A Profile of Procter & Gamble's Management Practices Which Contribute to a Culture for Innovation

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'An innovative climate is not just a sentimental need. It has powerful business implications and can bring real results. There's a reason why companies like Google and Apple have such a breathtaking record of rapid innovation; you need to look no further than their climate. A climate of innovation ensures that you'll have the inherent ability to not just innovate with an occasional flash of brilliance, but to do so continuously. That's an extremely important strategic advantage to have in a fast-moving marketplace that's overcrowded with competitors'.[1]

[1] FutureLinkLLC. See; www.getfuturelink.com

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Why is Procter & Gamble one of the world's most innovative companies?

What's different? The answer is – a lot! A.G. Lafley's Legacy.

Objective and Methodology

The objective of this review is to identify the management practices employed by Procter & Gamble (P&G) which support a culture for innovation and are similar or different when compared to other innovative companies. The overall purpose of this profile is to contribute to a better understanding of the reasons why some companies are innovative and others are not.

The following profile is based on an examination of information about P&G drawn from a number of publically-available sources.

- Proctor & Gamble Annual Reports, 2000 to 2008
- Interview (video) with A.G. Lafley, Business Week, Innovation,
- Extract for online report – October 7, 2008.
- The Game-Changer, How You Can Drive Revenue and Profit Growth with Innovation, published by Crown Business, by A.G. Lafley and Ram Charan.
- Business Week, Design Thinking, July 28, 2008, P&G Changes Its Game.

The above information sources are used extensively in preparing this profile and in all cases attribution to the source of the reference is provided.

Anecdotal information, drawn primarily from the above sources, has been structured according to 25 Factors. The 25 Factors have been, as a result of earlier research into innovative companies, identified as contributing to, or detracting from, a culture which supports innovation. **By parsing the culture for innovation into 25 Factors, it is hoped that other corporations may be able to assess their own culture and take initiatives which will improve their innovation.**

If you would like to comment on this profile or add your insights, please go to the Blog as part of this site and make a contribution. Perhaps you can fill in some of the blank areas or correct or modify interpretations set out in the profile. All comments are welcome.

Background information on earlier and current research can be referenced at the following web site: http://www.corporateinnovationonline.com

Background to the Preparation of this Profile

Since the preparation of the first Profile of P&G in late 2008, A.G. Lafley has stepped down from any significant executive or Board role with P&G. According to their web site:

> 'Since becoming president and chief executive officer in June 2000, A.G. Lafley has refocused P&G on consumer-driven innovation and consistent, reliable sustainable growth. The Company has more than doubled sales since the beginning of the decade, and has grown its portfolio of billion-dollar brands - brands that generate at least $1 billion in annual sales - from 10 to 22. On average, annual organic sales have grown 5%, core earnings-per-share have grown 12% a year, and free cash flow productivity has been 112% a year since 2001. The Company's market capitalization has more than doubled - making P&G one of the five most valuable companies in the U.S. and among the 10 most valuable companies in the world.

> Lafley was succeeded as chief executive officer by Robert A. McDonald on July 1, 2009. He has continued to serve as chairman of the board to support the management transition, a practice that P&G has followed during multiple management changes over decades.'

Since Lafley did so much to alter P&G's performance by adopting highly innovative management practices, we have decided to continue to make available the original document, with only minor changes, so that readers can appreciate the change in culture which has taken place over the last decade.

For most of its 172-year history, P&G has not shared information about its successful operating policies and practices with the corporate community at large. **Executives and other personnel were intensely guarded in making comments**; secret, even to the point where secrecy seemed to be a matter of pride within the corporation.

There is a new openness to the company**. For the first time**, **researchers have an ability to better understand why this company has been so innovative.** Much of this is made available via information sources (noted above) and surrounding material released by Mr. A.G. Lafley, then Executive Chairman, CEO, and President of P&G. **While focusing on the period after 2000**, the year when Lafley, after a 30-year career, became the head of P&G, the information now available also makes some reference to the culture and management practices pre-2000.

Here is a company which, while its corporate reputation is outstanding, chose under Lafley's leadership to innovate even better than before. One can quibble about whether the new emphasis on innovation is incremental or more significant but our opinion is that **the changes** are more than just same-old innovation and indeed **are a major step function in the company's history**. To use the company's own definitions, the innovation practices introduced over the last 8 years are 'disruptive' more than they are 'incremental'**.**

Other corporations and consultants can learn a lot by better understanding the changes in management practices which have taken place in P&G in the last 8 years.

