

HR Directors' Retreat 2014: Innovation 19 - 20 June 2014

Dilys Robinson

The innovation theme

Dilys Robinson and Penny Tamkin welcomed everyone to the event, and posed an initial question to delegates:

Innovation is something that many organisations consider essential to their core purpose or even to their existence, while others feel it should be higher in their list of strategic priorities. Innovation is not often bracketed with HR, so why had people come to IES's two-day Retreat?

These are some of the responses people gave:

- To find out what 'innovation' actually means.
- Innovation is a strategic priority in the organisation, and we want to know how HR can help – or even push the agenda.
- Innovation is not often associated with HR, and we want to know how to change this.
- Instead of doing things because others do them, we should be developing good ideas.
- The Retreat offers space to be strategic and conceptual about such issues, and also helps people think about best HR practice.
- The culture is risk-averse and bureaucratic, and we want to know how we can still be innovative.

- We want to bring creativity back on the agenda, after the long period of recession.
- Innovative approaches are essential when we are trying to do more with fewer resources. How can we get all staff tapped into innovation?
- From an OD perspective, how can a great idea be turned into a reality that then becomes embedded – safely, at a reasonable pace and scale?

Setting the scene

Penny Tamkin, Associate Director, IES

Penny posed the question, what is it that causes people to be innovative at work? There has been criticism of the West – especially the UK and the USA – for poor investment in innovation (via training and R&D). In Europe, the UK is seen as being not as good as other nations (such as Germany) in investment, and has slipped from being an innovation leader to a follower. This has been exacerbated by the switch away from manufacturing – where many inventions in the past have led to innovation, often on a large scale – towards a service economy, notably financial services. In addition, many organisations in the UK are risk-averse.

What is innovation?

Dr Max Mckeown, author of 'The Innovation Book'

Max gave a lively, challenging and largely graphical presentation about innovation: what it is, and how to foster it. Max's view is that the way forward is to democratise innovation and encourage/teach it at every level: if everyone in the organisation understands what it is, there is a greater likelihood of having an intelligent debate. Organisations typically have a strategy for getting to a better future, and should also have innovation to give them the tools to get there. The goodwill of people in organisations should be used; in most organisations, at least ten per cent of employees are really keen to get actively involved.

'Innovation is about making new ideas useful.' Innovation is different from invention: Edison did not actually invent the light bulb; what he did was create a working electric system that people could use. The innovator is the person who makes the idea work. Insights/ideas need to be nurtured and polished for presentation, otherwise they might look ugly to everyone else.

Killing innovation is very easy, which means that, at any point, a good idea can fail to materialise into an innovation. The UK tends to scrabble after targets, which discourages innovation. Sometimes, there is an element of luck or serendipity, for example Twitter was created by people who had the idea, the technical capability to build it, *and* the platform on which to launch it. Having the idea on its own is not enough for innovation, because people with ideas need to be brought together with people who have the capability to realise those ideas. Philosophers, for example, invented the concept of the telescope, but they were not in contact with the glass-makers of the time who could have built it. For innovation to occur, thinking and doing have to be brought together, either in the same person or as different people. In a non-innovative organisation, people get better and better at exploiting and coping, and worse and worse at exploring, which leads to capability shrinkage. It is also notable that, in organisations where innovation does not work well, people talk the language of 'tolerating failure' and 'allowing things to go wrong'. In innovative organisations, the language is about 'learning fast'.

Max described how a **big wave** of catastrophe/shock, which at any point can strand or sink people/organisations, can also lead to resiliency or adaptability responses. The **resiliency** response is to try to bounce back to the previous situation, using resources (personal, friends, money etc.). By contrast, **adaptability** can lead to post-traumatic growth because people seek

something better than they had before. Organisations often recognise the need to adapt, but find it much harder to understand the adaptation required. One problem with organisational responses to crisis situations is that organisational tendencies become exaggerated (eg a tendency to plan in detail, or to respond very quickly); this becomes ingrained until it is very difficult to say, 'Hold on, this isn't working!'.

Max posed the question, 'How much do we know about the future?'. The future can be anything from random to linear; it is very rarely truly random or truly linear, but is likely to be somewhat chaotic. Going backwards, it is possible to make sense of it, but going forward, it feels uncertain and full of surprises.

