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Finance

Incentive to innovate

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One of the broad assumptions one encounters is that high tech companies are innovative. Of course, many of them are innovative, offering breathtaking new products and services or using fresh approaches to the working environment (nap rooms, free lunch carts and more).

But how many tech firms, especially those in the IT services arena, offer formal incentives and rewards to motivate their personnel to innovate the firm's service mix? In this case, fewer than you think.

Let's face it: Most IT services firms compete by trying not to fail instead of by trying to win. Embedding an innovation mentality underscores the acknowledgement that a firm's service portfolio has a finite shelf life; that it is powerless to stop the inevitable march of commoditization; and that it will take responsibility for its own survival.

In order to compete more effectively, through good times and downturns, it is important that IT services firms build an infrastructure that integrates innovation.

Most IT firms already reward their people for a host of behaviors and reap the beneficial results. So too should they develop programs to motivate their professionals to innovate the company's products and services.

Research points to three reasons these firms haven't used incentives and rewards for innovation and to the prescription for each:

• Incentives or bonuses generally are not structured to focus on innovation. Compensation practices at most IT firms are largely focused on rewarding revenues related to rainmaking (selling the firm's services) or billability (performing the firm's services).

Companies have begun to expand their rewards programs for qualitative behaviors such as satisfying clients and managing client relationships. Some astute firms will go even further - they will incorporate incentives and rewards for innovation.

• Incentives require the measurement of performance, and IT firms don't "do" measurement well. Measurement means work, especially as the behavior being measured moves from easily quantified to more subjective.

These companies must wrestle this beast to the ground, and they can do so incrementally. First, they can start with a program that measures and rewards the "quality" of new ideas, such as its relative newness, uniqueness or potential value. Other measures could focus on how much effort it would take to incorporate the new idea into everyday business operations.

Firms could also begin to reward their practitioners for well-documented and vigorous thought leadership as evidenced by, say, the successful publication of a thought leader's work in increasingly rigorous, prestigious or broadly distributed publications.

Another qualitative measurement could be the development of a clearly documented methodology (supported by marketplace research, pilot-tested by clients, etc.).

The next step would be an incentive program for a team-driven new services development function - qualitatively and quantitatively measured milestones that result in incentives and rewards for teams that conceive and launch new services into the marketplace.

• Only a minority of IT companies have created a defined R&D framework. Take the example of Mitretek Systems, a Virginia-based scientific research and systems engineering company that was spun off from Mitre in the mid-1990s. Mitretek's innovation rewards infrastructure has two main elements. First, a nomination-oriented incentive compensation program that rewards preferred behaviors - including scientific and technological innovation - from a segregated pool of money, usually a percentage of the employee population's salary base. The awards, very public within the company and eagerly anticipated by all employees, range from $500 to as much as $10,000.

Second, it has an internally sponsored and funded research grants program. Teams of employees compete for a slice of an annual fund, which averages a little more than 1 percent of revenue. It is set aside for the purpose of meeting the emerging technological needs of Mitretek's clients. Past research projects have been funded in the areas of telecommunications and networking, biometrics, toxicology, public key infrastructure security and transportation systems.

The message is clear: A defined, well-supported and broadly communicated innovation machine, with clearly defined analytics featuring pre-determined quantitative and qualitative measurement points, can allow companies to reward for new services that increase its value and competitive advantage. A formally managed new service development function can also make incentives and rewards more easily observable, comprehensible and internally desirable.

There is a fourth reason IT companies may be less than assertive in their encouragement of innovation: Providing incentives and rewards, especially if they are structured to require a long-term innovation investment with a long-term ROI, means taking money out of the pockets of those who have it now.

It remains to be seen whether leaders will heed the call to take bold new steps. Providing incentives and rewards for innovation will require them to think less selfishly and are likely to generate resistance from colleagues. It requires energy, professional passion and commitment to overcome the anxiety that contemplating change inevitably produces.

A company's ability to compete advantageously requires the commitment to pursue innovation, the leadership to create a distinct internal structure for it to thrive, and the rewards to bring it to fruition and sustain it.

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