Reckitt Benckiser's Management Practices which Support a Culture for Innovation. December 2009

(including a comparison with Procter & Gamble)

(Incomplete – note watermark – awaiting comment)

Corporate
Innovation
Online
Ideas, Self-help and News

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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].

Objective

The purpose of this Profile is to identify those management practices employed by some of the most innovative companies in the world which support a culture for innovation. The Profile is based on information drawn from a number of sources but the main sources are;

- White & Partners Ltd. Profile of Procter & Gamble dated November, 2008, and available from the web site; http://www.corporateinnovationonline.com,
- The Economist; December 12, 2009, 'And the winners were….
- The Economist's Innovation Awards 2009.
- Reckitt Benckiser Annual Reports, 2004 through 2009.
- Reckitt Benckiser Presentations.
- Accenture: Outlook Journal, October, 2005, interview with CEO Bart Becht – Picking Winners at Reckitt Benckiser.
- http://www.corporateinnovationonline.com, on-line information drawn from the management practices of innovative companies.
- Interview with Rakesh Kapoor, EVP, Reckitt Benckiser on receiving award from The Economist.

The above information sources are used extensively in preparing this profile. Attribution to the source of the reference is provided.

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

Methodology

Anecdotal information has been structured according to 25 Factors. The 25 Factors have been identified as contributing to, or detracting from, a culture which supports innovation and are based on earlier research into innovative companies. By parsing a corporation's culture for innovation into 25 Factors, it is anticipated that individuals/corporations will be able to assess their own corporate culture and take initiatives which will improve their own culture for innovation.

For more information on any of the companies which have been profiled, please refer to the web site and download the corporate profiles.

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

How does corporate culture relate to innovation?

The Economist makes the following point:

> *This newspaper was established in 1843 to take part in "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress". One of the chief ways in which intelligence presses forward is through innovation, which is now recognized as one of the most important contributors to economic growth. Innovation in turn, depends on the creative individuals who dream up new ideas and turn them into reality*[2].

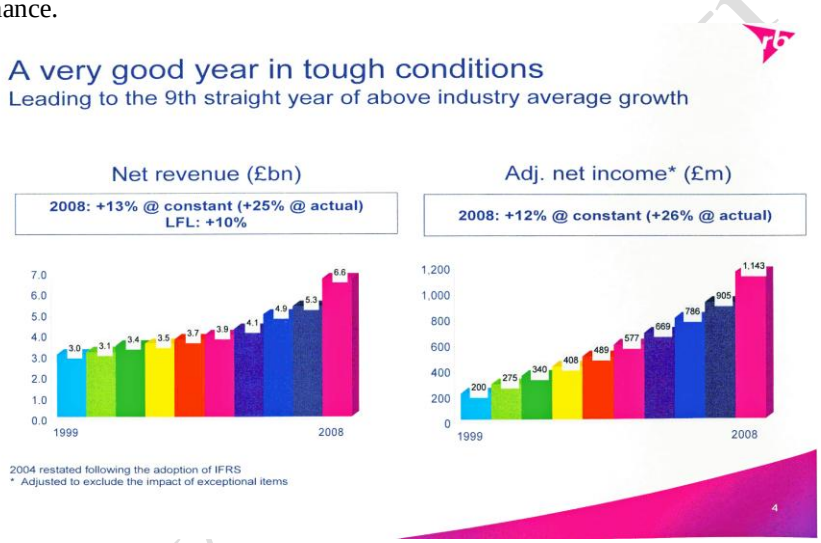
The Annual Innovation Rewards, presented at a ceremony in London on October 29th, recognizes talented people in eight fields, one of which is entitled the 'Corporate Use of Innovation'. This year's winner is Reckitt Benckiser (RB) for in recognition of its 'innovative and entrepreneurial corporate culture'. The Economist goes on to say that the reasons for this award are due to the fact that it 'has maintained strong sales and profit growth, despite the recession, because of its diverse, dynamic and innovative culture'. This leads to the question of what constitutes this culture and might it, in total or in part, be replicated by other organizations to their own benefit.

The award is prestigious as the judges, too numerous to mention, are all eminently qualified to make the reward and even include Jeff Weedman who is Vice-President of external business development for the dominant player in this industry; namely Procter & Gamble. White & Partners Ltd completed a Profile of P&G's culture in November, 2008, based largely on information set out in a new book – The Game Changer – co-authored by A. G. Lafley, then CEO of P&G. The Profile focuses on the last decade and the period under Lafley's watch. This Profile of RB makes use of the P&G information by attempting to draw out the differences and similarities between these arch rivals? This is particularly interesting since Bart Brecht is ex P&G.

