

# DRIVING INNOVATION THROUGH TRANSFORMATIVE HRM

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**Abstract** In a World that is constantly and rapidly changing, innovation is found to be one of the very few sources of competitive advantage. Under such circumstances, it is of utmost importance to create foundation, a competitive base, which will enable innovation from within. This paper provides a portfolio of practical initiatives and discusses how they can drive and move forward company's transformation through the creation of a corporate culture that backs up innovation - all based on a combination of practical and academic experience obtained through the author's broad professional engagement in multinational companies over many years. Particular emphasize is placed on a number of showcases in transformative human resource management that illustrate how, in practical terms, architecture of employees' engagement and talent management could be established within an organization to drive a critical impact on the organization's ability to create a sustainable company-wide culture of innovation.

**Keywords:**

innovation, human resources management, employees' engagement, talent management.

## 1 Introduction

The today's momentum with full-fledged global and dynamic economy, with a complex, uncertain and increasingly interdependent world, is imposing companies to constantly fight for survival. It is clear that companies that want to ensure sustainability going forward must be constantly competitive, that is prepared to frequently change, adapt to new situations, which all creates an urge for a business transformation formula. The formula could be seen as the ability of a company to innovate, adjust and respond in an agile manner to customer demands. It is, in the essence, a business necessity and imperative. Namely, the importance of innovation for business success is well documented in many researches as they demonstrated a positive relationship between innovation performance and business performance (Damanpour and Evan 1984, Birkinshaw, Bouquet, and Barsoux 2011).

However, the innovation itself is very often placed in a specific "pocket" of the organization, isolated from the rest of the company, not only from the organizational design perspective, but, more importantly, from the ability to leverage on large existing, unutilized potential of entire organization, all employees. Therefore, the role of human resources management (HRM), through organizational design, and many other HR processes, including engagement of employees and establishing talent management, could have a critical impact on creation of ecosystem that enables thriving of innovation culture.

Innovation culture reflects shared values, beliefs which could be (and are) very often unconscious, placed deeply in the behavior of all employees, and influence innovation at all levels (Dobni, 2008). Significant number of studies have indicated that there is a link between innovation culture and innovation performance (Hilmansson, Oskarsson, and Gudlaugsson, 2014). Surely the relationship between innovation culture and innovation performance could be different at different stages of innovation. Yet, the key is that ideas and innovations do not originate themselves, but are created by people i.e. employees, who again tend to be more innovative in organizational cultures that support such behaviors. A culture is as innovative as its employees are not only willing to learn to work in new ways, but furthermore are willing to proactively seek new ideas and apply them. It is possible that the following quote of Drucker illustrates the importance of the organizational culture in the best possible way; "culture eats strategy for breakfast"

([https://en.wikipedia.org/wiki/Culture\\_in\\_strategic\\_decisions](https://en.wikipedia.org/wiki/Culture_in_strategic_decisions)). Thus, it is not surprising that the culture has been identified as one of the main determinants for success in organizational transformation which further stresses the importance to understand innovation culture properly.

Together with the outlined above, the purpose of this paper is to explore the relationship between innovation culture, employee engagement and sketch a new way(s) of human management approach that could create a ground for amplifying them. More specifically, particular emphasize is placed on a number of showcases in transformative human resource management that illustrate how, in practical terms, architecture of employees' engagement and talent management could be established within an organization to drive a critical impact on the organization's ability in creating a sustainable company-wide culture of innovation. Providing a deeper understanding and offering kind of guidance with illustrative cases are on the one hand important for academic and conceptual discussion but on the other hand are vital for practitioners since they should help companies and managers in developing the innovation culture.

