

HEALTH WEALTH CAREER

CULTIVATE A LAB MINDSET

BUILDING THE INNOVATION-READY ORGANIZATION



INTRODUCTION

Some people find inspiration when walking the dog, others when bouncing ideas off colleagues, and some get their best ideas in the shower. Wherever creativity happens, it is clear that innovation is no longer the preserve of the tech maven or science whiz. In an era of continuous transformation, innovation is everyone's job. And it's a job that sits at the heart of how individuals, companies and society prepare for the future of work.

Innovative businesses flourish and so do their people. We know innovation makes a difference to individuals — where they want to work, and where they want to stay. Yet, the employee experience often lags this aspiration: just 42% of employees say their company makes it easy to innovate today.

So how do you spur innovation? A lab mindset — one that poses questions, investigates hypotheses, and draws on data to support or disprove

ideas — moves us closer to this goal.

Talent practices can infuse an enterprise-wide culture of experimentation, one that drives new products and solutions, and also drives evolution in HR.

In this paper, we explore how to:

- **Empower people to drive innovation**
 - Inspire innovation from the top
 - Drive innovation with creative performance management
- **Equip employees to test new ideas**
 - Champion innovation, not innovation champions
 - Speak the same language
 - Democratize data
- **Cultivate a lab mindset for HR**
 - Release your inner researcher
 - Find the frustrations
 - Embrace the era of empiricism

Cultivating a lab mindset is an intrinsic part of building a thriving workforce for the future, and helping HR make smarter, quicker talent decisions. So let's get started.

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INNOVATION AND THE FUTURE OF WORK

As technological progress makes the present look less linear — and the future even less so — we are seeing businesses increasingly seek new ways to create value. Indeed, Mercer's 2018 Global Talent Trends Study found that **94% of business leaders have innovation on their strategic agenda this year**, and innovation is among the top five factors driving executives' appetite for redesigning their organizations.¹

Innovation is not only important as a driver of sustainable growth and competitive advantage, it also makes a difference to individuals — what inspires them, where they want to work and where they want to stay. An innovation culture also influences employees' attitudes. Mercer research shows that **employees who report feeling energized are twice as likely to work for a company that they believe actively supports innovation**.² And when asked what would help employees thrive, HR leaders this year cited “better support for innovation efforts” above “coaching and development” and “employee health and well-being.”³

Yet while lofty innovation goals fill mission statements and company websites, the reality is less rosy. With only 42% of employees saying their company makes it easy to innovate, and **only 39% of companies having dedicated investment for innovation**, we have a long way to go.

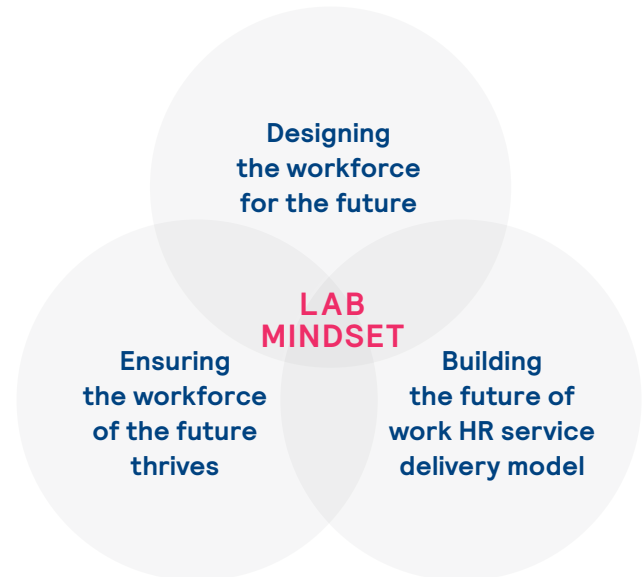
What is innovation? Change which creates sustainable value

Adapted from Inventium's Customer-Driven Innovation Program

¹Mercer, 2018 *Global Talent Trends Study*.

²Mercer, *Thriving in an Age of Disruption*, 2018.

³Mercer, 2018 *Global Talent Trends Study*.