An additional point to note is that both CEO's have had the last decade, more or less, to transform their companies; Becht from the formation of the company and Lafley on assuming the post after close to three decades with P&G. From a financial perspective, RB is the winner in terms of creating shareholder value (share value from 2005 to current shown below).

[2] The Economist, December 12th, 2009. Technology Quarterly. And the winners were….

It is an impressive achievement and is the reason so much attention is being given to the nature and causes of RB's performance.



The Net Revenue and net income graphs show it all. RB has had an outstanding decade and all under the stewardship of Bart Becht; the current CEO. From corporate headquarters in Slough, England, since the company's formation, Reckitt Benckiser has more than doubled its net profit, substantially outperforming its industry peer group.

Executive Summary

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.

For P&G, culture is deep-rooted, and even though the focus of the Profile was on the last decade, it should be noted that this is a company with a long history of success and their culture has contributed immensely to their success and left a legacy – some good and some not so good – that Lafley has had to deal with. This is in sharp contrast to RB, which has a ten-year history and a legacy and culture which is more nascent than the culture of P&G.

Both companies express the importance of innovation in almost all of their material; annual reports, presentations, video conferences, etc. Innovation is the feature of the 2008 Annual report of P&G. RB's similar information features the theme of innovation. One wonders – more comments later – whether there is a definition of innovation which is common to both companies.

P&G's Profile shows that there is a positive correlation **(shown in blue in the following Profile**) with 19 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.
- Of the 8 most important Factors, 7 are favorably addressed by P&G practices. Information on Factor #14; Availability of Reward Mechanisms for Innovators, is not clear so a comment could not be made.

The conclusion; P&G scores very well regarding the Factors which, according to the 2008 Profile by White & Partners Ltd., contribute to a supportive culture for innovation.

Reckitt Benckiser's Profile is more obscure largely due to a lack of information on many of the Factors which go to make up the Profile. Bart Becht needs to write a book (not a serious suggestion), or the executives and others need to talk more about their culture, their beliefs and values as well as their management practices! Having said this we have provided comment and summarized the status so that readers and others who wish to do so can provide further information to the RB Profile. Comments to date are as follows:

- For 11 of the Factors, RB correlates well with other highly innovative companies which we have profiled.
- For 13 Factors, as listed in the Summary, there is incomplete information to come to any conclusions regarding the correlation with innovative companies.
- One of the Factors is judged immaterial for any comparison.

Should more information become available regarding RB (and P&G if there is more) we would be happy to update the Profile and the stated similarities and differences. This Profile is a draft work in progress!

It seems clear that **P&G** has achieved its current success (under Lafley's watch) resulting in 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 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.

RB has achieved its current success, but kept the culture the same over the past decade, by emphasizing the following;

- incentivizing its management personnel and perhaps (we don't have the information) others in the organization,
- focusing (with a disproportionate spend) marketing investment and cost reduction efforts on what are referred to as Power Brands,
- making strategically important acquisitions to round out business for product line extensions and geographic regions,
- having a strong management team and a culture which favors action to make strategies happen,
- emphasized a culture which is marketing and innovation focused, and at the same time
- kept the organization lean and un-bureaucratic (which might reference P&G's culture prior to 2000).

It will be interesting to see how the performance of these two very aggressive and competitive companies works out over the next decade. Much more needs to be known by us to make any comment on strengths or weaknesses of their business culture beyond what is contained herein. Information regarding RB's culture needs more input from us and that means accessing more information about the company itself.

To conclude this Executive Summary, we have the given the 'floor' to P&G because; 1.it is a more significant force in the consumer products industry at this time, 2.it has changed its culture (which is more difficult to do than to build on an existing culture), 3.it has been around a lot longer, and finally and most importantly 4.we know more about P&G than about RB.

Lafley (P&G) 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'[3].

- "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"[4].

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, Lafley 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'[5].**

This Profile is prepared with a view to doing just that; to be able to replicate parts or all of the management practices which contribute to a supportive culture for innovation and to minimize those practices which are counter-productive. The choice of 25 Factors is a means of better understanding and articulating those management practices which, if aligned in the right strategic direction and given sufficient importance, will make for a culture which is supportive of efforts to improve innovation.

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

Management practices which support a culture for innovation.

(according to 25 Factors*)

Blue indicates that there is a close correlation between P&G's management practices and those of other highly innovative companies.

