

# WHAT IS THE PRICE OF INNOVATION?

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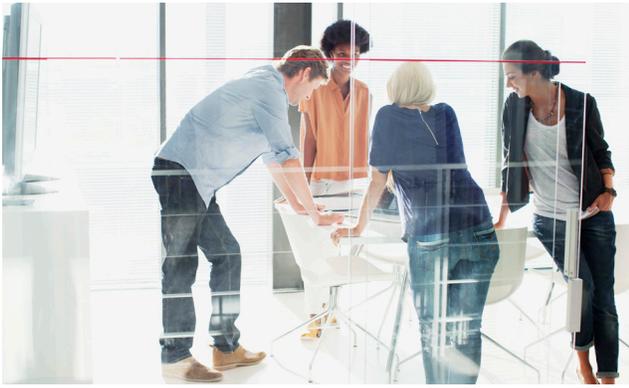
It seems logical to pay incentives to employees for innovation in product development and research. After all, monetary rewards work with the sales staff to increase sales volumes. However, behavioral economists have found that the opposite is true with knowledge workers such as software engineers, product developers, data analysts and consultants whose jobs are to develop original ideas and applications.

In their report “Nothing for Money,” Deloitte researchers Nicolai Andersen, Timothy Murphy and Dr. Alexander Börsch note that with knowledge workers, innovation is driven by its own set of intrinsic rewards.<sup>1</sup> Their review of behavioral economics research on innovation led them to recommend that corporate leaders cultivate an environment of innovation and problem solving based on the following drivers:

- **Provide social recognition** — Innovation contests provide knowledge workers with an intellectual challenge, peer recognition and monetary rewards. High-tech companies often sponsor innovation tournaments either exclusively to company employees or more broadly to include external participants. General Electric (GE), for example, has used innovation tournaments to crowdsource ideas for product inventions and engineering improvements. One tournament challenged participants to help GE develop a lighter aircraft engine mounting bracket.

The event focused hundreds of innovative thinkers from around the world on the problem and brought in more than 700 solutions. The \$20,000 prize GE offered was a minimal investment for the company that spurred many innovative solutions to solve its challenge. Tournament participants cited the intrinsic rewards of social acclaim and peer recognition as being more important than the monetary reward.

- **Foster a sense of community** — Researchers also have found that innovation tournaments provide participants with the well-being derived from sharing a common goal with a kindred community. This is especially true when cross-functional teams are focused on solving a problem, with each team member bringing a particular skill set to the challenge. The team shares information throughout the process, communication is strengthened, and the team grows its knowledge base accordingly. Some of the residual benefits to the company are that knowledge workers feel more engaged, have greater trust in their peers and broaden their access to in-house consultants with particular expertise.
- **Extol corporate citizenship** — To foster innovation, researchers found that companies should strive to also cultivate organizational citizen behavior (OCB), which is the instilled desire to go beyond assigned job duties to achieve greater levels of innovation and efficiency. When OCB is present, employees function as corporate citizens who are engaged and actively contribute to the company’s success.



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Employees exhibit good corporate citizenship by volunteering to participate in groups, expressing ideas and opinions about organizational decisions, and staying up to date on relevant industry developments. With knowledge workers, innovative thinking and problem solving can become viable and active ways to demonstrate OCB. By playing active roles to find new solutions to challenges for technical enhancements or the development of new products or services, employees show their dedication to the success of the team and the company.

- **Reward failures** — The pairing of innovation and corporate citizenship can foster a culture that rewards risk taking and re-framing failures as steps on the innovation learning curve. Intuit issues a “Greatest Failure Award” to celebrate the creative thinking and learning gained through an innovative endeavor. This type of approach can change the culture and social norms in a company by removing the stigma of failure and focusing instead on the knowledge acquired along the way. This approach instills knowledge workers with the assurance that innovative thinking, problem solving and risk taking are appreciated and will benefit the company.

#### **CASE STUDY: INNOVATION CONTEST AT DELOITTE**

Deloitte has seen this experience firsthand. The consulting firm sponsored an innovation contest with its German employees to solicit ideas for new services that could be offered to its clients. More than 1,000 Deloitte workers entered the contest and 100 new ideas were gathered. Employees cited the following top reasons for participating in the innovation contest: the opportunity to publish an idea (51%), to gain recognition within the company (31%), to take on an intellectual challenge (29%), and to do work that was recognized by the company as important (29%). The goal of a monetary reward came in fifth place (20%).

Deloitte found that intrinsic rewards for innovation provide both immediate and long-term benefits for workers, corporate culture and the company’s growth. Knowledge workers are imaginative problem solvers seeking a creative outlet. More than monetary prizes, the intrinsic rewards for innovation provide strong motivation for their creative thinking, risk taking and inventiveness.

**To discuss these topics in more detail, please contact your PNC Relationship Manager.**

<sup>1</sup> “Nothing for Money: A Behavioral Perspective on Innovation and Motivation,” by Nicolai Andersen, Timothy Murphy, and Dr. Alexander Börsch, *Deloitte Review*, Issue 18, Jan. 25, 2016. Available at: <http://dupress.com/articles/cultivating-innovation-at-work/>

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