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HR and its role in innovation
Part 3 – April 2013

Innovative outputs: a balancing act

future-fit organisations

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Introduction

Our research on this project on the role of HRM in innovation has so far examined innovative forms of organising and enabling innovation in public services. In this third report we turn our attention to what many people would consider as the core of innovation – the production of creative outputs. In particular we consider:

- different types of innovative outputs
- the human and social resources that firms draw on to produce these outputs
- the ways firms work with external parties, especially their clients, to produce these outputs
- the type of HR practices needed to support these different innovative outputs.

In order to do this we draw on our research at iris, an independent creative agency, and Alexander Mann Solutions, who build talent and resourcing capability for clients. We conclude by emphasising that organisations need to adopt sophisticated sets of HR practices and appropriate managerial actions to balance the demands of the different types of creative outputs.

Innovative outputs

Our focus is on innovative outputs, such as consulting services and marketing materials, which have value in the marketplace. We categorise these outputs into two types: first, those that are truly novel and genuinely different and involve exploring completely new ideas; second, those that are more concerned with refining existing ideas and exploiting their value to the maximum (March 1991). In the first of these, which we refer to as 'explore'-type outputs, firms engage in a process of *'search, variation, risk taking, experimentation, play, flexibility, and discovery'* (March 1991, p71). In the second of these, which we call 'exploit' outputs, the emphasis is more on *'refinement, choice, production, efficiency, selection, implementation and execution'* (March 1991, p71). Examples taken from the marketing world will illustrate the difference. An explore output would, for instance, allow customers, as part of a promotional campaign, to place their own personalised messages on a giant electronic advertising poster for the product concerned using electronic social media such as Facebook, whereas an exploit-type output would simply involve making small refinements to the text and graphics on an existing client website.

Innovation inputs: human and social capital

Firms draw on two types of resources in order to produce these innovative outputs. First, they rely on their human capital (HC), the knowledge, skills and experience of their employees. Second, they also use what is referred to as social capital (SC), the relationships which exist within the firm and between the firm and key external parties, especially their clients. Although we know a lot about the value of internal social capital, relatively little is known about the value of relations with clients.

We distinguish between two types of human capital: firm specific and client specific. Firm-specific knowledge is very valuable because the knowledge and skills involved are intimately linked to specific organisational processes. It provides the firm with a distinct advantage because it is unique to that firm – it is their way of doing things which cannot be copied or transferred to other firms. For example, a small boutique consulting firm which develops unique client engagement processes based on complete openness with its clients will be totally dependent on the skills, knowledge and experience of their staff. Client-specific knowledge, on the other hand, is based much more on a detailed knowledge of the client, its markets, products and customers. For example, after working for a client for several years a marketing agency will develop not only knowledge of what types of campaigns are preferred but genuine insights into the way consumers behave based on detailed analysis of purchasing data. This is often allied to knowledge of the relevant industry or sector. Client-specific human capital therefore allows the firm to tailor its outputs and services directly to the clients, but runs the risk that they may become over dependent on that client.

Although human capital is important, firms also rely on the social relations within the firm and with clients to produce their innovative outputs. These social relationships represent genuine resources which are of high value to firms. In many professional service firms it is clear that the ability of firms to innovate depends greatly on the types of social relations they have with their clients. Indeed, in many cases, innovative outputs are co-produced by clients and firms working together.

Relations with clients can take two forms: co-operative and opportunistic (Gulati et al 2000). Co-operative relations with clients allow the shared development of solutions and depend on deep trust and feelings of equality which engender a culture of experimentation and learning (Leana and van Buren 1999). Opportunistic relations with clients are more focused on economic benefits and short-term exchanges where payment may be linked to the attainment of very specific project-based targets. Here powerful clients may place demands on a consulting firm or marketing agency rather than working together collaboratively. These relationships are more likely to be 'one-offs' and are less likely to tolerate learning and experimentation (Leana and van Buren 1999).

We have so far discussed the types of human capital inputs (distinguishing between firm- and client-specific human capital) and social relations (identifying collaborative and opportunistic relations with clients). In the next section we draw on our research in the iris case study to illustrate how firms use sophisticated HR practices to combine these resources together to produce different types of innovative outputs. Details of our research methods in iris can be found in the Appendix. As a complement we also refer to the featured case of Alexander Mann Solutions, where we use sophisticated data analysis to identify the different managerial actions undertaken by various groups of managers to support both explore and exploit outputs.