## **2 Innovation – importance of the culture**

Over the past decade the constant development of technology and changes of customers' requirements, challenged the status quo and require for companies to offer new products / services in order to remain relevant on the market. Many companies, aware of the value of innovation, are trying to create them by pursuing different strategies. Some choose to innovate through the acquisition of smaller companies that have already demonstrated their innovation - Facebook acquired Instagram, Unilever acquired the razor blade company Dollar Shave Club - the list is quite long and examples are coming from all industries. In essence, this open-innovation strategy is about letting the start-up to invent and then commercializing the innovation through the resources of a much bigger company. Yet, this strategy in many instances, like HP & Compaq, AOL & Time Warner, does not pay-off, as the integration between the two companies fail due to significant cultural differences and clashes (<https://www.workhuman.com/resources/globoforce-blog/6-big-mergers-that-were-killed-by-culture-and-how-to-stop-it-from-killing-yours>). The cultural differences and incompatibility could create an obstacle in almost all aspects of integration and the bigger and wider they are it is less likely that integration will

be possible. A good illustration of how culture can influence is merger of Nextel and Sprint (<https://www.investopedia.com/articles/financial-theory/08/merger-acquisition-disasters.asp>): “Early in the merger, the two companies maintained separate headquarters, making coordination more difficult between executives at both camps. Nextel was too big and too different for a successful combination with Sprint.”

Another strategy designed with the intent to generate innovation is creation of R&D (research and development) or similar separate department(s)/unit(s) that should be in charge of innovation with a company. Indeed, in large enterprises the innovation is very often placed in a specific „pocket” of the organization and sits isolated from the rest of the organization. The underlining assumption of this approach is that spending more money on research and development will lead to a number of new innovations and consequently better results. Unfortunately, the comprehensive analysis of high performing innovative companies (<https://www.strategy-business.com/article/05406>), showed that spending more money on R/D is not the key to their success and rather suggests that nonmonetary factors may be the most important drivers. The same study showed that innovative corporations are, among other things, good in embedding innovation in the business strategy and reinforcing innovation culture.

Indeed, the creation of innovation culture is the third strategy that companies may pursue in the attempt to generate innovation. This option of management innovation does not necessarily imply outstanding and disruptive ideas. Yet, in a long run development of a strong innovation culture does create a sustainable and successful business. A good illustration of such strategy is Toyota, which, with continuous improvement rather than disruptive innovation, managed to capture wisdom of every and each employee. In Toyota all employees, including those in production area, are constantly contributing with suggestions for improvements and new ideas - with dozens of them per year ([https://www.huffingtonpost.com/ira-kalb/is-apple-becoming-more-li\\_b\\_9085164.html](https://www.huffingtonpost.com/ira-kalb/is-apple-becoming-more-li_b_9085164.html)). As Toyota’s former President and CEO, Katsuaki Watanabe, stated: “There is no genius in our company. We just do whatever we believe is right, trying every day to improve every little bit and piece. But when 70 years of very small improvements accumulate, they become a revolution. “([https://www.huffingtonpost.com/ira-kalb/is-apple-becoming-more-li\\_b\\_9085164.html](https://www.huffingtonpost.com/ira-kalb/is-apple-becoming-more-li_b_9085164.html)).

However, Toyota is not an isolated case, many followed including Amazon, Booking.com, 3M. They all showed significant move from the past Taylorism philosophy of organization where employees were expected to work in a repetitive manner on predefined tasks. They are all well aware that employees in a front line, no matter in which business they operate, have a unique opportunity to deal directly with key aspects of the business, and thus gain a unique perspective and insights, which may generate innovations under adequate conditions. This view changed the entire philosophy of the way the business is run including running and managing human resources.

### **3 Creating Innovative Culture – Transformational HR**

The author of the article is emphasizing the need for change that is knocking on the door of all of us, on individual, group, functional or organizational level or even at the business level overall, as discussed on previous pages. A transformative HR is a change not only within HR but also a change in an approach of managing human resources that leads the organizations towards a more diverse and inclusive multigenerational workforce, assembled with technologies to develop a company culture that increases employee engagement and talent retention. According to Timms (2018) “Transformational HR is leading and delivering fundamental changes in how people and the organization conducts its business in order to control its aspirations and influence in an ever-shifting world of work” (pp.74). In essence, with proposing transformational approach Timms (2018) is challenging commonly used HR operating model, so called “Ulrich model” (Ulrich, 1996), that aimed to shift the HR role from administration to strategy, where many organization in the attempt to implement it and transform HR into this direction got into the trap which posed a question “Is there anything human in human resources (HR)?”. With proposing transformative HR, Timms (2018) is putting back “human” in HR by arguing that transformational HR is intentional. It is intentional not only in terms how to increase revenue or grab market share but also in splendidly defined an executed outcome for business and for society “whilst being good for the people in the organization” (Timms, 2018, pp.74). The very similar proposal comes from Hamel (2019) who in a very provocative manner outlined a plan for creating organizations as fully human, ruled by “humanocracy” and released from chains of bureaucracy. He further argues