Executive Summary of Results

P&G has a well deserved reputation for being an outstandingly innovative company. For P&G there is no doubt that the culture of innovation has been long standing and has evolved over the full history of the firm. There have been 'ups' and 'downs' in corporate success but seldom has the company been far away from a culture with strong support for innovation, however it is has been defined.

Since, most often, **culture is deep rooted and transcends leaderships** it is important to mark the contrasts between the historic culture and the evident new culture taking hold in this successful company.

It is significant that the current culture is due to the efforts of a senior executive (along with his team) with 30 years experience in the company, the last 8 of which were as CEO and latterly both CEO and Executive Chairman. The new organization and structure of innovation has taken almost a decade to achieve. **The primary focus of this profile is on the changes which have taken place since 2000**, the year in which Lafley took charge.

It is interesting to examine P&G annual reports since 2,000. Innovation, which is the feature of the most recent report, places innovation front and centre, but it has taken about 8 years to get to the stage where innovation is the major feature in the annual report. In itself the 8-year period is significant since, by today's standards, CEO's often do not last 8 years. One is therefore examining the results of nearly a decade of sustained effort by Lafley and his team.

There is a positive correlation with 20 of the 25 Factors deemed to describe a culture supportive of innovation, i.e. P&G's practices fit well with those of other innovative companies. Anecdotal information, however, is silent on 5 of the 25 Factors, not surprising since publically-accessible information is not available. Should more information become available, the results could add to the correlation or detract from it.

It seems clear that P&G has achieved its current success, and made a step-change in the culture for innovation, by making the following major decisions;

- placing innovation at the centre of its strategy and culture,
- making explicit and quantified goals respecting growth,
- embracing immersive market research techniques,
- continuing its policy of spending more on branding than any of its competitors,
- opening up its business on the supply side and in product development to fresh outside-sourced ideas, and by
- hiring in new talent, for example adopting designer thinking to help envisage the difficult or impossible and stimulate creative efforts.

Most of these decisions represent a significant change from practices prior to 2000.

Lafley provides considerable insight into his company when it comes to innovation and culture in the corporate world.

- 'Innovation doesn't just happen. You have to work at it. It requires deliberate practice, consistency, rhythm, discipline, and continuous learning from success and failure. Doing innovation right means developing a repeatable, scalable, and consistent way of converting ideas into results. It requires a degree of standardization so that others can imitate the model, and improve upon it'[2].
- "Creating an innovation culture takes time, especially if you want to have it permeate an entire business unit or company". "Start small". Focus on; "courageous, connected and collaborative, curious, and open – an innovation culture can be created and nurtured"[3].

One paragraph from The Game-Changer sums up Lafley's view on the major determiners of a culture which supports innovation. 'To create an innovation culture, you need a strategy; ideas: a process that moves these ideas to market; and an organizational structure that supports innovation (and protects and rewards innovators) up and down the line. Properly adapted, Lafely states, **'the framework we present is replicable across companies with widely varying cultures at the corporate, business unit, and functional levels because it comes from actual practice'[4]. This profile is prepared with a view to doing just that.**

[2] Page 155, The Game-Changer.
[3] Page 243, The Game-Changer.
[4] Page 29, The Game-Changer.

Procter & Gambles's management practices according to 25 Factors which support or detract from a culture for innovation.

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Factor #1: Emphasis on short-term versus long-term profits.

For P&G, long term support for its core capabilities such as R&D, marketing and branding is evident. The best anecdotal evidence clearly indicates that the company has, traditionally, taken a longer-term view and is not driven by an over-emphasis on short term profits.