Factor	RB Information Status	P&G Information Status
Factor #1: Emphasis on short-term versus long-term profits.	**Incomplete**	**Complete**
Factor #2: Extent to which management explicitly looks for innovation.	**Mostly complete**	**Complete**
Factor #3: Tolerance of mavericks.	**Incomplete**	**Complete**
Factor #4: Degree to which planning emphasizes rationing of resources versus identifying opportunities.	**Mostly complete**	**Complete**
Factor #5: Tolerance for failure.	**Incomplete**	**Complete**
Factor #6: Emphasis on management of people and their interactions.	**Incomplete**	**Complete**
Factor #7: Use of career ladders and recognition of innovators.	**Incomplete**	**Complete**
Factor #8: Tolerance for variance from the corporate norm.	**Incomplete**	**Incomplete**
Factor #9: Tolerance for risk (in the planning process).	**Incomplete**	**Complete**
Factor #10: Degree of formal communication within the organization.	**Incomplete**	**Complete**
Factor #11: Use of independent work groups.	**Incomplete**	**Complete**
Factor #12: Degree to which management decisions are made with input from the rest of the organization.	**Complete**	**Complete**
Factor #13: Formality of the decision process.	**Complete**	**Complete**
Factor #14: Availability of reward mechanisms for innovation.	**Complete**	**Incomplete**
Factor #15: Planning orientation versus action orientation.	**Complete**	**Complete**
Factor #16: Attitudes towards merger, acquisition, joint ventures, and divestiture.	**Complete**	**Complete**
Factor #17: Management expectations regarding loyalty to the company versus personal development.	**Incomplete**	**Incomplete**
Factor #18: Decentralization versus centralized hierarchy.	**Complete**	**Complete**
Factor #19: Availability of resources (budget, time, etc.) for new ventures.	**Complete**	**Complete**
Factor #20: Staff versus line involvement in the decision process.	**Complete**	**Complete**
Factor #21: Ability to retain innovators.	**Incomplete**	**Incomplete**
Factor #22: Extent to which company has an innovative tradition.	**Complete**	**Complete**
Factor #23: R&D budget levels versus the competition.	**Incomplete**	**Complete**
Factor #24: Perception of innovation as increasing or decreasing.	**Complete**	**Complete**
Factor #25: Degree to which employee organizations encourage innovation.	**Incomplete**	**Incomplete**

For more information on each Factor, please visit: *http://www.corporateinnovationonline.com

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

Profit optimization has been a focus of all of the innovative companies which we have reviewed. It is, however, clear that too much emphasis on profit, i.e. a short-term focus, can stultify innovation and it is equally clear that simply taking the longer-term view does not create the sense of urgency that is also a motivating factor. There is a need for balance, but tipped slightly towards management taking the longer-term view of profits on a year over year basis.

Check-Up results suggest that most respondents are of the opinion that a slight emphasis on the longer-term view is what is called for to be consistent with having a culture for innovation.

Reckitt Benckiser	**P&G**
There is little use of terms such as short-term or long-term in the material available from the company or from other sources. Investment spending on R&D is not singled out as a separate figure nor is this form of spending emphasized in the literature. In contrast, there is heavy emphasis on 'media' spending and marketing investment. RB's financial performance, over the last decade, has been outstanding and the achievement of financial results must now be part of the expectation and culture of the organization. With so much of the senior executives pay being tied to bonus packages one must infer that there is a strong incentive to make sure that short-term targets are reached. The 'markets' expectation – in order to sustain growth in share price – must be met. On the other hand, with upwards of 35% of innovations (new products versus existing products) being achieved it seem clear that RB has filled the pipeline of new ideas consistently over the last decade and this must be the result of longer-term product-oriented thinking and investment. We just cannot comment further on this Factor!	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[6]. 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[7], Lafley reinforces exactly this same point.

[6] Investing in Innovation; longer version of the 2008 report.
[7] Business Week, Video.

Factor #2: Extent to which management explicitly looks for innovation.
One of 8 most important Factors.

In virtually all innovative companies there has been a history of management making explicit statements on the need for innovation. Management makes reference to any number of measurements of innovation; percentage of new products, new business models adopted, etc. to reinforce the importance of innovation to the growth and profit, the competitiveness, of the corporation.

Check-Ups' respondent results place a very high importance on this Factor, ranking it as one of the 8 most important Factors which contribute to a culture for innovation.