Case study: iris

iris is an independent creative agency enjoying an international reputation for the quality of its outputs. It employs 800 people worldwide in 16 global offices, with a head office employing 350 people in London. Established in 1999, iris works with approximately 25 clients, which include a number of high-profile brands such as Sony Mobile, Philips, Shell, Barclaycard, Unilever, Reckitt Benckiser and adidas. iris has two main outputs: first, highly creative 'exploratory work' such as commercials for the cinema and various participation events and activities to build client brands; second, sales promotion and marketing materials (for example posters, in-store promotional materials and direct mail), which involves work that is more about improving and exploiting existing outputs.

Primary business objectives

Emphasis is placed on maintaining the quality of the working environment, the quality of work produced for clients and the quality of reward for employees. Within these broad business objectives there are two values which guide all management practices, including HR practices: (i) be the best agency their clients have ever worked with and (ii) be the agency that all talented people want to be a part of. A series of core business strategies have been devised to achieve these objectives:

- emphasis on creative work of the highest quality (which impact on HC)
- building long-term client relationships based on client satisfaction strategies (SC).
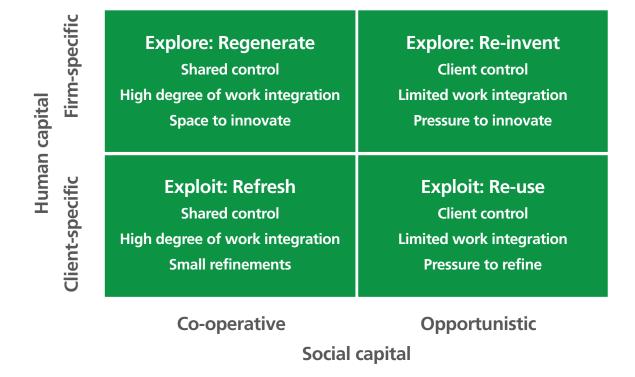
Innovation inputs

iris are completely reliant upon the quality of their human capital for their success. Many of the staff themselves have very high reputations in the industry built up over many years and they are highly skilled and experienced. They tend to employ staff who have gained some experience elsewhere and are attracted to work at iris because of the people who already work there. There is a continuous challenge involved in maintaining an appropriate balance between the highly creative staff and those whose skills lie in exploiting existing outputs. The values and culture of the organisation play a key part in iris's success and the development of strong social capital. In particular they are closely attached to the principles (which reflect the values outlined above) referred to as the 'Triangle of Truth' of: 'producing good work, having fun and making money'. They seek to develop high levels of commitment to the organisation and to their work. The organisation structure itself is relatively flat with only three levels, but more importantly there is a high level of interaction between the partners and more junior staff. All of these elements blend together to develop exceptional human capital and strong internal relationships. iris has also been successful at developing long-term client relationships. This means that they have been able to develop client-specific HC and have ensured that career progression within a client team is possible. However, they also have a reputation for being able to respond quickly to demanding clients. That is, they have experience of both the collaborative and opportunistic types of client relationships, which we identified earlier.

The Client-Innovation Matrix (CIM)

In our research we find that firms combine human capital (firm- and client-specific) and social capital (co-operative and opportunistic) in specific ways which enable them to innovate in four particular ways, that is, what we label here as innovation orientations: Regenerate, Re-fresh, Re-invent and Re-use, as shown in Figure 1. In the next section we discuss each orientation with reference to: (i) social capital, (ii) human capital and (iii) the challenges and tensions that the particular innovation orientation represents.

Figure 1: The Client-Innovation Matrix (CIM)

Regenerate (Explore/Co-operative SC and firm-specific HC)
This orientation involves a highly co-operative way of working to co-create innovative professional services outputs. Here clients often want the agency to break away from the tried and tested solutions, as one senior manager said of one of their clients, *'they always want something a bit different, want you always to push it a bit further.'* An example was given of how a forecourt promotion for a large oil client was held. A creative director explained, *'It was a promotion for Texaco […] and everyone at the time was giving away cut-crystal glasses or the usual tat. And I had half a million quid to spend on this promotion and I bought eight Mercedes SLKs and put them in shipping containers and buried them under the ground and people came and picked up clues, had to drive around the country and physically dig these cars up […] which was something that has absolutely never been done before.'* This requires innovative capability within trusting client relationships. The importance attached to developing this innovative capability was captured by a creative director who categorised their creative briefs according to the level of innovation that would be required, 'gold' being the most innovative, *'A gold is an opportunity that is recognised as, you know what, it is one of those moments where we really have an opportunity to find a new way of doing something because the client is open to it and the brief is really open and exciting.'* This creates an ideal environment in which the firm can attract and retain highly creative people.