Even in the early days (circa 2000) of Lafley's leadership, reference is made to the 'R&D leadership approach, and the culture of the company. In order to 'get back on track' in the year 2000, P&G, according to Lafley, had to be refocused and restructured and **'his team took a longer view'.**

P&G sees itself as different from its competitors because of its consistent approach to investment**,** for example in P&G's ability to invest in innovation at industry-leading levels. 'We invest more than $2 billion a year in R&D, nearly **twice the level of our closest competitor**, Unilever, and roughly equal to the combined total of our other major competitors — Avon, Clorox, Colgate, Energizer, Henkel, Kimberly Clark, L'Oreal, and Reckitt Benckiser[5]. We also **maintain a high level of marketing investment** in our brands. P&G's advertising investment has averaged about 10% of sales over the past 15 years. We **maintain this strong level of innovation** and marketing investment, while continuing to grow margins, by continually increasing P&G's productivity. The more productive we become, the more we can redeploy people and dollars to innovation'.

'Innovation is especially important in tough economic periods' according to Lafley. 'Consumers will continue to buy premium-priced products as long as they're confident they're getting value for their money. This is why innovation is so important. Price is an element of value, but the real driver of value perception is relative pricing, not absolute pricing, combined with product performance and brand equity. Innovation drives value. It differentiates our brands in the hearts and minds of consumers. It enables category leadership. It stimulates growth and prevents commoditization of the categories in which we compete. It drives premium pricing and higher gross and operating margins'. In the video aired by Business Week[6], Lafley reinforces exactly this same point.

Factor #2: Extent to which management explicitly looks for innovation.

Innovation has always been a part of P&G's priority but, prior to 2000; the company might have been characterized as a 'technology-push' company. A 'seminal change' took place to move the company from push to a' customer-pull one'. Innovation was also redefined to encompass a wider range of corporate activities.

P&G has 'revamped' the company and according to Lafley this has required **'visible, consistent commitment from the top'[7].** The changes do not come from 'eureka' moments but rather from 'leveraging what our business does best to create a competitive advantage'.

'Leaders set the pace by establishing and modeling the value, beliefs, attitudes, and behaviors conducive to innovation', according to Lafley. In other words**, leaders set the culture within which innovation flourishes**. It is interesting to contrast the current culture with prior years. According to Lafley, P&G was,

[5] Investing in Innovation; longer version of the 2008 report.
[6] Business Week, Video.
[7] Page 103, The Game-Changer.

pre 2000, 'conservative and a little too cautious', and 'people feared, rationally, being associated with risky innovation…with anything that was not a clear well-established success'[8].

According to Lafley, P&G made a change in the psyche of the company when it changed from a 'technology-push innovation model to a customer-pull one.'

P&G now defines innovation as; 'not just products, technologies, and services, but also business models, supply chains, and conceptual and cost innovations'. Innovation is seen as including both 'disruptive' or breakthrough events, as well as 'less glamorous but highly lucrative and profitable "singles and doubles".

> • **Disruptive innovation**; creates new categories, new segments, or entirely new sources of consumer consumption. These are innovations which address consumer needs no other brand or product has met. Virtually all of 'P&G's billion-dollar brands were created with 'disruptive innovations'.
>
> • **Sustaining innovation**; is what we focus on most. These are extensions or improvements of existing products: big initiatives that meet consumer needs by filling gaps, eliminating consumer trade-offs, or providing new benefits.
>
> • **Commercial innovation**; generates trial on existing products without a product or package change.

A.G. Lafley[9] 'In last year's (2007) annual report, I explained how P&G is designed to grow. We've designed a global, diversified business portfolio that enables P&G to grow consistently and reliably. We've developed the core strengths — **consumer understanding, brand-building, innovation, go-to-market capability, and scale** — that are needed to win in the consumer products industry. We manage the business with rigorous strategic, financial and operating discipline. We've built the most diverse, globally experienced team of business leaders in P&G's 171-year history. These elements work in combination to ensure P&G can meet or exceed its growth targets reliably year after year'.

Lafely states that; '**The ability to lead effective innovation programs is required at P&G**, particularly at the general manager and president levels. Good innovation leaders need to be cultivated and promoted — and I hold myself accountable for helping to select and develop the innovation leaders who run P&G businesses around the world. Ensuring P&G has the leaders **and the pipeline to innovate for the next ten years** is one of my most fundamental responsibilities as chief executive'.

Factor #3: Tolerance of mavericks.

P&G does not mention mavericks per se nor their importance or otherwise within the organization. There is, however, significant mention of collaboration and the fact that innovative leaders 'are receptive to ideas' from very different disciplines. There are many examples of enabling mechanisms which encourage multi-disciplinary exchanges.