Management at **RB** is quick to identify 'investment and product innovation' as 'the key driving factors behind Powerbrands and RB's growth' and that 'Innovation is 'driving above average growth'. The driving force, according to Becht is the consumer, who is 'making decisions with greater scrutiny' than ever before. As far back as 2004, RB's strategy emphasized the role of innovation not so much in terms of input but in terms of output; new products or product variations being introduced and, as well, making marketing investment part of innovation. In the 2004 strategy there are 4 major points: *'We strengthen our business by focusing on strong brands in high growth categories. Currently 53% of our net revenue comes from our Powerbrands, the flagships in our key categories.* *We maintain a high level of **product innovation** to deliver better solutions to consumers and constantly rejuvenate our brand portfolio. Our **innovation rate** means we now generate around 40% of net revenues from products launched in the prior three years.* *We back our products and brands with a high level of marketing investment. Media spending alone has almost doubled to the industry's highest level of reinvestment.* *And we roll out our key brands and **innovations** geographically.* As a result of these actions 'we are consistently	Innovation while always a part of **P&G's priority** was redefined around 2000 to encompass a wider range of corporate activities, moving beyond relying for innovation solely on technical sources. P&G 'revamped' the company and, according to Lafley, this **required 'visible, consistent commitment from the top**'[8]. 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. '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, 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'[9]. P&G has 'revamped' the company and according to Lafley this has required **'visible, consistent commitment from the top'[10].** The changes do not come from 'eureka' moments but rather from 'leveraging what our business does best to create a competitive advantage'. 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.' Lafley states that; '**The ability to lead effective innovation programs is required at P&G**, particularly at the general manager and president

[8] Page 103, The Game-Changer.
[9] Page 222, The Game-Changer.
[10] Page 103, The Game-Changer.

growing ahead of the industry average' according to Becht. Management does focus on innovation – as RB defines the term.	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.
One of 8 most important Factors.

Tolerance of mavericks is often difficult to judge for a number of reasons. First, there is no easy admission by the corporation that it has mavericks in its ranks. Why would a company want to make explicit statements to this effect (but 3M has done so)? Secondly, if there was mention of mavericks and the role played by such individuals, how is one to believe that the reference is to mavericks and not just a reference to employees who are seen to be 'out of the norm'. None the less, their importance to most innovative corporations is worth noting.

Check-Up results clearly point to the view that respondents believe that this Factor is very important and affects a corporate innovative culture.

RB makes no reference to mavericks per se but it does refer to 'constructive conflict' and to having a tolerance for new ideas no matter how initiated.	**P&G does not mention mavericks** per se nor suggest that mavericks are important. There is, however, significant mention of collaboration and the fact that innovative leaders 'are receptive to ideas' from very different disciplines. Their recent hiring of 'mid-career designers'[11] was a move to inject less linear thinking into the organization. There are many examples, most recently, of enabling mechanisms which encourage multi-disciplinary exchanges.

Factor #4: Degree to which planning emphasizes rationing of resources versus identifying opportunities.
One of 8 most important Factors.

Innovative companies know when and how to focus the organization; more on identifying opportunities rather than on rationing resources or emphasizing cost reduction – at least in the planning process. Often the emphasis on cost reduction or resource rationing can be placed into a positive – innovative – light by seeking innovative ideas to reduce the scale of or optimize operations. Shifts in focus will, of course, occur as the business grows and declines through business cycles.

Check-Up results show that respondents believe that innovative companies, in their planning process, should emphasize that they are looking for opportunities rather than rationing resources. While shifts in values may occur due to very difficult economic times, those companies which are innovative retain a sense of the need to continue to look beyond cost reduction in structuring the business plan.

RB makes the point that the cost synergies are the easier part' and that the real challenge is to 'focus the business for profitable growth'. The biggest challenge is to come up with new ideas. 'Our strategy against private-label products and discounters is very straightforward—to continue to innovate and to properly support that innovation. The point is not to try and match them on price. We want to come up with better products and to communicate to consumers that we actually have better products. Our biggest challenge is to continue to make sure we have a continuous stream of new ideas and innovations to bring to market'. It is important to RB to get to the market first and	**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. Since 2000 the shift has been more to identifying opportunities.

[11] The Game Changer, p107

not be a follower. There clearly is a major advantage to being first to market in this industry. 'We are not like pharmaceuticals, where innovations are patent-protected. Our products are incremental innovations that can be copied relatively quickly. Being first to market allows you more time to exploit the innovation. That doesn't mean that every new product has to be a totally new category—but it does have to be an improvement on its predecessor.'	

Factor #5: Tolerance for failure.

All innovative companies make a point that when failure occurs, it is (should be) a learning or positive experience for everybody. This positive attitude is a hallmark of innovative companies. Easy to say but very difficult to instill as a cultural value and, as a consequence, innovative companies take every opportunity to reinforce this value.

Check-Up respondents thought that this was a relatively important Factor, but it did not make the top 8 Factors contributing to a culture for innovation.