As imagining the future of work becomes a core focus of HR and business leaders alike, adopting a lab mindset helps companies gain traction towards this goal. Such a culture of experimentation drives new products and solutions, and it also drives evolution in HR practice. Analyzing existing data sets and creating new experiments enable us to test out how talent strategies play out. It can provide an x-ray of how the organization is working from a people perspective. This includes from how talent flows in, out and through the organization to what practices, rewards and benefits impact engagement, productivity, well-being and absenteeism.

The trick, of course, is transferring HR's talent insights into line managers' real-time actions. In fact, the transformation of HR from the custodians of talent processes to the drivers of talent insights will represent the biggest leap forward in how companies lead and inspire their talent in the future.

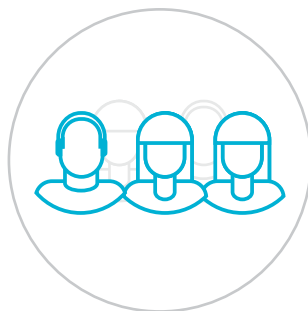
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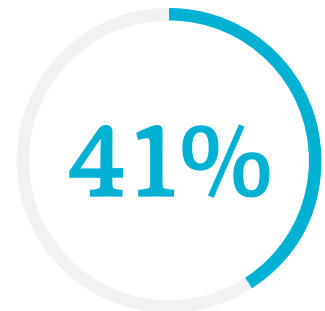
Innovation is everyone's job⁴



HR leaders and employees believe **innovation will be the number 1 skill in demand** over the next 12 months.



3 out of **5** CEOs rate their executive team highly on leveraging creativity and innovation.

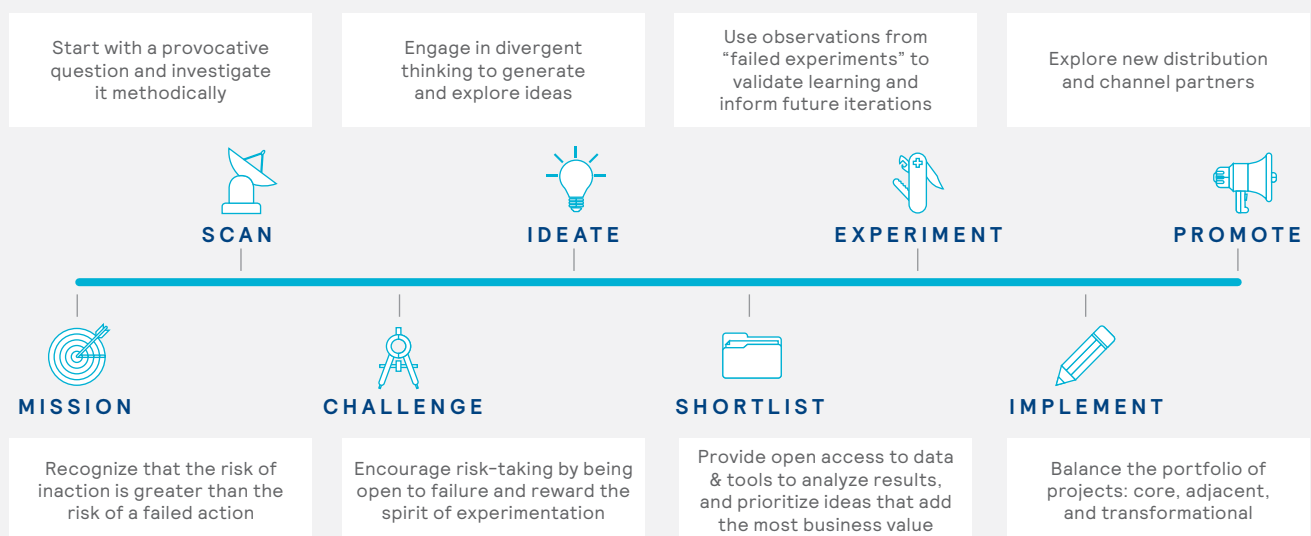


41% of HR leaders believe that high-value jobs will focus more on design and innovation in the next three years.

⁴Mercer, 2018 *Global Talent Trends Study*.

What do we mean by a 'lab mindset'?

An experiment in a science lab starts with a hypothesis that is methodically investigated. Organizations are no different. An environment of curiosity that encourages employees to ask questions stimulates a lab mindset, while testing with end users validates that assumption.