In addition to the big shock wave, there can be:

- 'disruptive waves' of innovation, which threaten incumbents by delivering something that people really want; Max used the example of the [uber taxi app](#), which is threatening to London taxi cabs.
- 'diffusion waves' in relation to innovation: early adopter, early majority, later majority and laggard.

The incumbent has lots of reasons not to change and to think/hope 'It'll never happen', while the newcomer has nothing or little to lose. The response of incumbent organisations is often to minimise the threat, attack the messenger and deny the problem.

The phases of the **innovation cycle** are: have the insight; make it work; make it work properly; improve its performance, reliability and functionality; reap the returns from the mature product – and then start all over again, because making the existing product better is no longer what people want (Max used the example of Blackberry here).

Innovative companies are trying to move away from a place where everyone can do something, to a place where they cannot do it yet but have some know-how about how to get there, and finally, to a paradise where nothing is understood by anyone except them. Massive investment is needed to innovate and gain competitive advantage. A shallower understanding of/approach to innovation can lead to new products, but they might not be very good. Clever companies encourage their competitors to imitate them and copy their products, as this means that they always stay a few years ahead.

Innovation in a highly regulated environment

Richard Burton, Chef de Projet, EDF Group HR

Richard opened his session by explaining that, in the EDF business context, innovation is something that is new, is a step change, meets a need, is replicable, creates value, and improves performance. For EDF, external pressures mean that innovation is required, but they also put limits on it. EDF is a conservative organisation that can be quite good at killing ideas, because a business case is always required, together with proof that it will work/improve performance. However, the hump of retirements between now and 2020 means that 40 per cent of employees will be new hires by then, which might help to improve innovation via the introduction of new people with new ideas. The new CEO talks about the need for EDF to change, which has helped people to become more familiar and comfortable with the language of change. This includes culture statements based on the company's values – respect, responsibility, *solidarité* – on the basis that the culture needs to change to encourage innovation. Although the industry is highly regulated, the biggest constraint to innovation is not regulation but culture, attitudes and beliefs.

At EDF, safety is paramount and is the top priority (above innovation). Within HR, there is a big focus on working with the organisation to improve performance via innovation. Specific projects led or facilitated by HR include absenteeism/presenteeism, working time (there is a 35-hour week in France), new ways of working, nuclear maintenance, the management implications of an ageing workforce, and benchmarking. HR is well placed to encourage innovation because it is influential at several touch-points in the individual's career (recruitment, development, promotion, pay etc.), all of which are relevant to the 'hierarchy of needs'.

EDF has tested different models of innovation: embedded within the operational business; a 'hot house' on a university campus (Sussex); R&D centres in the UK, France and Germany; 'innovation agents' in China and California; and outsourcing specific issues to specialists who have subject-matter expertise.

During the ensuing question and answer session, various interesting points were made:

- Constraints, such as the 35-hour week, do not necessarily dampen creativity. Similarly, working with unions can lead to interesting ways of working and different points of view. Germany is a heavily-unionised country but good at innovation.

- Diversity in itself does not necessarily encourage diversity; an understanding of the potential of diversity to encourage innovation is needed.
- The project approach to innovation is really helpful because HR people can focus on the issue rather than having to get involved in the whole range of HR activities.

Reward and innovation

Duncan Brown, Principal, Aon Hewitt

Duncan opened by saying that people have strong views about the link between pay and innovation, but difficulties when asked what to do about it. There are two very different approaches:

- Warren Buffet: Give people as little as possible, but hold out the possibility of a huge reward.
- Dan Pink: Take money off the table, give people a comfortable environment and let them get on with innovating.

Research suggests that both approaches can work. Many sectors, such as the pharmaceutical industry, are experiencing a decline in productivity. Is this because we are not investing enough? To shareholders and the financial press, a zero per cent pay rise is seen as a 'success'.