RB makes little comment on their attitude to failure except for the reference to taking risks; 'collaborates in powerful teams and takes intelligent risks together on behalf of the business'.	**P&G**, for example**, 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. 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'.

Factor #6: Emphasis on management of people and their interactions.
One of 8 most important Factors.

Leaders of innovative companies, by way of their management practices, put a great deal of emphasis on the management of people and their interactions. Enabling mechanisms such as the use of independent work groups, the formation of task forces, encouraging connections with outsourcing suppliers, the provision of a clear and understood organization structure, are all examples of a management being concerned about people and how they interact; how they relate to one another.

Check-Up results suggest strongly that respondents believe that this is one of the best ways of management creating a climate for innovation.

RB makes little reference to this Factor but would, we are sure, have an opinion to share. There is just no – or limited – reference to this in the literature, presentations, and other company media reviewed so far.	**P&G** points out that part of **making innovation routine involves people and making connections** between an idea and its process to the market. 'Managing these interactions is the crux of building an innovative organization'. Innovation centers[12] 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'. 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[13] and communication was by memo – 'even to the person next door'. The idea was to foster creativity.

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

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

Virtually all innovative companies provide special rewards or incentives for those engaged in innovation. While the awards may differ; ranging from the awarding of medals to substantial bonuses and, in some cases, providing the right to manage the business of the new innovation, the fact is that innovators are singled out and rewarded. Further, there are significant opportunities for career development and advancement.

Check-Up respondents have a mixed reaction to the provision of awards and there is no consensus as to whether special recognition is related to the culture for innovation. Some emphasis is desirable but tipping too far so as to isolate 'innovators' per se may be a de-motivator for the balance of the staff or for those who do not see themselves as innovators.

RB. 'OUR PEOPLE AND CULTURE Our strategy will only work if we have the right people working together within the right corporate culture. Our people consistently achieve remarkable things through their passion for the business and determination to succeed. I thank them for their tremendous contribution. Our success does not depend on a few outstanding people, but on many good people working effectively together in a culture that shares a hunger for success, celebrates achievement, collaborates in powerful teams and takes intelligent risks together on behalf of the business. Internal politics waste time and dissipate effort. We aim to unite behind shared strategies to make a winning business. Our remuneration system is a key tool in driving culture, behavior and performance. It is designed to reward success. We make no apology for paying well for excellent performance, nor for being unsympathetic to mediocrity.'	**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. The awarding of medals is used in P&G to recognize excellence. Lafley 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.'

Factor #8: Tolerance for variance from the corporate norm.
Little or no direct anecdotal evidence is available on this Factor.

While there is little anecdotal evidence that corporations go out of their way to encourage abnormal behavior, it is clear that innovative companies have a culture which fosters tolerance for a wide range of out-of-the-norm behavior.

Check-Up results suggest that, on its own, this Factor is not too important as a contributing Factor to a culture for innovation but when combined with other aspects of a corporation's tolerance, the Factor becomes more significant.

RB makes the point that 'We enjoy constructive conflict with each other and our partners, and like to take calculated risks to gain advantage in some of the most competitive markets in the world'.. Rakesh Kapoor[14] makes reference to bringing on board people with diverse backgrounds and encouraging people to ask questions.	Little or no comment on this from the **P&G** Profile.

See other Factors which relate to a measure of tolerance in the organization.

Factor #3: Tolerance of mavericks.
Factor #5: Tolerance for failure.
Factor #9: Tolerance for risk (in the planning process).

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

Innovative companies take deliberate steps to build an acceptable risk profile into their business plan. Innovative companies make it clear to employees at all levels as well as to stakeholders, that there is a willingness to look at new innovative ideas, initiatives, business models, and at the same time, assume the risk which is inherent in new ventures.

Check-Up results, at least from those respondents who have so far completed this survey, provide little direction of opinion on this point; results are neutral.

RB comment; 'We enjoy constructive conflict with each other and our partners, and like to take calculated risks to gain advantage in some of the most competitive markets in the world'.	**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'[15]. **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.

[14] Video of The Economist's interview with Rakesh Kapoor on receipt of the 2009 Award.
[15] Page 178, The Game-Changer.

Factor #10: Degree of formal communication within the organization.
One of 8 most important Factors.

Innovative companies tend toward trying to establish an informal-type organization where people are free to communicate up and down the line. Not really a new practice in many cultures but can vary significantly with national culture.

Check-Up results clearly indicate that this is an important part of any innovative company's culture. Minimize the formality, seek openness, and encourage communications.

