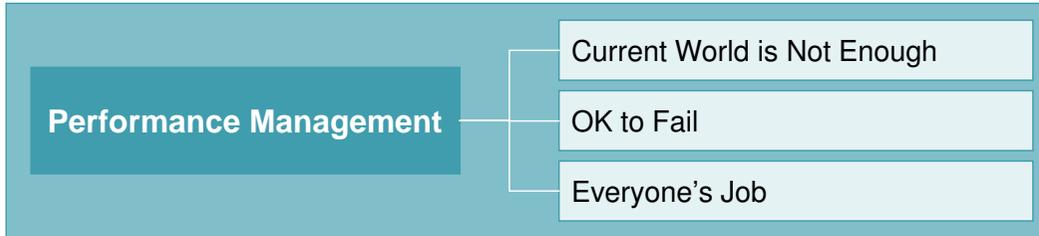


- **Performance management** to ensure innovation is prominent within objective setting and appraisal.
- **Reward and recognition** to reinforce the importance of innovation activity and outcomes.
- **Talent management for individuals**, and making innovation a key capability for employees.
- **Talent management for teams**, and attention given to the skills of collaboration within and across work areas.
- **Talent management for leadership** to provide role models of innovation success.
- **Identifying critical roles** to locate those pivotal roles with greatest scope to make an innovative impact.
- **Organisational design** and the mapping of structures and reporting relationships to create an operating model that supports innovation.
- **Internal communications** and the use of imaginative methods to engage the workforce around the innovation enterprise.
- **Change management** to facilitate the introduction and implementation of new working processes and practices.

“The field of HR has had to redefine itself in the past – it will need to redefine itself now.”