When asked, 'Does money motivate people?', opinions vary hugely. Similarly, when asked 'If money does motivate people, what works best – cash or shares?' and 'What role does performance-related pay play?', there is no consensus. This means it is very difficult to be sure about the best ways to motivate people to innovate, and reward them if they do. It is important to think about how much innovation is required: most companies want people to give their time and effort and deliver volume; some organisations do not want innovation at all (eg the nuclear decommissioning industry).

Many organisations are interested in the 'total reward offer'. This typically includes pay, benefits, learning, the environment – both now and in the future. The important thing is to *clarify* what is being offered. Doing this requires a deep knowledge of staff: share schemes only work if they are appropriate to the culture, eg people are involved and communication is good; high potentials might want different things from everyone else.

Duncan's final piece of advice was, 'Whatever you do, do it properly. Put effort into it and involve people.'

Practising mindfulness

**Steve Trenchard, Chief Executive,
Derbyshire Healthcare NHS
Foundation Trust**

Steve led a practical session on mindfulness. He explained that the psychology of mindfulness is linked to the psychology of compassion. It can be used in the organisational context, especially when the organisation is under threat.

Research suggests that people are more creative if they are treated kindly, and that mindfulness helps us to be creative because it encourages us to stop and think. It also helps us to think positively – our brains are hard-wired to pick up negative signals (this helps us to spot threats and therefore survive) which we can usually ignore in our day-to-day dealings with people, but if we are tired or stressed we can start to interpret these signals and give them a story.

Quakers, who have always been very good at business, start business meetings with a silence; in addition, they do not make a decision if there is any dissent in the room.

Steve led us through some exercises, including ‘the mindful minute’, which, with practice, will encourage us to be still and experience the moment.

Innovation at the Olympic Delivery Authority

**Wendy Cartwright, Director of
Corporate Services, University of
East London**

Wendy explained that the Olympic Delivery Authority (ODA) was set up in April 2006 with the remit of developing and constructing the venues and infrastructure for the 2012 Olympics (as opposed to LOCOG, the organisers of the Games themselves). The ODA had a clear mission, in that certain things *had* to happen, while in other areas there was an element of discretion. Central to the ODA’s mission was to use the Games as a regeneration vehicle for East London, a socially-deprived area.

Altogether, 46,000 people were involved in construction, so a massive amount of co-ordination was needed. Lessons were learnt from Terminal 5, which looked good but did not work properly once open. The decision was made to control time first and foremost. Innovation was driven by the priority themes; an important point to note is that *how* things were done was as important as *why*. Safety was paramount, and this paid off with impressive

statistics: the Olympics was forecast (using the scale of the project) to have three construction deaths, but there were none. The ODA needed to have a really open culture, so it was stressed throughout that *not* surfacing problems was a ‘cardinal sin’. There was also a confidential whistleblowing helpline.

The 2007 People Strategy had ten dimensions – including ‘leaving the organisation’. The ODA was a really good opportunity for people to be involved, but they knew, right from the beginning, that they would be leaving. ‘Success’, in ODA terms, might mean an earlier than expected departure for individuals. It was an emotional process to ‘disconnect’ people when they left. The teams celebrated in their own way, and people who left after successfully completing their project were invited back to a big party in 2011. Another important dimension was work-life balance, because the Olympics was ‘a marathon, not a sprint’. The Chief Executive was a really good role model here. Retention was good because the ODA was a good place to work and a recognised good opportunity. Getting an initial core of people who would stay for several years was really key; as time went on, it became easier to hire people for a fixed period of time.

The ODA set up a ‘Learning Legacy’ to record learning about all sorts of things – not only massive projects, but small technical issues (such as how to move newts). Lessons were captured throughout, so that innovative techniques could be replicated in the future. Innovation was linked with sustainability: for example, the 80,000-seater stadium was designed to be stripped out so it could become a 25,000-seater. Sustainability was extremely important, to prevent any of the Olympic facilities becoming white elephants. A Learning Legacy paper, written by Imperial College Business School, identified ‘Invest in HR and OD’ as one of the four key lessons. The ODA did a big piece of work around OD, which included sorting out what the ODA had to do in-house (eg governance, legal) and what could be contracted out (eg logistics).

The period during which all the activity took place was largely one of financial austerity, but it was thought important to recognise and reward people for what they had achieved; for this reason, direct employees had a performance bonus for successful completion, despite pay freezes along the way.

