



Market Innovation Demands Innovative Compensation Plans

In a tight labor market, indirect compensation becomes increasingly important. Businesses that cannot compete with high cash wages can offer very individualized alternatives that meet the needs of the people you want to employ. Such creative compensation alternatives are the small business's competitive advantage

But if you're not a small business owner and are constrained in recruiting those workers who will give you an innovative edge...what then? What if you end up compensating workers in ways that actually support the status quo? It's a paradox that is fueled by aversion to risk, especially if there's not much of a budget for innovation.

The overriding idea is to ask yourself, "What does our approach to compensation say about us?" For instance, if you are family oriented, you will provide extra family time perks or health care benefits to employees who help you innovate effectively. If you are urgently trying to grow, you may ask a manager to work every weekend on a special expansion plan for a speculative client-prospect. In return, you provide a special vacation for the manager's family.

The idea is to personalize the compensation and think about overall value, not just cash.

The HR industry suggests focusing on 'incremental innovation.' For instance:

create a modest rewards program that incentivizes teams to promote innovation within their own departments;

focus on product line extension and operational efficiency-improvements;

Author Seth Godin emphasizes 'soft innovations' that don't require massive change. For instance, improvements to existing products or bundling your product with other, complementary products or services to create more value.

Reward risk-taking through bonuses, titles and in-house perks. Lay the groundwork for long-term success and reward those that support the mission in their own, personal ways. When innovation of any sort emerges, celebrate a 'victory' in public.

As innovations flower, consider stock options for 'change champions' and even deferred compensation – a form of back pay that comes into play when a new product or division reaches a certain financial benchmark. This option can be attractive from a tax perspective.

Recognize publicly those employees who uncover the *components* of an innovation strategy. In other words, elements, observations, research or trends or other building blocks that could lead others to develop an innovation. For instance, challenge employees to identify unmet customer needs or fragmented, underutilized resources. Insist that these be written up on one page and submitted to a strategic innovation committee. The employees that submitted the best insights would receive a night out with the boss or a free weekend getaway. The key here is that these insights are the building blocks that *could* lead to innovative new products, but they are not the finished product idea (which is usually much harder).

Overall, see who responds when you explain to your employees that "this is now an opportunity environment and community of shared imagination." Those who are inspired by that general idea will become the team upon whose shoulders you will launch innovative projects and generate new revenues that will be recycled back into that team's compensation profile.

In sum: Understand your organization's tolerance for risk, its current compensation model and its appetite for innovation. These three considerations will converge to create a new framework that provides appropriate incentives to fuel new ideas, be they incremental or exponential.

This summary was written by NEWbraska's Lynn Hinderaker, who drew on research and essays from Karen Fogelman, Kansas State University, and representatives from The Hartford.