The performance management of the client account is conducted via regular reviews which include both formal and informal processes. These processes are characterised more by a qualitative judgement of the development of unique solutions. The client trusts the firm's expertise to judge the progress and quality of creative solutions. This is because the outputs are often so innovative that the client may have no prior experience on which to base performance-related decisions. The impact of the adoption of the innovation will be measured jointly by the firm and the client and may take the form of column-width in public relations or cost savings in consulting.

This emphasis on creative outputs has two risks. First, the highly integrative way of working ensures continuity of the innovation process but it does pose a danger that the professional knowledge becomes too client-centric, especially if the clients are not particularly adventurous. It is therefore important for the firm to balance the seamless working with the client with opportunities to retain firm-specific HC, which is so central to the generation of highly innovative outputs. One way of responding to this is to provide opportunities for creative working on in-house projects which lead the market and client demands, thereby retaining a focus on firm-specific innovation processes. For example, iris developed their own new products and services, sometimes working within innovative partners, rather than simply relying on client requests. Second, it is important that employees read the signals from clients regarding the levels of creativity required very carefully. As a creative director expressed: *'I think that is the one watch-out I would say for us here is that we are a very ambitious agency and we aspire to creating great things for our clients and things that are meaningful and engaging and […] we so want to do great stuff for them that pushes them because we know it will have an impact and cut through, and sometimes I think we don't really realise that they are kind of saying we want an orange soufflé, we don't want an upside down cake.'* The challenge is therefore to balance the firm-specificity of the HC, which is situated within what one interviewee referred to as 'happy' SC, with a judgement of what is acceptable in the market as well as with what will generate future value.

Refresh (Exploit/Co-operative SC and client-specific HC)
This orientation is characterised by co-operative refinement of existing innovative outputs. Control is shared and often enabled by working on a retainer or long-term relationship basis. The focus here is on working very closely together to refine existing firm-specific solutions. The interviewees have the example here of working for a large oil long-term client which had very specific requirements in terms of the types of advertising campaigns they preferred. Planning for this client took place collaboratively and well in advance. Objectives were set mutually and the close working relationship continued as the communications were developed for each campaign. The HC was extremely client-specific; the production of refined outputs involved a cycle of client proposal and agency response. The following example was given of work in this orientation: *'Yes, the latest thing I have done for Shell is a big global promotion involving three very large brands and bringing them together, which then on top of Shell we had Lego, who were making these little Ferrari models, so when you have got stakeholders from Lego, from Ferrari, from Shell you can imagine the minefield that you have to work through there. A lot of that was learning from Lego's experience of what works in terms of packaging and product and Ferrari's involvement: how do we bring them into it, how do we use all of the assets of Ferrari? And the way that I treated the whole campaign was going out and looking at the way our launches happened. So just very much borrowing from that except doing it on an absolutely minute scale.'*

According to the account director, the long-term nature of the client relationship inhibited more elaborate forms of innovation: *'You know, once you have a long-term client relationship you have baggage and baggage stops you from innovating.'* In another instance a managing partner described how Refresh work was taken on after Regenerate work, an above-the-line TV advertising campaign, had been done by another firm, *'the local team were given work done by another agency and told to exploit that work, they can tweak it a bit, but we want creative consistency.'*

This orientation provides an excellent opportunity to develop client-specific HC within the context of long-term financial security for the firm. However, the principal challenge is that the firm runs the risk of becoming overdependent on a relatively small number of clients, both financially and in terms of their human capital. Moreover, the limited scope for creativity makes it difficult to retain their most creative staff, who may become frustrated with exploit-type work. Responses to these challenges involve leveraging the financial stability and trusting client relationships to develop their within-firm expertise over a long period to excel at this kind of innovative capability and build a strong reputation in the market. The firm shapes its resourcing strategy to ensure their human capital is carefully aligned with client needs and that individual needs for engaging in creative work are met, as the deputy creative director explained: *'So a lot of it is making sure that the workload is shared around properly. I would never have one team just working on X non-stop because it wouldn't develop their careers and it also wouldn't get the best work out. So making sure that you give people gold briefs and good opportunities all the time.'* The advantage of being situated within the Rrefresh innovation orientation is that the client can become dependent upon the Professional Service Firm (PSF) because they have such specific contextual knowledge, thereby securing future income. The danger is, however, that the skill advantage of the firm becomes 'locked into' the client, which in turn impacts on the internal flexibility.