P&G's culture over decades has been built on hiring recent college graduates and promoting from within. Mid-career hires, according to Lafley, are (or were) considered disruptive to the P&G culture. In spite of this historic norm being so ingrained in the company culture, P&G hired '150 midcareer designers' in order to tap into designers' thinking and acting, i.e. more intuitive and less linear. These designers were akin to mavericks in the sense that they were different from the norm. Equally disruptive to the norm was the fact that P&G also enlisted design talent from outside the company.

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[8] Page 222, The Game-Changer.
[9] Annual Report, 2008, Letter to shareholders.

P&G believe that being a big company gives them an advantage over seemingly more nimble smaller companies. These advantages build on; scale, management capability, and the resources to take risks, but also, since the company is global, provides a **'built-in innovative edge' due to the cultural diversity** which 'is a great driver of ideas and innovation'. Mavericks, or disrupters of the norm, in a sense.

Factor #4: Degree to which planning emphasizes rationing of resources versus identifying opportunities.

P&G has, as a result of its adoption of innovation as central to its strategy, combined with the quantified objectives which relate to percentage of new products, and percentage sourcing of new ideas, focused the whole organization on the need to identify new opportunities. Rationing has taken a back seat to looking for opportunities.

Prior to 2000, P&G relied heavily on new ideas from two sources; its marketing organization using highly sophisticated research techniques and its research and product development laboratories. With the adoption of immersive research **P&G has, in a sense, gone at least one more level** in its sophistication of market research. Similarly, with its 'Connect and Develop' initiative, it has extended the ability of its laboratories to make idea-creating connections.

What differentiates P&G from other organizations is its total commitment to these extensions of earlier initiatives. The result is a pervasive effort on the part of the organization to seek out opportunities.

Factor #5: Tolerance for failure.

P&G has shifted dramatically in its attitude towards handling failure. Failure is seen as a 'regular visitor'. An overall success rate for new ventures is 50% and if that rate drops, there is a sense that not enough risk is being taken.

P&G's attitude to risk and possible failure is exemplified by its rejection of the notion that 'Innovation can mean sticking your neck out'. Rather, in its place is the opposite; that 'a courageous, connected culture means it won't get chopped off, and you are not alone in taking risks'[10]. 'Exploring the frontier' is 'becoming a way of life' according to Lafley.

It is not that failure is glossed over or that it passes unnoticed. P&G does after-action reports on failed innovation initiatives. 'It (failure) is the job of management to ensure that everyone knows where failure can and cannot be accepted'. There are several examples aired in the book, The Game-Changer, which provide an illustration of how P&G seeks to learn from its failures.

Factor #6: Emphasis on management of people and their interactions.

Explicitly, P&G has placed significant importance on the management of people and more importantly, on their interactions – often referred to as making connections.

P&G points out that part of making innovation routine involves people and that the importance of **making connections between an idea and its process to the market is key**. 'Managing these interactions is the crux of building an innovative organization'.

Innovation centers[11] help 'us to solve tough innovation challenges by providing simulated in-home and in-store environments where P&G teams can isolate themselves and interact with consumers and shoppers for days or even weeks at a time'.

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[10] Page 222, The Game-Changer.
[11] Page 110, The Game-Changer

P&G adopted an open-landscaping policy for newly opened offices with the intent of increasing connections and collaboration. This was in sharp contrast to the previous modus operandi where executives worked behind closed doors[12] and communication was by memo – 'even to the person next door'. This policy (open landscaping) applied to the full range of people including executive offices in Cincinnati. The idea was to foster creativity.

Factor #7: Use of career ladders and recognition of innovators.

P&G has programs for rewarding and recognizing innovation by setting up specific awards for innovators. These awards differentiate between traditional technological innovations and those more closely associated with other functional activities.

Public recognition and rewarding innovators results in 'a positive psychology'[13]. The awarding of medals is used in P&G to recognize excellence. An annual 'Cost Innovation Award is given to teams that bring innovation to the market in a way that provides customers great value'.

Lafley states; 'I'm a big believer that innovation leaders are made, not born. They learn to get comfortable with uncertainty. They learn to become more open-minded, to co-create with consumers, and to be receptive to ideas from different disciplines and industries. They learn to become both strategists and operational managers, to be agile and disciplined. As they learn and gain experience, they become more effective at leveraging P&G's design for innovation to deliver consistent, sustainable growth'.