EMPOWER PEOPLE TO DRIVE INNOVATION

INSPIRE INNOVATION FROM THE TOP

Infusing innovation into the organization's culture starts from the top. Leaders can best spur curiosity by striking the right balance between governance on the one hand, and employee empowerment and safe zones in which to experiment on the other. Sandboxes — a safe testing environment — are one way to achieve this balancing act, yet only 26% of organizations provide them today.⁵ And those that do have reported varied outcomes.

Beyond leadership, creating a lab mindset requires building up the layers of an innovation

culture that go deeper than an inspirational talk or ad hoc hackathons. So how can you make innovation a habit — one that transcends changes in business strategy and leadership? First, managers need to feel empowered to say “yes” to employees’ requests to try new things and to provide an organizational backstop to daily demands — if this is truly a strategic imperative. As MIT’s Edgar Schein put it, “Developing a culture that is more conducive to curiosity ... requires finding ways to reinforce it in day-to-day routines and rituals so that it ultimately disappears into unstated assumptions.”⁶

Build a multi-layered culture of innovation: Edgar Schein’s Organizational Culture⁷

ARTIFACTS	Visible Structures	Organizational Processes
VALUES	Strategies and Goals	Philosophies Espoused
UNDERLYING ASSUMPTIONS	Unconscious Beliefs	Habits of Perception

We often hear executives say, “Failures are great learning opportunities.” But is this what employees really experience? Our research shows otherwise: **only 45% of employees say their company accepts failure as a part of learning today.**⁸ A key question for executives is, would an audit of your company culture reveal an appetite for risk-taking and autonomy — or a culture of caution and micromanagement? When was the last time

you publicly recognized an instance of testing and improving an idea? Are tenacity and proactivity rewarded? Or are days so scheduled and metrics too tight to allow people the creative space to sit back and reflect? Georgetown University’s Cal Newport opines we spend our days in a frantic blur of emails, rather than setting aside uninterrupted periods of time for “deep work” — sustained and intense periods of concentration.⁹

⁵Mercer, 2018 *Global Talent Trends Study*.

⁶Cited in Scott D. Anthony, Clark G. Gilbert, and Mark W. Johnson, *Dual Transformation: How to Position Today’s Business While Creating the Future*, Harvard Business Review Press, 2017.

⁷Edgar Schein, *Organizational Culture*, Sloan School of Management, MIT, 1988.

⁸Mercer, 2018 *Global Talent Trends Study*.

⁹Cal Newport, *Deep Work: Rules for Focused Success in a Distracted World*, Grand Central Publishing, 2016.

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DRIVE INNOVATION WITH CREATIVE PERFORMANCE MANAGEMENT

Embedding a lab mindset requires innovation to be an integral part of performance management. This requires organizations to redefine what success looks like, and to ensure there is clear alignment between what demands are made of employees as they progress in their careers and how they are assessed. There is little motivation for employees to experiment if they continue to be evaluated solely according to the business's financial outcomes. Rather, an agile performance management system accommodates failure, rewards experimentation and reinforces employees' confidence to develop new solutions.

This is what happened at GE, where they wanted to spur innovation among all employees. The HR team realized its existing performance management system was “literally preventing the change the company was trying to make.”¹⁰ GE's HR team spent two years testing and validating their minimum viable product — switching from a five-point-based performance management system to a “no ratings” system and continuous 360° feedback. After refining the system, GE rolled out its PD@GE (Performance Development@GE) system in 2016 to all employees. In a similar vein,

GE tested a compensation philosophy that for the first time gave a stake to those involved in innovation projects.

Recognizing and incentivizing innovation is not easy, however: how do you track innovation efforts? When do you give the reward? Some companies measure the volume of new ideas generated. Crowd-sourced platforms — such as Spigit and Mercer Jason's MyIdeas — are being deployed by organizations to instill a culture of ideation.

Tracking the number of ideas generated can be helpful, but to enact value-adding change organizations may want to emphasize and reward quality and outcomes. Managers who are rewarded on how many ideas they coach to fruition, or how many modules of innovation training employees complete, will behave differently. There are also applications, which communicate with HRIS platforms, that can be used to recognize innovation as a top company value. The practice is evolving with organizations experimenting on their performance management practices to send the right messages. While the results are still coming in, what we do know is an enterprise's level of innovation-maturity will influence what works, and what doesn't.