Little or no comment on this aspect of **RB's** business culture.	**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**.' according to 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.
One of 8 most important Factors.

Innovative companies make extensive use of independent work groups, task forces, and project teams to accomplish a given objective.

Check-Up respondents confirm that this is one of the most important Factors affecting a culture for innovation. The opportunity to break down communication barriers through the construction of objective-oriented teams is one of the benefits of such an approach.

There is some indication that teams – in the sense of independent work groups – could be formed to accomplish specific tasks but the information is not sufficient to draw any conclusions as to whether this is **RB's** common practice.	**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. Examples of independent work groups include: Future Works, 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, and Innovation centers. **For more information on each of these groups, please see the Profile of P&G.**

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

Most innovative companies state that they value the input from across and throughout the organization. Exceptions exist and often these are also very successful organizations run by a C.E.O. who has charisma and can be autocratic but these organizations are the exception.

Check-Up results support the notion that today's innovative corporation function well with less autocracy and more participation and that this is an important Factor contributing to a culture for innovation.

As **RB's** geographic market penetration increases, as it has over the past ten years, there is every indication that input from a wide cross-section of the company is widely encouraged. 'Not all markets are the same. Our category people, here at headquarters, work together with people from the lead markets—the areas in our organization. The team will discuss the strategy for the brand overall—communication strategy, ideas for key new products. They'll discuss how to get the new ideas, where they will get them from and how they will screen them once they have them. The best ideas will be developed into new products and pre-market-tested in the areas before being recommended for launch to the executive committee'. **RB** makes reference to the sources of ideas and excludes no source. 'So how are they (ideas) generated? From consumers, from suppliers, from creative shops. In fact, everybody in this organization is there to generate ideas as well and to bring them to the table. The more ideas I have, the better my chances of finding a winner.'	**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.

Factor #13: Formality of the decision process.

Innovative companies operate with more discipline than one might first expect. The notion that innovation means 'free form' is, on greater examination, found not to be the case. Innovative companies have a disciplined approach to the creative process and the test most often used is whether the process itself is able to be replicated. If it can be replicated, then the system is working, if not, then something else is making for success or not.

Check-Up respondents indicate clearly that their view is that an innovative company should have less formality rather than more formality.

RB's comment; 'We keep the organization slim, streamlined and un-bureaucratic. In this way we can have fast decision-making, be spontaneous and respond rapidly to changing consumer needs and market conditions'.	**P&G** make a strong point that the business is **operated with discipline** and that systems are replicable. '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. 'An unfettered free flow of information has to exist'[16].

[16] Page 223, The Game-Changer.

Factor #14: Availability of reward mechanisms for innovation.
One of 8 most important Factors.

Innovative companies generally make extensive use of reward mechanisms but, in addition, single out those individuals and groups which are viewed as being central to the innovation process. Reference Factor #7 for additional comments.

Check-Up respondents make it clear that rewards are a major determiner of a culture for innovation.

RB emphasizes the importance of 'incentivizing' the key players – without making reference specifically to innovators. It is not clear about the basis of the incentive program but reference is made to the fact that over 80% of a manager's income is derived from such incentives; 'Strong management, bound together in a common culture, properly targeted by a compelling strategy and appropriately incentivized makes a powerful force for business performance. That is why we continue to place so much credence on our remuneration system, which pays for performance. For the most senior management, 80% or more of total remuneration is performance-related from our annual bonus and long-term incentive programmes, rewarding the achievement of superior in-year results, and the building of long-term shareholder value. At the same time, senior management commits its own capital to the business through our stringent share ownership policy making us behave like part-proprietors of the business, sharing the risks and rewards of shareholders.' "The Reckitt Benckiser culture lies at the heart of our success. Led by a strong management team, who are heavily incentivized to achieve performance, our people are entrepreneurial and take it upon themselves to own and create initiatives and deliver great execution. They are driven and dynamic, and want to make their mark'.	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. 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.

Innovative companies seem to strike a balance between the 'hip shooting' versus the 'planning to the nth degree' syndrome. Neither extreme is conducive to a culture for innovation. Too much 'hip shooting' probably suggests an autocratic approach to management or has the potential of management reacting to the fad of the day or internal political persuasion. Nth-degree planning simply suggests that the company is moribund and incapable of making decisions let alone with a sense of urgency.

An analysis of Check-Up results suggests that respondents do not consider this relevant to a culture for innovation and certainly there is no consensus as whether one approach is better than the other.