Lafely states that; '**The ability to lead effective innovation programs is required at P&G**, particularly at the general manager and president levels. Good innovation leaders need to be cultivated and promoted — and I hold myself accountable for helping to select and develop the innovation leaders who run P&G businesses around the world.'. P&G people are innovation leaders who know how to inspire and manage innovation with creativity and discipline. Innovative leadership characteristics have been established as criteria for promotion.

Factor #8: Tolerance for variance from the corporate norm.

Little or no anecdotal evidence is available on this Factor.

Factor #9: Tolerance for risk (in the planning process).

P&G, by dint of it's practice of placing innovation at the centre of its business and, at the same time, adopted a highly collaborative approach to planning has, to a great extent, diffused the sense of risk in the planning process. The individual assumption of risk has given way to a collective assumption of innovation and risk. The result is a reasonably large tolerance for risk.

The 'yield from the process of innovation has risen from a 15-20% success rate to 50-60% over the past several years' according to Lafley. That percentage is 'about as high as P&G wants to go' since a higher rate would signal that the 'company is playing it too safe'[14]. By stating an acceptance of 50%, Lafley is communicating not just a target for success but the acceptance (not that one wants this!) of a significant failure. **Without failure, there is no evidence of experimentation and risk assumption.**

[12] Page 110, The Game-Changer.
[13] Page 278, The Game-Changer.
[14] Page 178, The Game-Changer.

P&G has placed emphasis on its ability to manage risk. Recognizing that failure is an inherent part of the innovation process, it has learned from its failures how to better manage associated risk.

By linking innovation with the planning process; budgetary revenue growth and cost targets, resource allocation and reallocation, people development and promotions, and performance appraisals and rewards, there is a 'systemic way of moving from concept to commercialization'. Innovation is a discipline and not seen as a random or chaotic event. **'Innovation leaders are comfortable with uncertainty'** partly because they have an 'entirely different set of skills, temperament, and psychology'.

P&G has introduced a range of mechanisms which bring together a consensus of risk assessment which in turn probably **creates a sense of togetherness and the joint sharing of risk** which would not otherwise be inherent in the process. In this regard**, risk is jointly managed** and not so much associated to any one individual.

Factor #10: Degree of formal communication within the organization.

P&G encourages a free flow of information within the corporation.

'Trust is critical in a company that must have world-class innovation and world-class execution to grow sustainably. Innovation and execution are team sports. They demand high levels of collaboration.' Lafley.

The conduct of Innovation Reviews provides an example of the free flow of communication within the corporation. One of the responsibilities of the Innovation Coach is to 'foster a free-flowing yet frank discussion as part of the 'innovation review'. This is referred to as a dialogue and not a grilling. Further the 'innovation review' is intended to include all key team members, but small enough to have a candid discussion. The use of 'posters', while clearly a technique from the past, is an appropriate mechanism as it allows all members to see how information develops as well as encouraging participation.

Factor #11: Use of independent work groups.

P&G make extensive use of independent (but not completely independent) work groups. There are many examples to illustrate the point.

A balanced approach to the use of independent work groups seems to have been adopted by P&G. For example; while they create structures for new business initiatives these are not completely divorced from the organization. Nor do they adopt the policy of making innovation just one of the additional tasks of already-busy executive and managerial talent. Linkages are the key. Six criteria are presented for choosing the appropriate organizational structure[15].

Examples of independent work groups include:

- Future Works; specializes in high-risk, high-reward ideas; it's essentially an in-house venture capital firm that does initial concept, design, engineering, and qualification work and then hands over successful ideas to the appropriate business units. The FutureWorks team focuses exclusively on innovations that can create entirely new businesses.

- There are new-business development teams in every global business unit focusing on opportunities to create adjacent categories.

- The New Business Development (NBD) organization; within each business unit is another structure which helps P&G innovate in both disruptive and incremental innovations. The NBD's

[15] Page 121, The Game-Changer.

are funded from within the business unit but some additional funding could be provided by the Corporate Innovation Fund to enable, for example, prototype development.

- Innovation centers: help us to 'solve tough innovation challenges by providing simulated in-home and in-store environments where P&G teams can isolate themselves and interact with consumers and shoppers for days or even weeks at a time'.