¹⁰Jennifer Beihl, GE, quoted in Eric Ries's *The Startup Way*, Penguin Random House, November 2017.



EQUIP EMPLOYEES TO TEST NEW IDEAS

How are companies promoting innovation?¹¹



CHAMPION INNOVATION — NOT INNOVATION CHAMPIONS

Alongside a supportive culture, employees need the tools and framework to help them experiment. No surprise, then, that most companies are — or are in the process of — creating formal systems of innovation such as labs, corporate venture capital funds or accelerators, including Johnson & Johnson's JLABS and Nissan's Infiniti LABS, among many others.

But innovation needs to spread beyond these creative silos. Indeed, it needs to be an institutional competency. Companies that are good at innovation have found a way of creating what Harvard Business School's John P. Kotter calls "guided coalitions" — strong cohorts of individuals who work on innovation projects together.¹² These nimble interdisciplinary task forces come together to experiment and learn. In Asia Pacific, insurance firm Prudential, for example, decided against an innovation lab in favor of a broad-based and inclusive group of volunteers from across the firm to partake in innovation efforts instead, and called it the "Ignite Army."

HR can use talent analytics to form guided coalitions such as Prudential's. By mining employees' behavioral data, HR can match up skillsets and personality types to work on gnarly business challenges and discover where in the

talent ecosystem those skills reside — whether in employees, freelancers or business partners.

HR has a key role to play using bio data and information on people's interests to make sure these teams are as diverse as their customer base in terms of gender, age and experience — and to assemble teams made up of people who would not normally partner in order to stimulate ideas and evolve commercial solutions.

SPEAK THE SAME LANGUAGE

The value of innovation, like language, depends on how many people use it. And, like language, it can be learned. Organizations keen to establish a system of innovation often hire in specialists as instigators of change. While this approach can work just fine, the greatest success is achieved when innovation skills are transferred to a range of in-house stakeholders, particularly if you want to bring diverse people together. This is because, when innovation is siloed, employees can struggle to relate to phrases such as "human-centered design thinking" or "A/B testing," while innovation specialists grapple with organizational norms such as compliance and value chain impact. Developing a common organizational vocabulary for innovation not only helps avoid misunderstandings, but also speeds up collaboration and builds ownership from the inside out.

¹¹Mercer, 2018 *Global Talent Trends Study*.

¹²John P. Kotter, *Accelerate!* Harvard Business Review, November 2017.

DO YOU HAVE A LAB MINDSET?¹⁴

People: Are your people learning workers who are adaptable and agile, analytical and driven by a natural curiosity?

Data: Do you have a store of organized, open-access data to speed up experiments and make results more reliable?

Tools: Do you have tools such as analytics programs, AI capabilities, wikis, or integrated communication strategies to fuel the creative process?

Commitment: Is your organization committed to data-driven decision-making, or does intuition remain your guiding principle?

To achieve a common lexicon, companies are increasingly introducing self-paced, micro-learning experiences to make the key tenets of innovation more accessible. By way of example, Inventium's Customer-Driven Innovation (CDI) program allows people to access e-learning materials anytime, anywhere. The bite-sized lessons aim to help employees identify customer frustrations, generate ideas and de-risk innovation through rapid and targeted experiments. MOOCs (massive open online courses), such as those provided by edX and General Assembly, also provide specific courses that can help build out a common language and toolkit for experimentation. The key is engaging sessions that stimulate in-house discussions and applications that drive innovation-building activity.

What happens once employees complete innovation training? To ensure innovation is not a one-off, providing people with opportunities to fill roles or follow career paths that make the most of such skills is critical if they are to avoid getting disheartened by being placed straight back into their

old jobs. Similar to expatriate assignments, the challenge is not selecting the best brains to go on assignment, but how to make people feel their new skills and experiences are valued as part of the day job once they return.