Re-invent (Explore/Opportunistic SC and firm-specific HC)
This innovation orientation provides the opportunity to engage in creative work, although the opportunistic social capital means that clients typically occupy a dominant position which may be expressed by requiring highly innovative work to be delivered in short timeframes, often on a project basis. Typically the client controls the problem definition; for example, they may require the delivery of 'counter-industry' solutions which demonstrate innovation and make judgements about the quality of the outputs. It is also important to remember that the client contracts with the firm based on their specialist knowledge, or firm-specific human capital. However, the firm will commonly refer to their record of working on successful campaigns with prestigious clients to confirm their uniqueness and value and compete with other service providers.

The output control is usually underpinned by commercial contracts based on either fixed price or performance for short-term projects which are usually open to competitive tendering. This creates a powerful position for the client where the risk and responsibility for innovative output lies mostly with the firm. An interviewee explained that these powerful clients are very valuable and there are reputational benefits related to delivering highly innovative outputs in this space. She gave the following example in relation to a powerful lingerie brand: *'I see our job here at iris to do something a bit bigger and better. That brand in particular I suppose has got a heritage of doing bold things and when it got sold – it used to be owned by Gossard – and when it got sold, it is now owned by a smaller French company, it hasn't got much budget, but the power of the brand is still quite big, so we still have to live up to that heritage but on a very small budget. So some of the things we have done there, crazy things […] Yes, and so we were like what can we do for X and there was just something, a throwaway comment the client mentioned around it is almost like having 3D cleavage because it is not just lifting you up at the front it is lifting you all the way round so we were like that could be quite cool so we created a first ever 3D billboard down at Waterloo.'*

This demonstrates the capability to generate innovation within often highly demanding client relationships. However, if the firm is capable of delivering innovative output via its firm-specific human capital, an opportunity is created to build trust within the specific client relationship. This is the kind of work which gets the agency noticed and wins awards and could then be developed into a more co-operative relationship, from which future innovative outputs can be generated. That is to say, once the firm 'wins' the trust of the client, they can leverage this to appropriate future value or this may generate work from new clients.

Re-use (Exploit/Opportunistic SC and client-specific HC)

In this orientation the firm operates within a space that is characterised by clients who exercise their power by defining the problems, outlining possible solutions and monitoring the outcomes. It tends to be based on short-term contracts and project-based work. Existing outputs are exploited for example when a client asks a firm to apply their proven techniques from a previous innovative output – for example an advertising campaign for mobile phones in one specific country – to another.

The focus of the innovation is therefore the application of industry- or client-specific human capital, based on detailed prior experience in the related context, to generate value. According to one account manager, *'We know what will work and what will not work in order to communicate simple ideas to mass audiences and we make small adjustments to perfect this.'* In another example iris were simply asked by one client to *'take their existing emails and redo them, update them and maintain them'*. The risks of innovation are entirely covered by the firm, but if this approach is successful they have the opportunity to take on higher-value work once they have proven their credentials.

This provides a context which has both innovation and human resource management challenges. First, when client demands are very tightly specified, the firm needs to develop client-specific human capital, in a short period of time, in order to secure future success, that is, retaining the client. Second, the nature of work in this innovation orientation has a direct impact on the type of outputs needed to satisfy the client: the innovation is often bound by client interpretation and instructions. That is to say, if the client has a clear specification of outputs to be delivered, the challenge lies in the adaptability of the human capital in the firm to produce client-specific solutions which can then lead to repeat work. This innovation orientation therefore represents a situation where the innovation becomes focused on, and locked into, client-specific processes. The danger is then that if the firm does not retain the client, it becomes increasingly difficult to deploy their human capital across the firm on other client accounts. The firm would therefore need to balance their engagement in this orientation with exposure to other types of client relationships.

The repetitive low-level nature of the work also provides little scope for creativity, opportunities to learn and to share knowledge. One response to this is to rotate human capital between client accounts in order: (i) to manage the risks of potentially losing clients and needing to redeploy its human capital on other accounts; (ii) to stimulate creativity by exposure to variance, such as innovation projects that are unrelated to the client account; and (iii) to manage the motivational contract of knowledge workers by providing exciting opportunities for skill development (Swart and Kinnie 2012).

Case study

Alexander Mann Solutions*

Background

Alexander Mann Solutions (AMS) builds world-class talent and resourcing capability for leading organisations across the globe, based on the shared belief that people are the foundation for success. As a trusted adviser, AMS delivers a range of measurable solutions through integrated outsourcing and consultancy services. Listening to their clients, these services have been blended over the years to deliver significant financial, performance and competitive benefits for many of the world's leading brands, covering a wide range of industry sectors in over 60 countries across Europe, Asia-Pacific and the Americas. In practice, the services provided can be grouped into three areas:

- outsourced recruitment and selection services
- management of internal resourcing and contingent workforces
- consulting advice in areas such as employer branding, external and internal resourcing, talent management, executive search and outplacement and redeployment.