Factor #12: Degree to which management decisions are made with input from the rest of the organization.

P&G, in the last decade, has opened up considerably, none more so than in the various inputs the corporation encourages from outside the corporation.

P&G, prior to 2000, was an organization which drew heavily on a culture based on technology push, primarily relying on new inventions coming out of extensive lab facilities and as a result of sophisticated market research. Lafley makes note of the need to ditch the "not invented here" attitude.

Perhaps the best example of the new openness of the company is in their 'Connect and Develop' initiative. Facilitated by access to the internet, the company's global reach, and a new open attitude to new ideas (from whatever source), this is a significant step forward for such a heretofore closed organization. The system, as intended, draws on creativity from around the world. The organization focuses on ideas which are already "pretty well cooked" and to the point of having a working prototype. The numbers are interesting; for every 100 ideas found on the outside, 1 will make it to the store, but overall for P&G, 50% of the products taken to market succeed.

The establishment of the organization unit, External Business Development (EBD), is an example of an initiative which has been specifically put into place to encourage the searching for ideas and their positioning within the corporation. Focusing on connecting with low-risk projects for business units it also will deal with higher-risk innovations with the involvement of Future Works (See Factor #11).

Perhaps a further example of the emphasis on gathering input from a variety of sources with respect to new ideas is the company's establishment of 'hot zones' or specific physical arrangements which are designed to test ideas in the eyes of the consumer. The purpose of the 'hot zones' is to encourage connections within and without the company and to get a closer (immersive) look at the consumer as "shopper".

Factor #13: Formality of the decision process.

P&G make a strong point that the business is operated with discipline and that systems are replicable. P&G has also instituted 'innovation reviews', a good example of having a managed innovation process as contrasted with a more laissez-faire approach. One might conclude that the decision process adopted is 'balanced'.

'An innovation culture thrives on 'openness, curiosity, networking with suppliers and customers and the ability to say, "I have a problem I can't solve. Can someone help?", so states Lafley.

P&G's adoption of Clay Street[16] is a very good example of using physical premises to open up the decision making process by bringing together diverse disciplines. **'An unfettered free flow of information has to exist'[17]**.

Considerable comment is devoted to the **disciplined approach to innovation** which the company has adopted. 'The next factor that sets P&G apart as an innovator is discipline'. 'We take a systematic approach

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[16] Page 224, The Game-Changer.
[17] Page 223, The Game-Changer.

to innovation. We don't rely on "Eureka!" moments. For example, we're highly systematic about how we organize for innovation. We don't take a "one-size-fits-all" approach but we're deliberate about creating the right structure for different kinds of innovation work'. Examples of this include the structure of the Corporate Innovation Fund, Future Works and business development teams – described in more detail under Factor #11.

Innovation reviews are not performance reviews, as the purpose is to both assess the past and to look at the future. In P&G, **innovation reviews take many forms and occur with frequency approaching quarterly with annual reviews attended by the CEO**. A longer-than-expected time span is involved and ranges up to 3 to 5 years[18]. Many of the innovation programs have longer time periods but the purpose is to keep the hopper full of new ideas, some of which will find their way into commercialization. The innovation review deals with risk and uncertainty.

Factor #14: Availability of reward mechanisms for innovation.

It seems clear that P&G has recognized that non-monetary mechanisms are an essential motivating mechanism for most of their personnel. There is, however, not much anecdotal evidence of the existence of monetary awards for innovative individuals or groups. The company is known to have a significant stock option plan for employees but this is not referred to when discussing innovation.

In order to drive innovation, Lafley chooses to place emphasis on a number of actions, including the 'careful selection and use of the right metrics, recognition, and **rewards to encourage innovation'**. Further emphasis is placed on the 'process of evaluating, developing, and promoting outstanding business leaders who are also outstanding innovation leaders'. While the comment suggests that something is done, it is not clear just what is done, how it works (for example whether there are monetary rewards for individuals, groups or business units) nor the significance of the reward.

Factor #15: Planning orientation versus action orientation.

P&G seems to take a balanced approach to planning.