DEMOCRATIZE DATA

Perhaps the biggest contribution to a lab mindset is an organization's commitment to data-driven decision-making. In fact, access to a business's data is one of the most important inputs organizations can provide employees. Yet **only 30% of companies Mercer surveyed make decisions based on data and analytics today.**¹³ Experiments and testing of new solutions require empirical evidence of where business problems arise — and what actually works to unblock those challenges. Creative ideas often come from the people closest to the customer and, frequently, from the customer themselves. The good news is the data often already resides in organizations' systems; but it needs to be cleaned, organized and made widely available to allow individuals to analyze it and verify the results of data experiments they undertake.

¹³Mercer analysis by Report *The Digital Culture Challenge* (Capgemini's Digital Transformation Institute and Brian Solis co-survey, 2017).

¹⁴Mercer, *Thriving in an Age of Disruption*, 2018.

A LAB MINDSET FOR HR

In his book *Lean Startup*, Eric Ries notes, “Continuous transformation — an organization’s capability to test and learn from experiments having to do with its own structure and processes — is what will give that organization the ability to thrive in the modern era.”¹⁵

RELEASE YOUR INNER RESEARCHER

We see the same in our work with clients and their HR leaders. What we’ve learned is that adopting a lab mindset helps HR teams pose questions, probe the data and set up experiments that challenge the status quo. Developing prototypes requires skill — but ultimately they guide HR towards innovative processes that help build a workforce for the future. For example, pharmaceutical firm Roche set up an experiment to alleviate some of the bureaucratic hurdles that sap employee energy. During a three-month project with A/B tests — testing two different scenarios — in two locations, Roche allowed some employees to self-authorize expenses (which were posted transparently on the intranet) and dispense with burdensome approval processes. At the end of the pilot, the company found the new process was

more efficient, employee motivation increased and overall expenses actually went down.¹⁶ Currently, Siemens is exploring the impact of going level-less at senior levels and closely monitoring the results. A company renowned for its process and structure, it is testing new ways to improve efficiency by challenging HR processes such as job evaluation and grading.

FIND THE FRUSTRATIONS

Roche’s example also highlights the benefits of applying **design thinking** to solve people problems — one of the parameters of the experiment was to choose a painful employee process to solve. By prioritizing empathy with the needs of employees and the employee experience, HR can work backwards to create a solution. One of design thinking’s key characteristics is the **early involvement of end users** in prototyping solutions and the importance of empathy. For example, 8works, which runs design thinking workshops, asks clients to dedicate two days to delving into the company’s culture, customers and traditions to really understand old problems, stimulate new ideas and come up with action plans.¹⁷

HOW DO YOU UNCOVER CUSTOMERS’ AND EMPLOYEES’ PAIN POINTS?

YOU CAN ASK ...¹⁸

- What frustrates you?
- Why do you care about overcoming this frustration?
- How do you currently try to solve this problem?
- What alternative solutions would you consider?

¹⁵Eric Ries, *The Startup Way*, Penguin Random House, November 2017.

¹⁶Paul Lambert, *Roche: From Oversight to Insight*, Management Innovation eXchange (MIX), available at <https://www.managementexchange.com/story/roche-oversight-insight>

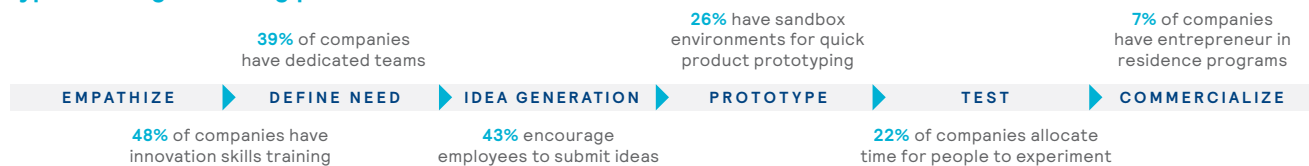
¹⁷8works is a division of Oliver Wyman, part of the Marsh & McLennan Companies group: <https://www.8works.com/>.

¹⁸Adapted from Inventium’s customer Discussion Guide, Customer-Driven Innovation Program, <https://www.inventium.com.au/>.