They provide these services to clients in various sectors, including: investment banking, retail banking and financial services, consulting services, IT and telecommunications, healthcare, defence and engineering, and fast-moving consumer goods (FMCG).

In order to understand the management of innovation within AMS we draw on a survey of employees conducted in September 2012 (with 209 valid responses on a strongly disagree/strongly agree scale of 1-7) together with a series of interviews. These data allow us to consider the following issues in our discussion of innovation within AMS:

- nature of innovation within AMS
- managerial actions used to support innovation
- actions engaged in by particular managerial roles.

Innovation in AMS

There is clear evidence that AMS develops both very innovative (explore) types of output and refined, efficiency (exploit) types of output for their clients and themselves as part of their innovation strategy. Indeed, the evidence suggests that the balance between the two is slightly weighted towards explore-type outputs (with a mean response of 5.59) over exploit-type outputs (mean response of 5.45).

The explore type of output involves creating products and services which add to the AMS brand portfolio. Client-based explore outputs are most easily illustrated from the AMS internal recruitment advertising agency known as Employer Brand Marketing Services. This part of the business produces marketing materials for recruitment campaigns with the client proposition of 'measurable innovation'. The aim here is to innovate in a way which may act as a generator of new business. For example, AMS has recently developed a new service called 'source cloud' which uses the power of the web and social networking to tap into both active and passive candidate routes. This ensures that the very best candidates, not just those which are out there looking, the hidden candidates, are identified to generate a customised pool of potential applicants for clients. Whereas their existing Recruitment Process Outsourcing (RPO) offerings are often 'end to end' solutions covering branding and recruitment and selection processes, the new service only involves working with clients for part of the process – that of finding suitable candidates and then handing them over to clients.

The exploit-type outputs are important to clients looking to improve the process efficiency and operational effectiveness of their recruitment and selection processes, often through the advanced use of technology. This use of technology in recruitment and selection solutions enhances speed, creates valuable data, drives performance and enables business intelligence. AMS evolves value-

*This case was written with the assistance of Yvonne van Rossenberg and Neil Turner.

Case study (continued)

Alexander Mann Solutions

added services as an extension of their existing services for their clients as part of their strategy of diversification. This takes a number of forms and is built on long-standing client relationships. One example of the exploitation of existing knowledge is where AMS are able to offer consulting services, such as workforce planning and assessment and selection, as part of an integrated talent management solution, not just RPO. This is often attractive to a Director of Resourcing who has responsibility for the whole range of resourcing activities. Another example of this type of innovation is the application of existing knowledge and skills to new sectors, such as engineering and defence, or the move to new geographical areas, such as the firm's recently established Global Client Service Centre in Cleveland, Ohio. These extended services not only create added value for clients but also ensure that AMS has a broader range of clients, sectors and a wider geographical spread, reducing risk in times of economic uncertainty.

Now that we have established that AMS creates both explore- and exploit-type outputs, we need to consider what types of actions they engage in to support this ambidexterity.

Managerial actions to support ambidexterity
From our previous case study work looking at projects across a range of industries, we have identified five key managerial actions that support the achievement of an effective balance between exploitation and exploration. These actions are 'integration', 'role-expansion', 'tone-setting', 'buffering' and 'gap-filling' – see Table 1 for a brief description of these.

Table 1: Managerial actions to support explore and exploit outputs

Type of action	What it involves
Integration	Bringing the knowledge and participants in a project team together
Role-expansion	Doing more than is normally required by the role to solve a problem
Tone-setting	Setting the climate and giving messages about desired behaviours
Buffering	Offering protection to staff so they can concentrate on their assigned tasks
Gap-filling	Undertaking tasks that were not being performed

Within AMS we find that two of these actions, integration and role-expansion, support both explore and exploit outputs. The other actions support either explore outputs (tone-setting) or exploit outputs (buffering and gap-filling), as shown in Table 2.