P&G, in its desire to focus on innovation, links innovation budgetary amounts to both revenue and cost streams; attempting to attribute planned for growth to the success of new initiatives which are at a sufficient stage of advancement that numbers can be applied to both revenue and cost[19]. **The result is a budget which, while updated annually, brings together the several functional areas involved in the process.** As Lafley states, it is an 'innovation-centered' budget. There is a greater sense of ownership of the result than if the different functional areas each, if you like, contribute their effort alone. People are 'inspired'.

Lafley places a great deal of emphasis on role of strategy in the process of focusing the entire organization. He states that a **strategy reduces confusion and complexity[20].** Indeed, his explicit statements providing numbers for the % or new products and the % of growth which is expected from organic growth are clear demonstrations of the great use of numbers to secure clarity from otherwise vague pronouncements.

[18] Page 174, The Game Changer.
[19] Page 181, The Game-Changer.
[20] Page 75, The Game-Changer.

Factor #16: Attitudes towards merger, acquisition, joint ventures, and divestiture.

Under Lafley's leadership, P&G established a goal of securing more 'organic than acquired 'growth' since this is seen by management as less risky and more rewarding than acquired growth. Acquisitions have their place but the clear current focus is on growing internally. Non-performing business units have been sold as part of the ongoing restructuring of the company.

Innovations now drive virtually all of P&G's per annum organic sales growth and only a small percent of sales growth is attributed to acquired growth. It seems apparent that the previous period (pre 2000) had been marked by growing through acquiring companies, a practice that Lafley wished to change; 'I consciously set out to restore innovation to the heart of P&*G'*. 'Investors value organic growth more than acquired growth' according to Lafley[21]. Acquisitions play an important but longer term role in the growth of any company.

Organic growth is probably viewed by current employees as less disruptive than acquired growth since major acquisitions or mergers most often inevitably lead to significant job restructurings.

Factor #17: Management expectations regarding loyalty to the company versus personal development.

There is little anecdotal information available on this point.

While some innovative companies, such as Google and 3M, have explicit time-related policies respecting time spent in pursuit of personal versus corporate development, there is no information available about P&G's practices. One assumes, therefore, that the expectation is that the employee is 100% dedicated to his/her tasks in the company most certainly while within the regular working day.

Factor #18: Decentralization versus centralized hierarchy.

P&G recognizes the demise of the hierarchical structure common to most businesses until a relatively few years ago and less significance attached to hierarchy and more to 'connections'.

P&G concluded that the sun was 'setting on the internally focused, vertical integrated organization'. 'We are in an era of open cooperation'. P&G's emphasis on 'connect and develop', a process that brings in ideas from outside the corporation, is but one example of their adoption of management practices which put substance behind the use of the term 'open corporation'.

Factor #19: Availability of resources (budget, time, etc.) for new ventures.

P&G has introduced a number of significant 'enabling mechanisms' to support new ventures and because of these, as well as other management practices, there probably is a view within the corporation that budgets/resources, etc. , for new ventures are available if the project can satisfy established criteria.

P&G has a variety of enabling structures to support the promotion and development of new initiatives and makes use of one or more of these structures depending upon the nature of the initiative. The P&G Corporate Innovation Fund (CIF) is one example. P&G's Future Works, consisting of multidisciplinary team, lead by a General Manager, purpose is to seek out innovation opportunities that create new consumption, leading to creating new businesses. The New Business Development (NBD) organization within each business unit is another structure. These are further described under Factor #11.

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[21] Page 75, The Game-Changer.

P&G invested 'serious money, resources, time, and management intensity to make our core strengths stronger'. By reinventing their 'highly valued marked research organization' they switched from traditional focus groups to focus on 'immersive research'.

Innovation Project Teams, funded by the business unit, are embedded within each category and brand business to make sure that the 'pipeline of incremental and commercial conceptual innovations' are aimed at serving the customer better.

Factor #20: Staff versus line involvement in the decision process.

Little of no anecdotal evidence is available on this Factor.

The distinctions between line and staff seem very blurred in P&G. While there is little or no anecdotal evidence of this Factor, it might be concluded that there is no great distinction between line and staff when an organization becomes so open, where collaboration is emphasized, and a team approach is much more the practice than the exception.

Factor #21: Ability to retain innovators.

Little or no anecdotal evidence is available on this Factor.

While there are references to the need to retain people who innovate, and to create a climate for invention which creative personnel will find attractive, there is little said with regard to the success or failure of innovator-oriented retention policies.