The **RB** organization is in place and the role of all the players seems to be defined – resulting in an organized and careful approach to planning and management. 'Each area has a head of business, and below them are regional directors who run the specific regions. They, in turn, work alongside a category development organization, which is responsible for making sure that brand strategies are developed and implemented, as well as for developing a pipeline of new products for these brands. They work with our marketing and R&D people to make sure we have the right communications strategies in place and that best practice is generated in each of the categories. It's a kind of brand board, if you like. They are, in essence, there to manage our key equities and make recommendations to a group within our executive committee that meets every month to review their recommendations'.	**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[17]. 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[18].** 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.

[17] Page 181, The Game-Changer.
[18] Page 75, The Game-Changer.

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

Innovative companies appear to move through cycles of seeking growth by acquisition or through 'organic growth'. 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. The attitude towards this kind of structural change is probably directly related to the employees' view of their own experience in the last big event. The trick for management is to create, as best one can, a positive event from any merger, acquisition or divestiture.

Check-Up respondents have indicated that this is a relatively minor Factor relevant to the culture for innovation. It does, however, matter whether there is an open or closed attitude to major structural changes.

The attitude of **RB** is to focus on organic growth and to make acquisitions only to enter a new geographic market or, of course, to add to their robust brands – when these opportunities present themselves. 'Our primary focus is on growing the business organically. That does not mean we do not like to do acquisitions, but we are only doing them if they make sense for us because they fit strategically, [because] we believe we can really add something to those businesses and [because] they come at a sensible price. We are not going to do an acquisition just to get a tick in the box and increase the amount of debt on the balance sheet—that we are not going to do'. 'Where scale can potentially help P&G/Gillette is in emerging markets where they don't have enough. That's why we've made acquisitions in South Korea and Indonesia—to achieve scale in certain markets where we were not present'. Finally, leverage our financial strength to enhance long-term growth by making add-on acquisitions that strengthen our core business[19].	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[20]. Acquisitions play an important but longer term role in the growth of any company.

[19] Annual Report; 2005.
[20] Page 75, The Game-Changer.

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

There is little anecdotal information available on this point but there are some practices by well-known companies which are indicative of the importance placed on personal development.

Check-Up respondents are divided in their opinion regarding this Factor. There is a slight bias towards believing that innovative companies should provide some encouragement for personnel development on company time.

No comment from **RB** on this issue.	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.

Reference the Business Week article (**3M**). 'Then **there is the 15% rule**…allows virtually anyone at the company to spend up to 15% of the workweek on anything he or she wants to, as long as its product related. The practice is called "bootlegging" and it's most famous invention is the ubiquitous yellow Post-it note'. The 15 Percent Rule was inspired by one of the early inventors in 3M. 3M has 'institutionalized' this rule.

Factor #18: Decentralization versus centralized hierarchy.

Innovative companies generally have a decentralized organization structure. Decentralization carries with it delegation along with accountability, responsibility and control.

Check-Up respondents are clear that a decentralized organization with little hierarchy is a contributing Factor to a culture for innovation.

It would appear that **RB** attempts to minimize hierarchy although there are not definitive statements to this effect. 'We keep the organization slim, streamlined and un-bureaucratic. In this way we can have fast decision-making, be spontaneous and respond rapidly to changing consumer needs and market conditions'.	**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'. 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'.

Factor #19: Availability of resources (budget, time, etc.) for new ventures.
One of 8 most important Factors.

Innovative companies make an ongoing commitment to the importance of identifying opportunities (Factor #4) and making it generally known that resources of one kind or another will be available for worthwhile projects. The use of a strategy and idea generation to drive the business growth is in sharp contrast to the decades-old former mechanism of financial planning which had as its focus on a line-by-line examination of costs without a close link to strategy.

Check-Up respondents make it clear that this is an important Factor contributing to a culture for innovation. The notion that resources will be available for new ventures is, in itself, a motivating Factor.

RB makes reference to the fact that it has an 'enabling' culture. This does tend to indicate that those in the company believe that an idea, which is soundly conceived and presented, will find that resources for its exploitation will be made available.	**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. The P&G Corporate Innovation Fund (CIF) is one example. P&G's Future Works, consisting of a multidisciplinary team, lead by a General Manager, whose 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. 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. These are further described under **Factor #11** and on the web site.

Factor #20: Staff versus line involvement in the decision process.
Little of no anecdotal evidence is available on this Factor.

Innovative companies in general have little to say about the difference between line and staff. Arguably it is not an issue. Having said this, it is reasonably clear to those within a corporation whether there is too much or too little value placed on one or the other and it is very much an individual corporate value which can, on occasion, get out of balance and lead to either 'hip' shooting (no analysis) or slow decision making caused, in this case, by too much staff involvement.