Table 2: Managerial actions associated with Explore and Exploit outputs

Explore	Exploit
Integration	Integration
Role-expansion	Role-expansion
Tone-setting	Buffering
	Gap-filling

Case study (continued)

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The 'integration' role of actively bringing together the knowledge within the project and its participants to create a coherent whole was the most evident action within AMS (mean response of 5.65). One of the key functions of the manager is to bring together individuals (who may not be directly under his or her control) to achieve the work goals. In so doing, often disparate skills need to be harnessed for the delivery to be a success. This can also involve reconciling the evolving customer requirements with the contractual obligations, since these may diverge over time. In AMS integration involves both exploitation (for example, adherence to appropriate procedures) and exploration (ensuring that new problems are identified, shared and solved as a result of the activity). Meetings and regular communication to ensure alignment of the stakeholders, staff and the overall objectives are important in enabling this integration. This is distinct from 'gap-filling' as integration involves the bringing together of (potentially) multiple knowledge domains to achieve the goals, whereas 'gap-filling' is the completion of mostly non-critical tasks.

'Role-expansion' was identified primarily as a response to critical events when exploitative and exploratory activity increased to deal with the situation (mean response of 5.45). Under these circumstances the manager is required to do 'more' of what he or she normally does (communication, co-ordination, and so forth). A typical example would be when a major problem arises, requiring imaginative fixes and significantly increased communication to stakeholders until the incident is resolved. This generally falls to the manager, who is perceived as the 'owner' of the problem. These incidents do not necessarily move activities from, say, an exploitative to an exploratory mode, rather that they are similar to the 'business-as-usual' operation, but far more intense. Examples would be the allocation of more resources simultaneously, reporting to senior management every few hours rather than weekly, and the application of trial solutions that previously would have been tested in a much slower timescale.

The role of the manager in tone-setting was associated particularly with creating an environment within which explore-type outputs emerged. This emerged as the third strongest action within the data (4.99). We termed this 'tone-setting' because we saw that the manager could set the tenor for the work, to create a climate in which particular kinds of action were encouraged or discouraged. In many ways this fits within the wider climate created by the founder and current CEO of AMS, Rosaleen Blair, *'I have a very clear view of where I believe we have the ability to take this company, my team joke because I won't accept anything less than global dominance. I really do believe that we've created something that I can take all the way and we as a team can take all the way. It's that belief that I have and the passion for what we do that other people buy into in the team – it's certainly what the customers buy into.'*

The final two types of managerial actions are associated with facilitating exploit-type outputs. The action of 'buffering' is where the manager acts as a barrier to prevent unwarranted distractions affecting the team performing the tasks. While attempting to prevent communication may appear counterintuitive, if the manager is the central point of contact, this can have two advantages: (i) allowing a co-ordinated and efficient approach to team knowledge-sharing to be implemented (for example the weekly staff meeting) and (ii) reducing the likelihood of team members being overwhelmed by task requests from the customer. The result is that they are able to concentrate more fully and use their expertise effectively.

We encountered examples where the manager deliberately overcame deficiencies by performing tasks that he or she knew were necessary but were not, for various reasons, being performed. We termed this 'gap-filling'. The managerial role is that of ensuring delivery of all requirements, and it may be that he or she has the best overview of all the organisational processes that may be required to be met. Specialist staff may be focused on their particular details and not be minded to follow this up with appropriate documentation or, for example, follow the review procedures, and so it can fall to the manager. Our final step is to consider who actually carries out these different managerial actions.

Case study (continued)

Alexander Mann Solutions

Actions engaged in by particular managerial roles
We find there is some specialisation of actions: different managers engage in different actions to support ambidexterity, as shown in Table 3.

Table 3: Actions engaged in by different managerial groups

Head office and heads of client services	Principal specialists
Tone-setting (explore)	Integration (explore and exploit)
Role-expansion (explore and exploit)	Buffering (exploit)

There were two key sets of role players within AMS: (i) those in the head office and holding head of client service roles and (ii) those with the role of principal specialist.

The first group included managers based at head office who were either members of the leadership team of AMS or who led or were part of functional teams. Managers in this group played a key role in setting a culture in which exploration was encouraged and facilitated. The importance of this innovative climate has been stressed by Rosaleen Blair: *'For AMS it means that we need to continue to be at the forefront in terms of innovation in our industry; we need to make sure that we really understand the future trends and how they are going to impact on the organisations that we are working with and embedded within and ensuring that we are anticipating those needs and that we've got appropriate services and appropriate agility built into the solutions in order to support the challenges of the future.'* AMS have strong mechanisms in place to allow the leadership team to communicate these messages very effectively with staff who are spread throughout the world. These include regular webinars by the chief executive, a hard-copy in-house magazine sent to all employees and visits by the leadership team to AMS offices and client sites. In addition, innovation is facilitated by the use of an online medium for sharing knowledge, known as the Knowledge Exchange.