Factor #22: Extent to which company has an innovative tradition.

P&G clearly makes innovation central to their business. For P&G, innovation is a 'central organizing principle that people use as the basis for making decisions, meeting challenges, and creating opportunities'. What has changed in the last 8 years is the definition and approach applied to innovation. There is a much broader definition of innovation. Organization and process changes have been put in place to innovate innovation.

There is an inference that innovation, as practiced prior to 2000, was seen to be the domain of the technologists in P&G; an innovative tradition none the less, but one with a narrow focus. The pace of innovation has doubled in the past decade[22].

At P&G, 'there is a broader, stronger, more consistent innovation culture today than at any time in our history' – states Lafley.

Factor #23: R&D budget levels versus the competition.

P&G's R&D expenditures have always been a priority and are much above the level of its main competitors; Unilver, etc. R&D spending has however been reduced as a percentage of sales since 2000.

'While many people think of P&G as just a marketing company they are surprised by the enormous depth and breadth of the in-house our science capability'. This correlates well with other innovative companies who are also seen to be completely on top of the science and the technology behind their products.

[22] Page 79, The Game-Changer.

P&G makes it clear that they believe that the company has exceptional talent and knowledge of the science behind all, or most of their products. Science is given a prominent position in the literature. 'Our Research & Development efforts cover 150 areas of science. The 'essential part of P&G's R&D – world-class technologists who are masters of core technologies critical to P&G's household and personal-care' has not changed over the last 8 years.

'In the fiscal year July 2004-June 2005, P&G invested $ 1.8 billion in leading-edge research and development activities. There were over 9,000 scientists and researchers, including 1000 PhD scientists, working in 28 research centers in12 countries across 4 continents - conducting R&D across a broad range of areas.'. For example, in the UK and Ireland P&G has 3 Research & Development Centers employing around 520 scientists/researchers. In 2000 Lafley's view was that company overheads and R&D spending were too high for a corporation with only $40 billion in sales; the 'level of spending was more suited to a company with $50 billion'[23]. P&G currently (2008) has 8,500 researchers

The company's 'Connect + Develop' initiative is a way to tap into more R&D. 'Outside the organization there are another 1.5 million similar researchers with pertinent areas of expertise outside the organization' according to Lafley. To tap this outside knowledge, Technical entrepreneurs (TEs), are charged with making the connections with 'academic institutions, government labs, suppliers' etc. TEs use advanced search methods for finding answers to questions and sourcing ideas and that the business units know about these connections. The focus is on establishing intellectual relationships.

While R&D spending per se, as a percent of sales, has declined, it seems obvious that when you consider 'Connect + Develop' as part of the process of finding and evaluating new products or new ideas, **over all investment in research may have increased**. Also spending on 'immersive in-store and in-home research is up five-fold since the beginning of the decade'. Perhaps improving these two linkages is one of the reasons that R&D productivity is up 85% over the year 2000 even though R&D spending is only 'modestly up'.

To sum up; Lafley states that 'We innovate across more categories and on more leading brands than any other consumer products company. We have a broader range of science and technology than any of our competitors. We invest more in innovation and marketing support than any other consumer products company. We deliver an unrelenting stream of innovation with systematic discipline'.

Factor #24: Perception of innovation as increasing or decreasing.

There was a sense, in 2000 and perhaps before, that the company's innovation results were flagging and needed to be reinvigorated.

Lafley chose, on assuming the office of the CEO, to focus those goals on which he could have the biggest impact –'goals and strategies, and leadership and culture'. He states that 'P&G are getting it right more often'. 'P&G's strategy and structures empower innovation'. The clear indication is that these areas were not performing up to expectations and that considerable improvement would come about by placing the emphasis on these four areas. Management believes that innovation is now increasing.

'Innovation has always been at the heart of P&G's business model, but today it's not the province of only one or two functions within the Company. Innovation is the focus of our entire organization. P&G's innovation capability is stronger and more robust today than at any time in the Company's history — and this is why I'm confident innovation will continue to be the primary driver of sustainable sales and earnings-per-share growth at or ahead of P&G's long-term targets' – according to Lafley.

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[23] Page 74, The Game-Changer.

Factor #25: Degree to which employee organizations encourage innovation.

Little or no anecdotal evidence is available on this Factor.

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