that in such organization innovations are happening as a rule not as an exception due to entrepreneurial spirit of employees, where each employee thinks like an owner.

Undoubtedly, one of the recent bureaucratic “highlights” happened when a passenger in overbooked United Airlines flight was dragged off the flight by force, got injured, including a bloody face, that put him in the hospital. After this incident Airlines faced a lot of criticism and the CEO Munoz O. paradoxically stated “...We have not provided our front-line supervisors, managers and individuals with the proper tools, policies and procedures that allow them to use their common sense. ...” (<https://www.bizjournals.com/chicago/news/2017/04/13/will-united-airlines-permit-employees-to-violate.html>). In such working environment one can only imagine how much space is left for innovation if there is no room for common sense.

The key challenge for companies is how to create innovative culture because “if leaders want to unleash individual and collective talents, they must foster a psychologically safe climate where employees feel free to contribute ideas, share information, and report mistakes” (Edmondson, 2019, pp. xvi). Similarly, Dobni (2008) argued that employees in companies with strong innovation culture see uncertainty and insecurity as an opportunity, have no fear of failure, and overall tend to see themselves as creative and innovative.

As Hornung and Rousseau showed (2007) autonomy at work encourage more employees to proactively seek changes, challenge status-quo, revise existing practice, and actively participate in redesigning work and processes. Additionally, the same authors found that such proactive behavior and attitude in changing routine has a positive impact on confidence to respond in a new way, that is to experiment. Additionally, Kliewe, Davey and Baaken (2013) showed that corporate culture has a positive effect on the company’s performance related to innovation. The same authors found that the employees’ engagement, and their involvement in development, and evaluation of ideas is impacted by organizational culture.

Truss, C. et al. (2006). showed that employees who are more engaged in their work, have better performance, with lower absenteeism rate and tend to be more loyal to the company. At the same time, according to Gamble (2018)

such employees are "ambassadors" of the company – they are the ones who share true positive experience about the company and thus spread positive word of mouth about it.

Although many researchers pointed the importance of employee's engagement still Gallup's State of the American Workplace Report (file:///C:/Users/Korisnik/Downloads/Gallup\_State\_of\_the\_American\_Workplace\_Report.pdf) found that only 33 percent of employees are engaged at work. That implies that two-thirds of the American workforce is either "checked out" at work or in a better case scenario, utilize their potential partially at work. Therefore, if nothing is done in the area of engagement — more employees are needed which in return increase the operating cost. Therefore, improving engagement has to start in organizations with attracting, retaining and engaging employees and none of these bring significant value if done in traditional, conservative way because new era asks for a new approach, new measure, new mindset, new ways of managing human resources and Gallup's results mentioned above just reconfirmed this notion.

Transformational HR is exactly asking for a disruptive, innovative approach and relates to pioneering in some or all HR aspects. It can take the form of radical model, like not having HR department at all, as in case of Self-Governing Nursing Teams in Buurtzorg, a homecare enterprise in the Netherlands. Another example could be pictured in a truly transformational leader which is the one who inspire employees so they maximize their potential and at the same time innovate by giving employees the impulse to make the step forward, get out of a comfort zone, explore and transform whatever they do - way of working. As Timms (2018) stated "Transformational leadership is a mixture of opportunity identification, spirit galvanizing, activism alignment and problem solving" (pp.89). Additional illustrative examples in the area of selection process are Penguin Random House (Timms, 2018) that used video or Unilever (<https://www.youtube.com/watch?v=cxRkXxLpWF4>) that used Pymetrics, gamified, artificial intelligence. Accordingly, transformational HR is about progressive thinking that disturbs HR itself, not solely about leveraging on technology and/or implementing it within HR.