Sharing session

Discussions focused on successful innovations, and HR's input to these. Inevitably, some failures, and the learning from these, also entered the conversations. Key points arising from the session were:

- Having a good idea accepted does not guarantee that innovation will be successfully developed and implemented. This all depends on the usual suspects:
 - Culture
 - Line management capability
 - Senior team behaviour.
- A lack of senior backing does not mean that innovation cannot happen. Sometimes, it is necessary to go 'under the radar' and take a risk.
- Sustainability is important when trying to spread innovation – which means not investing everything in one person.

Engaging with employees in an innovative way

Steve Trenchard, Chief Executive, Derbyshire Healthcare NHS Foundation Trust

Steve is the Chief Executive of Derbyshire Healthcare NHS Foundation Trust, which is now being featured by NHS Employers and others as an engagement case study due to big improvements in its staff survey results. The NHS works with people when they are vulnerable, and recent scandals (notably Mid Staffs) have led to a series of investigations and reports. Part of the problem has been an excessive focus on targets, leading to a culture of failure and blame. Monitor, the body responsible for deciding whether an NHS Trust can become a Foundation Trust, puts Trust Boards through a lot of stress-testing – and, not surprisingly, the Board then tends to pass this on by stress-testing (but simultaneously disempowering) everyone else. It is also easy for Boards to get distracted and focus on the wrong things.

At Derbyshire, the organisational values have been organically grown and are now embedded in processes (such as recruitment and appraisal), conversations and Board decision-making. There are only four core values, and they have a massive focus on people and patients. In 2012, the staff survey results were much better, sickness

absence had decreased, and patient satisfaction was improving.

Steve described 'quality visits' at the Trust, at which teams are asked 'Show us how you live the values' and 'What was hard for the team and what have you learnt?'. He remarked that the Finance team did not mention money once, during the whole two hours!

Engagement drivers in the NHS have been shown to be:

- Strong organisational values
- Senior leadership
- Line management
- Employee voice
- Partnership working with unions.

The NHS, like any other organisation, needs to change, but the management of change is often criticised by staff in engagement surveys. According to John Oldham, change success factors are 20 per cent about good planning, and 80 per cent about having a compelling narrative, getting the message right, and understanding the psychology of change.

NHS employees, particularly nurses, are now being exhorted to give 'compassionate care'. It is important to note, however, that humans are not naturally disposed to be compassionate with strangers; it is more natural to be compassionate towards those we love. Compassion takes skill, because the 'old' part of our brains is set to protect us, which can result in tribal behaviour. However, we are also very pro-social and thrive in families and groups, and our long infancy gives us messages about behaviour which vary depending on our experiences: good care, attachments, nurturing, neglect.

Our 'old brain' encourages fight or flight responses, while our drive system focuses on achievements and tasks (because we are trained to have expectations). This means that a threat-based system encourages people to dissociate from the soothing, contented part of their brain, which is associated with compassion. The NHS is full of threats, and currently risks becoming more threat-focused than compassion-focused – which in turn leads to poor behaviour. This is a problem: the NHS needs to become more compassionate, but risks reducing compassion. The internal market in the NHS triggers threats, and asks for the type of behaviour that is at odds with the required behaviours of compassion and caring.

To reframe this: health workers' attention is divided, and if their attention is pulled towards targets, audits, inspections etc. they will live in a toxic atmosphere of fear. Their drive system will become over-activated, and

people will be caught in a demotivating loop of non-achievement. Anxiety can spread very fast in an organisation, especially if there is disagreement in the team, so the containing role of the team leaders is very important; relationships are key.

The model of compassion requires warmth, caring, and good supervision in order to flourish. In Derbyshire, there is an emphasis on 'compassion-focused therapy' which involves training and encouraging people to have self-compassion. People are broadly responsible for looking after themselves, but the organisation must put conditions in place so that people can do this. Some staff have participated in a three-day compassion-focused therapy course.

In NHS organisations, there are lots of professional tensions and 'us and them' views. The Board needs to set up conditions to allow 'compassion permeability', such as collective, bottom-up decision-making. Currently, Derbyshire is involving 500 staff in having a say about the way the organisation is shaping itself and changing (a different 500 from those who were involved in shaping the values).