The heads of client services are the most senior managers responsible for managing relations with one or more clients. They play a key role in setting the tone because they provide the tangible link between the leadership team and staff working in AMS offices and in client sites. In practice they interact with staff on a regular basis and some place particular faith in their practical interaction with staff to achieve this, especially in an age of electronic communication. One head of client services said, *'The way that I do it is I get face time with them; that is the way I have worked out that works.'* Others use different mechanisms, including ensuring that staff in their teams attend the quarterly meetings held in AMS offices, they attend the appropriate training courses and they also engage in social events when staff get the chance to meet informally. Indeed, one head of client services said, *'so that we'll physically get to spend some time in an AMS location, which actually does help because they get to see people who they have only heard names of and we get people to come in and do slots and that helps them to connect in with the business at a more emotive level.'*

The second key role was the principal specialist. This role led the relationship between AMS and the client on a daily basis. Managers in this group engaged in buffering whereby they created the conditions where their more junior staff could engage in their day-to-day operations effectively operating within existing procedures (that is, exploit outputs). For example, one of these managers

Case study (continued)

Alexander Mann Solutions

noted that this was often a matter of striking a balance between how they respond to the needs of the client by saying, *'They are a very very demanding customer, so they need you to move and evolve as they do and with speed.'* However, on occasions it was necessary to *'rather than give the client what they were looking for, we have had to manage the expectation down'.* Moreover, they also had to interact with AMS head office because *'we need to make sure the account is performing first and foremost and at the end of the day we need to make sure we are getting our work done.'* In addition they also engaged in an integrating role by interacting with multiple parties on the client side (as many as 10–15 for a large account) and their team members. Indeed, they might spend as much as 70% of their working time with their team members in activities to bring their team members and their knowledge together to meet the desired needs of the clients. This was associated with both explore- and exploit-type outputs.

Summing up

This case demonstrates how AMS engage in highly successful innovation with an appropriate combination of explore and exploit outputs. Our sophisticated analysis of employee survey data has allowed us to identify the different managerial actions that are used to provide support for these outputs. We found that the managerial actions of integration and role-expansion support both explore and exploit outputs, while other actions support either explore outputs (tone-setting) or exploit outputs (buffering and gap-filling). Moreover, we found that different managers engaged in different kinds of actions. As we might expect, more senior managers located at head office or playing a leading role with clients engaged in actions to expand their roles or to set the tone or create a climate for exploration. More junior managers played roles that meant they simultaneously integrated the talent and knowledge of their team and also managed the multiple pressures influencing their staff. These findings point to the vitally important roles played by managers at different levels to support the crucial balance between explore and exploit outputs.

The balancing act: toward ambidexterity

In this section we consider how firms, in general, can develop their capability to manage all four innovation orientations and therefore mitigate the risks associated with innovation.

It is evident that firms will have varied client relationships and will hardly ever develop purely firm- or client-specific human capital. It is in the competitive interest of the firm to engage in all four of the innovation orientations in order to manage the risks which we have pointed to. That is, to balance more exploitive work with riskier, but more developmental, explorative work. In the Refresh and Re-use orientations, for example, managerial action would additionally need to focus on the development of innovative capability via the involvement in firm-specific creative processes, such as internal innovation competitions. There are two reasons for this: first, exciting skill development opportunities need to be made available in order to retain knowledge workers, who often focus on their employability. If these employees operate predominantly in the exploit mode of innovation, they would have limited developmental opportunities, that is, the *boredom challenge*. As an interviewee explained, *'I think there is a real importance to drill that into people as well, that don't just think about the clients you work for; the most amazing opportunities are the ideas that you have which might not necessarily be for X but we can go and find who they are right for.'* Internal innovation competitions, which are intimately linked to firm values and enhance firm-specific human capital, can be held to provide opportunities for the development of innovative capabilities. This relates to the second reason for adopting this approach: that the firm needs to mitigate the risk of building human capital that is so client-specific that, in the event that the client contract is lost, cannot be deployed across the firm on other client accounts.

These managerial actions can be adopted more easily in the Refresh orientation due to its co-operative social capital, where contracts are longer term and time and space is afforded to engage in diverse work. In the Re-use orientation, which is often dominated by the need to work at a fast pace on short-term project-based contracts, it is more difficult to create space and time to develop firm-specific skills. If firms can leverage experience and learn to work within opportunistic client relationships, they can however generate an advantage by 'winning' clients' trust, which may result in more co-operative relationships. One approach is to have junior professionals work within this orientation while they build firm-specific innovative capabilities which can then be deployed later in their professional career to generate more innovative outputs. This approach can be supported by line managers who coach their staff to accept that they will have a mix of creative and routine work. Another approach is to give staff the chance to work on a highly creative pitch for new business. If the business is won, they may be able to migrate to that team or, if not, they have still had the chance to learn and to transfer that knowledge to their own team.