Paul Sparrow

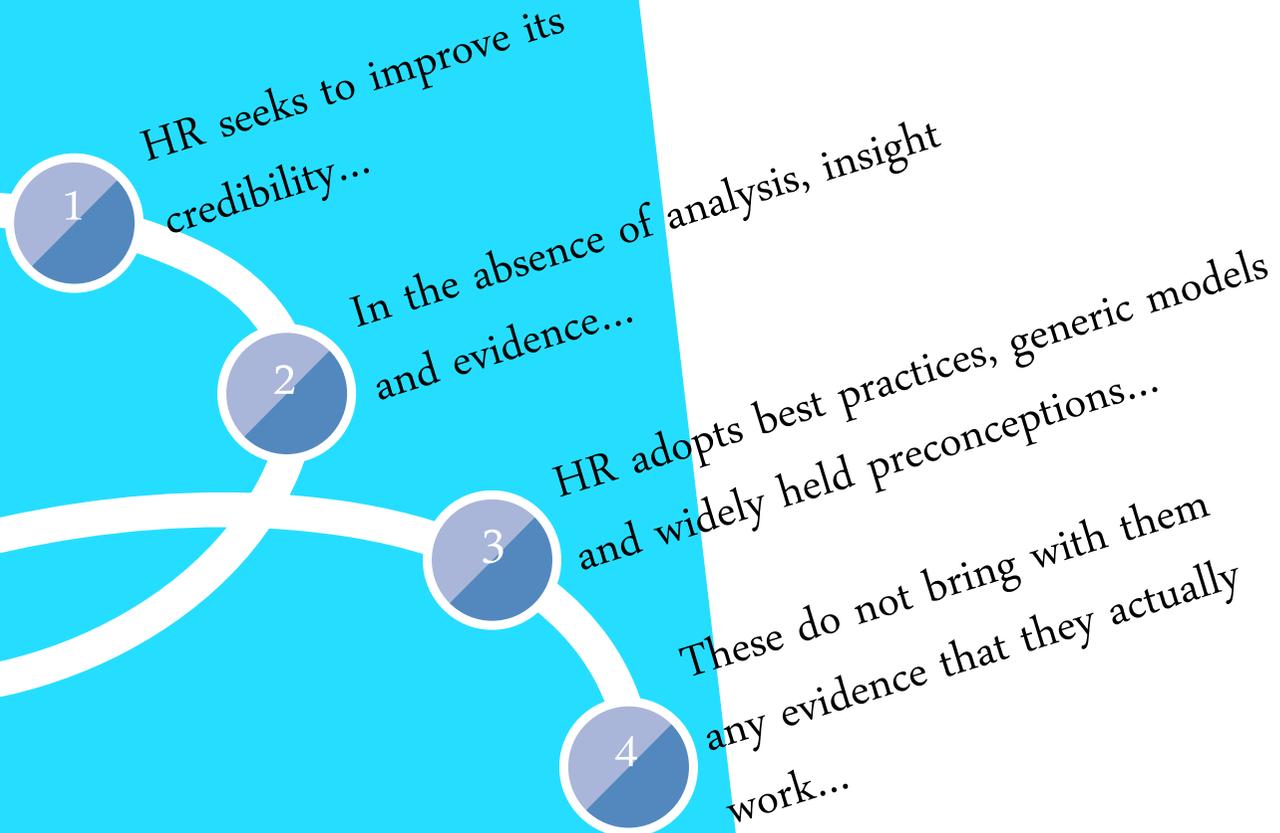
HR and its impact on innovation



The HR function doom loop

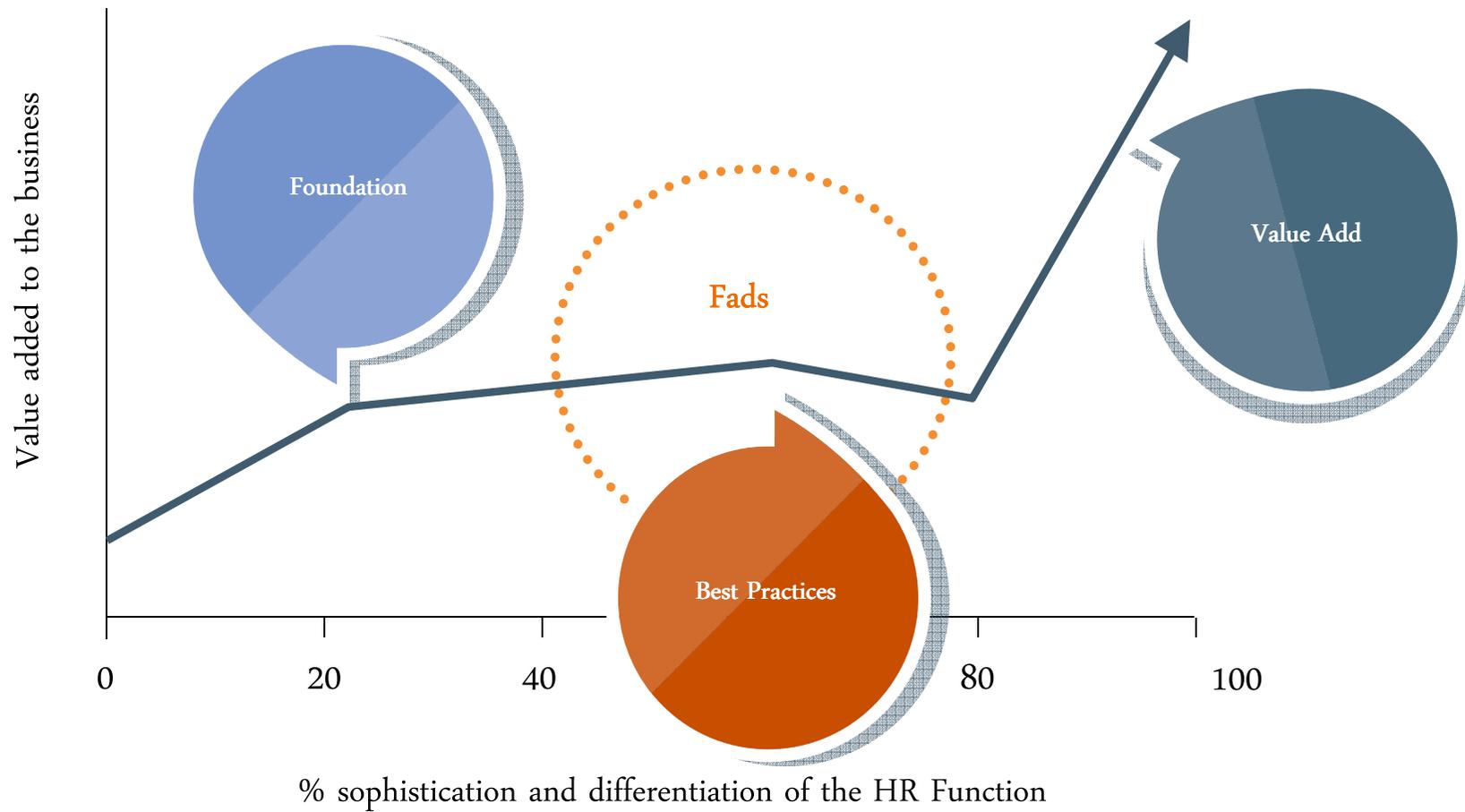


The 15 year doom loop



And so the cycle repeats itself...

The Case for Differentiated HR





“To be an innovative company you have to ask for innovation. It’s that simple – and that hard.”

Paul Cook



cutting through complexity

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