When working with Mercer, a UK-based bank wanted to find out how their employee value proposition compared to peers in the marketplace to test out their hypothesis about why people might be leaving. By socially-scraping candidates' and employees' submissions on Glassdoor, they gained rough and ready insights quickly about what was causing individuals to leave, and confirmed that although people believed the bank performed well on work-life

balance, many believed it had room to improve on career opportunities. Further analysis showed that this UK-based bank compared favorably to other banks (traditional competitors), but not so well compared to tech firms (their new rivals for talent). Where competition for talent is a cross-border and cross-industry challenge, being ahead of your industry peers — especially in areas important to future employees — might not be enough to attract top talent.

Typical design thinking process



EMBRACE THE ERA OF EMPIRICISM

Predictive workforce analytics are essential to HR's test and validation process, yet only 9% of HR leaders say they use them today.¹⁹ Such analysis marks the middle ground between intuition and in-depth research. This is critical if we are to answer executives' most pressing employee questions, such as when is it better to buy, build or borrow talent? Or, what type of diversity leads to most innovation?

Coca-Cola's HR team looked at the impact of a new performance management system on variables such as engagement, productivity and retention. The results allowed HR to prove their case to executives before they even got into the boardroom.²¹ Adopting a lab mindset when redesigning core HR processes not only brings the HR department closer to data science, it also shifts the conversation from one of cost to one of impact — a conversation more akin to those of our colleagues in finance, marketing and operations.

What the C-suite wants to know — top three talent questions²⁰

- Which training programs are the most effective?
- Is it better to build, buy or borrow talent?
- What causes people to leave/stay?

On the one hand, predictive analytics help HR test their own hypotheses of new processes; while on the other, they provide the evidence to gain executives' support to roll out the initiative. In the past, Coca-Cola embarked on a six- to nine-month internal sales campaign persuading different executives of the merits of HR process changes. Today, gaining C-suite approval is much simpler when HR lets the numbers speak for themselves. By comparing pilot projects in a number of offices against a control group,

SPRINTING TO A SOLUTION

With insurance company Aviva, Mercer is applying a sprint approach to help support older workers. To develop a mid-career checkup — covering financial and physical health, and career potential — together we are running experiments to answer questions such as, what is the right age or life stage at which to run a checkup? How far should flexible working extend to support “phased retirement”? How much of the checkup can be done digitally, and how much should be done face-to-face? By using focus groups and digital demos, we can quickly refine solutions to better meet employee needs.

^{19,20} Mercer, 2018 *Global Talent Trends Study*.

²¹ Cited at HR Tech 2017, <http://www.hrtechnologyconference.com/>

CONCLUSION

The world has come a long way since Clayton M. Christensen popularized the term “disruptive innovation” in 1997.²¹ It is no longer enough to do what we do faster, cheaper and better. Seeking new ways to drive change that adds sustainable value requires sparking the creativity and curiosity of every employee, and doing so while we explore the full potential of technologies such as AI, VR, automation and cloud technology. Infusing a culture of innovation throughout the organization, providing employees with the skills and framework to develop solutions, and rewarding experimentation have become critical imperatives for the entire organization.

Establishing a lab mindset within HR is now an essential part of the progressive practitioner’s toolkit — but the real impact comes from the business adopting this new way of innovating. By delivering insights from data and substantiating hypotheses about people, HR can ensure key talent is more empowered, more energized and — yes — more innovative.

Cultivating a lab mindset is an intrinsic part of building a thriving workforce for the future. The question is, what are you doing today to build this in your HR function and make experimentation business as usual across the enterprise?

²¹Clayton M. Christensen, *The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail* (Management of Innovation and Change), Harvard Business Review Press, 1997.

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ABOUT MERCER

Mercer delivers advice and technology-driven solutions that help organizations meet the health, wealth and career needs of a changing workforce. Mercer's more than 23,000 employees are based in 44 countries and the firm operates in over 130 countries. Mercer is a wholly owned subsidiary of **Marsh & McLennan Companies** (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With more than 65,000 colleagues and annual revenue over \$14 billion, through its market-leading companies including **Marsh**, **Guy Carpenter** and **Oliver Wyman**, **Marsh & McLennan** helps clients navigate an increasingly dynamic and complex environment. For more information, visit www.mercer.com. Follow Mercer on Twitter @Mercer.

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