Check-Up respondents seem to indicate that this is not a determiner of a culture for or against innovation. Opinions expressed are on both sides.

The **distinctions between line and staff seem very blurred in P&G and in RB**. 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. Perhaps the distinction between line and staff has virtually disappeared with the advent of company-wide collaborative schemes where there is participation across and up and down the organization.

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. The problem is exacerbated by the difficulty of identifying explicitly those who are the innovators, in what ever manner.

Check-Up respondents indicate the obvious and that is that innovative companies should retain those who are good at innovating, but their 'Reality' is that innovators leave.

A careful review of all of the information available sheds little or no light on whether innovative companies have a record of retaining innovators or not. There is no published information on this Factor. It would seem clear that innovative companies are successful in retaining the brightest and the best otherwise the reasons for their success would not be so evident. But it is also true the since innovative companies typically are able to attract bright people they have a greater proportion of this type of person and therefore their leaving may have little effect on the innovativeness of the company, at least over the short term.

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

Similar to Factor #24, but this Factor focuses more on reality and less on perception. The notion of this Factor is that a company which has an innovative tradition is in a better position to know how to perpetuate the tradition than a company which is struggling to become innovative. Some companies are not sure why they are innovative. A belief that an innovative tradition is alive and well in a company is a huge motivator for employees and is very helpful in the attraction of talent.

Check-Up respondents' view is that this is a relatively important aspect of the corporate culture to understand.

RB's innovative tradition does not extend more than the last ten years. Each and every annual report since 2005 makes extensive reference to the importance of innovation and with the growth of the company, i.e. many new employees, along with the success over the last ten years, it would appear that all stakeholders would agree that there is a tradition of innovation.	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[21]. At P&G, 'there is a broader, stronger, more consistent innovation culture today than at any time in our history' – states Lafley.

[21] Page 79, The Game-Changer.

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

For innovative companies, investment in R&D has always been a priority. Most of the innovative companies reviewed make a point of stating that their investment in R&D, most often stated as a percent of sales, is more than their competition. Typically, expenditures run at the minimum of 5% and up to 10% of sales with amounts varying significantly by industry sector. While spending levels are important criteria, attention is also given to the effectiveness of R&D spending.

Check-Up respondents did not rank this Factor in the top eight. The opinion was that expenditures should be higher than the competition but not over the top.

RB's comments (Bart Becht's really) suggest that there is a certain attitude towards R&D which is very different from the attitude of most innovative companies, While he indicates that 'Innovation is crucial to high performance in the household care industry' he also states that 'a company's ability to innovate is about much more than R&D' and further that, 'innovation is generated by new ideas, not by messing around in the lab[22]'. Further Becht is careful to state how they measure innovation – again with reference to R&D; 'We measure innovation by the percentage of net revenue coming from new products launched in the past three years. That's a measure of output, not input. There is no correlation between the percentage of net revenue spent on R&D and the innovative capabilities of an organization—none. That's not to say that R&D capacity isn't important'. One is left to wonder how important R&D is to the organization and more particularly to the management culture of RB.	**P&G's R&D expenditures have always been a priority** and are much above the level of its main competitors, Unilver, etc. according to the company 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. **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. 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'.

[22] Accenture; Outlook Journal, October ,2005.

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

Reputations of innovative companies can live on well after the basis for their reputation has vanished. Similarly, it may take a while for the company's reputation to filter through to all employees let alone stakeholders. Since it is important to have a sense of this direction, as part of understanding the culture of the organization and its support for innovation, this can be a more important Factor than first thought. Perceptions, in themselves, can be a motivating or de-motivating influence on the spirit in any organization.

Check-Up respondents rated this Factor as somewhat important but with some leaning toward having an growing innovative tradition making it easier to be innovative than if the company was viewed as being on a downward trend.

RB's record of innovation – in its own definition of the term – suggests that there is a perception that innovation is increasing.	There was a sense, in 2000 and perhaps before, that the company's **(P&G) innovation results were flagging** and needed to be reinvigorated Lafley chose, on assuming the office of the CEO, to focus on 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.**

Factor #25: Degree to which employee organizations encourage innovation.
Little or no anecdotal evidence is available on this Factor.

Check-Up respondents rate this Factor very low as a determiner of a good or inappropriate culture for innovation.

While there has been an attempt at better understanding the role of employee organizations in the various Profiles and reviews completed by W&P, little anecdotal or factual evidence has been observed.

Diagram: P&G's Innovative Culture Profile
(as prepared by White & Partners Ltd. and based on data as set out in the Culture Profile – see web site)

Factors as described.
Values as applied by White & Partners Ltd.