The Refresh orientation on the other hand is faced with a client-tenure challenge which results from the integrative nature of working. Here, the firm becomes an 'insider' working closely with the client at all stages in the engagement process to generate novel ideas and implement solutions. This means that the client would often demand that specific individuals work on their account, which in turn translates into knowledge workers spending extended periods of time on unvaried work. Managerial actions, such as promotion systems within the client account, therefore need to be adopted to encourage both employee and client retention, which in turn creates an even greater need to respond to the need to develop, in addition, firm-specific skills via innovation opportunities outside the client account.

The innovation orientations that are characterised by exploratory outputs (Regenerate and Re-invent) draw upon firm-specific human capital. Indeed, the firms indicated that clients buy their services because they are unique to the firm and in these contexts clients want state-of-the-art solutions that our respondents referred to as *'counter-category'*, or different from what other firms in the industry may expect. The

challenges in these orientations relate to the need to develop firm-specific skills which are truly market leading. There is, however, a danger that trends and market demands will shift. In the Regenerate orientation this can be addressed by working with the client to develop shared solutions. The ability of the client to adopt the solution generated becomes path-dependent and tied to the firm. The hidden challenge that goes hand in hand with this 'safer' client relationship is that the firm-specific human capital becomes intertwined with client-specific skills, which may result in a weaker ability to 'surprise and delight the client'. Organisations have to focus on keeping firm-specific skills cutting-edge. This might be done, for example, by recruiting young talent with cutting-edge skills who can then engage in upward mentoring so senior staff can learn from more junior staff.

In the Re-invent orientation the opportunity to engage the client on a journey of creativity is much more limited. It is therefore critically important that the firm adopts two strategies to sustain its advantage. The first is related to the leveraging of the innovation, for example, by using the solution across client markets and by creating a desirability/need by competitors to gain access to a particular product or service in order to remain competitive. The second strategy is motivational: knowledge workers who continuously operate in this orientation may face a *'burn-out'* challenge, that is, they may be dealing with the most demanding clients which require the most innovative outputs. In these contexts it is common to employ experienced staff who have highly developed client relationship management skills to address the strains of demanding clients. In addition, ego rewards can be provided which showcase exceptional creative output.

Conclusions and implications

In this thought piece we have drawn on our research in iris to identify four innovation orientations (Regenerate, Refresh, Re-invent and Re-use) which rely upon the combination of human capital (firm- and client-specific) and social capital (opportunistic and co-operative). More generally, both iris and Alexander Mann Solutions demonstrate that successful firms combine both explore and exploit outputs, that is, they are ambidextrous.

We have also seen that there are different types of ambidexterity which are supported in different ways. iris adopted some elements of a structured approach, recognising that different groups of staff had different development needs. However, they also paid attention to a more integrated approach to process ambidexterity, placing a premium on routinely bringing together diverse skill sets to meet and exceed client needs. Moreover, they also practise career ambidexterity by giving junior staff a chance to work alongside more experienced staff as part of a longer-term development programme. This capability enables them to manage the risks that are often associated with innovation. iris also illustrate what a crucial role the HRM practices can play to support the firm in winning the innovation game.

Alexander Mann Solutions also combine both explore and exploit outputs and demonstrate the key role played by five managerial actions. Integration and role expansion support both explore and exploit outputs, while tone-setting supports explore outputs and buffering and gap-filling support exploit outputs. Senior managers and those who managed clients set the tone or expanded their roles to support exploration, while more junior managers managed the pressures on their teams while integrating their resources.

Together these two cases demonstrate not only the importance of combining exploration and exploitation, but also the key roles played by both HRM practices and managerial actions in maintaining an appropriate balance between these two types of innovative outputs.

Appendix: research methods in iris

We collected qualitative data through a series of 16 interviews (around an hour each, sometimes longer) with the most senior staff in iris who are able to direct and influence the production of innovative outputs, for example partners, directors, senior managers and knowledge workers. All interviews were recorded and transcribed. We identified, together with senior management, the core client engagement processes, the nature of client relations and their impact on innovation. We asked our interviewees to identify the dominant innovation orientation according to the creative outcome achieved, that is, explore or exploit. We then worked closely with the managers to understand which resources they drew upon to enable innovation. These interviews were then followed up by validation interviews wherein the themes from our data analysis were shared with iris to confirm our understanding of the dominant knowledge assets, their interaction and the nature of the innovation outcome.

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