The following pages presents the two case studies more closely to illustrate in a provocative manner attempts to be transformational, step out of conventional shoes, disrupt HR, the way HR works in order to drive innovation in company.

### **3.1 Case Study: Cultural Transformation - # It's Opssible**

In the presented case study, a company O (the name is fictitious) had an Operations which functioned under the umbrella of an international conglomerate. Operations faced challenge related to lack of supply to international markets due to two main reasons. Firstly, closure of similar factories driven by political instabilities in some of countries where the production centers were located. Secondly, in supply markets either small volumes were required, which implies work from production perspective, or high volumes but the premium quality standard were requested. In 2012 company O decided to pursue this opportunity. This called for disruptive change in the way company O operated, it required business transformation. At the same time, company O recognized the importance of allowing employees to participate in this transformative change. Thus, the company put an effort in creating an environment, “# It's Opssible” (that represents playing with words Operations and Possible), that will enable employees' engagement, raise productivity and boost innovation through continuous improvement.

A “squad” team composed of HR and volunteers from other functions planned the entire “# It's Opssible” journey through road map where the essence, the heart of the change was around embedding new core values, an agile enterprise way of working and its elements to transform how they operated. A short snapshot, which should serve as an illustration of the whole expedition, is a creation of a “Core Value School”, which had the following objectives:

- Understand - enable common understanding of core values
- Learn - in which situations and how it should be demonstrated and developed
- Demonstrate – apply core values in day to day activities
- Role Model – be a person whose behavior serves as the example

The entire content of the Core Value School was divided into 6 Modules, that were covered in classroom trainings designed for all employees through sharing personal



experiences and learning by doing in a safe, training, environment. As one participant stated: “During the session we were not taught what the team work is, but rather what is required from each one of us to become valuable team member”. Yet, this was just a beginning of the journey, as other important elements were introduced: in day to day activities when it comes to operations lean and agile technique were used, power sharing techniques (e.g. job enrichment and enlargement, suggestion systems), rewards for individuals demonstrating best behaviors, “# It’s Opssible” day, “# It’s Opssible” Survey – Quality check, Step Ahead – as a follow up on survey.

For employees, or better to say internal customers, this has been a perspective superior transformational experience, a journey rather than destination, as it is still on going. Up until now, it proved to be relevant not only in terms of new ideas generated, and improvements made, but this was clearly reflected in business results. For instance, two years after “# It’s Opssible” was launched, the VQI (Visual Quality Index) as one of the key productions KPIs, went down over 30%, that is reached the set target. Also, another KPI, uptime (that tracks the time that a production line or process makes money for the business) went up for over 12%.

### **3.2 Case study: Talent Management Transformatin - S Curve**

As indicated by Bussin (2014), past performance of an employee does not predict his or her potential for future. At the same time he stated that only 29% of high performers within an organisation have a potential to succeed more senior positions. Knowing this and also considering non-sustainable advancement planning in the company S (the name is fictitious), the company decided to embark Talent Management Transformation, whose case study is presented below.

The current performance of an employee in the entire process was not disregarded as it would be odd if underperformer would be in a talent program, promoted or any other activity in this direction taken. Yet, performance was only considered for the initial screen, as a cut-off point, to narrow the field of high-potential candidate. However, to make an accurate assessment of potential further assessment of an employee’s level of aspiration and engagement was made, including assessing level of learning agility. Learning agility was defined as: “Ability and willingness to learn from experience, and then apply that learning to perform successfully under new situations.”