It is essential for organisations to have absolute clarity about acceptable/non-acceptable behaviour. The Board and executive team are working to model this behaviour at the highest levels in the Trust, for example by using 'elegant challenge' (eg asking 'I'm curious about this – can you explain?' rather than saying 'That's rubbish!')

Future directions for innovation

Linda Holbeche, Co-Director, Holbeche Partnership

Linda opened her session by saying that innovation was important because we need to be prepared for multiple plausible futures, plus the surprise element.

We are currently experiencing a period of the state wanting control without responsibility. There is a Thatcher-type ideology with the financial service sector prevailing, outsourcing of public sector services, budget squeezing, short-termism and the rhetoric of shareholder value. In the future, there is unlikely to be any more money, so we will need to innovate just to maintain what we are currently doing, let alone do more. We might become 'willing slaves' in multi-generational workforces: people in constant hyper-drive without any security, safety or warmth.

Innovative solutions require a lot of challenging of organisational routines and forms. Agility will become more important, and agility has innovation as a pre-requisite. Deep customer insight is essential, as is a clear

envisaging of roles to deliver what the customer needs, or indeed shaping customer expectations. HR can be influential here, by developing partnership working skills within the organisation. The 'agile wheel' is a useful concept here, taking in strategy, processes, links and people.

Encouraging agility in the workforce is likely to be the most important aspect of innovation in the future. Involvement and participation will be essential, and management teams are spooked by this and fearful of disruption – yet disruption can help organisations to become more agile and innovative, and more willing to change. Building the notion of shared value will be essential, and it unfortunately does not help if people at the top get a disproportionate share of the reward. The role of the person at the top will be to get out and about, be visible, and grow leadership capability throughout the organisation.

Innovation is much more than bright sparks coming up with ideas; they have to be turned into things that work, which needs intense discipline.

The future could be 'make or break' for HR. Tackling cultural issues will work best if HR works with colleagues in other disciplines, such as Finance, Marketing, Operations etc. HR needs to role model, lead the way forward, challenge practice, talk to Boards about what is needed, and create a mission for the organisation that benefits people as well as the organisation. Greater democratisation of the workforce will be needed to allow innovation to flourish.

Linda's model of employee engagement (2012) uses Kahn's theory that engagement is intellectual, social and emotional; engagement requires voice, connection, scope and support. Kahn's focus was engagement at job level, but we want people to engage with the organisation, too. This latter type of engagement often comes unstuck because of psychological contract issues. Connection – a sense of shared values and shared purpose – is key to organisational engagement, and HR has a big role here, with activities like recruiting and developing talent, fostering engagement, and developing managerial capabilities, all being critical.

Final thoughts

Wendy Cartwright

Wendy summed up some of the things that had made an impression on her during the Retreat, and asked others for their input.

- It had cemented the understanding that culture and engagement are crucial to innovation. Organisational values are really important, and need defining; there is a clear relationship between values,

engagement and mindfulness. Mindfulness and compassion can both play a part in creating mind-set change.

- It is easy for HR to get lost on systems and processes – we need to understand that people are at the heart of innovation. There is a need for mindfulness in organisations and a greater understanding of the emotional environment. We need to tackle senior leaders – in a nice way! – and help them to be more compassionate and understand their employees and customers better.
- Innovation is exciting but also difficult, because it is all about change, and it can be hard to let go. It can also be disruptive. We should stop fighting the wave and instead go with it, deal with it and adapt to it. Making things happen is really hard work, and organisations need a focus and maybe some sort of a structure to encourage innovation. At the same time, we should not be wary of bottom-up innovation and ‘under the radar’ moments.
- Regulation and creativity/innovation can exist side-by-side; innovation is achievable in a highly-regulated environment, even though it is not always safe to allow too much freedom for experimentation and making mistakes.

About IES

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We believe that HR can make a significant impact on the success of organisations of all types. In order to help bring this about, we help organisations:

- decide what they want HR to achieve

- identify what high performing HR people are like
- design and deliver bespoke development programmes for HR people
- evaluate how they are progressing against their goals

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