([https://www.kornferry.com/media/lominger\\_pdf/Seven\\_faces\\_of\\_learning\\_agility.pdf](https://www.kornferry.com/media/lominger_pdf/Seven_faces_of_learning_agility.pdf)). Such a definition was put in a contest of individual S curve, which is, as author of the article learned later, well explained by Johnson (2018). Namely, S curve was a key for driving any further decision relevant for the development and career progression of each and every employee. The individual S curve that everyone has, in Company S, was considered to be quite idiosyncratic as each employee has different development pace with different in breadth and depth, so the speed of progressing in S curve vary from individual to individual. S curve was considered to have a following phases:

- Incubate: This is the beginning of the curve and shows a position of a someone new in an assignment. In this phase employees spend a lot of their time and effort on acquiring skills and knowledge requested to perform. This stage neither employee nor organization can take the best out of offered opportunity to employee. Progress is slow, frustration is big, so understanding this helps avoiding discouragement through special intervention organization offered, like mentoring;
- Scale: This phase is placed in the middle of the S-shape because it is characterized by high growth, productiveness and increase in deliverables. In this phase, engagement is high and an employee thrives and can bring a lot of innovations/improvements.
- Maturity: The phase in which an employee has reached the top in the assignment. This stage is located at the top of the S-curve and there is very little growth. An employee is in a comfort zone and although high performer, could be easily bored, disengaged and looks for a challenge outside of the company. Therefore, at this stage employee is ready to be “disrupted” i.e. ready to embark new assignment and get back at the bottom of the S-curve i.e. restarts the steps above. However, the bottom of the new S-curve (which means new assignment) is higher than the first S-curve due to previous growth and learnings.

To gain holistic perspective on Talent Management the same S-curve philosophy was applied not only at individual but also at group, organizational level. Thus, it was desirable to have people that are constantly stretched, where majority of talents would be in the middle of S-curve, i.e. Scale phase. Also, the same philosophy required to continuously create sequential S-curves for talents as that is where the

most space for development and innovation. There was no clear guideline about the percentage of employees that should be distributed in S curve. Yet years after, the author of the text learned that Johanson (2018) in her book recommended to have around 5.5% of employees on lower end of S curve, majority (88,3%) in the middle of the scale as they are flourishing and 6.1% at the higher end of the S curve. Perhaps this is an explanation why in the nutshell Transformational Talent Management philosophy presented in the case study asked for a significant investment into people, where on average managers, directors and level above spent less than 3 years in the same job. Still, voluntary turnover increased perhaps because the “heat” throughout individual S curve journey was not at the right level for those who left. Yet, the succession for current and future business needs was ensured via strengthened talent pipeline through accelerated talent development.

#### **4 Conclusion**

As Hamel stated (<https://www.azquotes.com/quote/695639>): “The only thing that can be safely predicted is that sometime soon your organization will be challenged to change in ways for which it has no precedent.” Therefore, in today’s VUCA (Volatile, Uncertain, Complex and Ambiguous) world organizations cannot rely anymore on the past practices. In order to ensure long-term competitiveness and sustainability, agility, flexibility and innovation are required. Organizations must continuously challenge themselves, and evolve their business models and practices, re-invent and transform themselves. From organizational standpoint this means that companies have to build a sustainable high-performance culture of engaged, innovative and creative people who would be able to embark this journey. This is the point where effective and sustainable HR needs to step-in. The author argues that this should be done in a form of transformational HR, which in essence means HR that disrupts itself, and builds something new that will remove obsolete in the existing HR model, generates something adjustable, that has multi-purpose utilization and creates human comfort (Timms, 2018). Transformational HR understand new dynamics and create strategies that retain and develop talent as critical thinkers and leaders.

The paper presents the first step towards uncovering and exploring Transformational HR in driving innovation in companies, and presents two case studies with their limitations suggest the need for additional research. Firstly, used

case studies relate to large, multi-international FMCG (fast-moving consumer goods) firm(s), whereas the first refers to operations in one market and the other has more global perspective. However, quantitative studies with better control of corporate-, industry- and country-specific differences, in a wider variety of organizations, are necessary to generate and generalize the findings. Secondly, future studies should further explore and outline aspects of “HR metamorphosis for a transforming world of work”. Additionally, longitudinal research is necessary to empirically establish more credible claims of Transformational HR as antecedents or moderating effects on creation of innovation culture within a company.

Limitations aside, the paper represents a significant step in challenging currently dominant HR operating model and outlining how HR transformation can prompt transformation at individual and group-organizational level through disruption of structures, processes, and attitudes - and all of them can favor innovation or constrain it.

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