Innovation at General Electric and Procter & Gamble

The advancement of technology and changes in the political environment have been a catalyst for a rapidly changing world. On the plus side, corporations are presented with an abundance of opportunities, however, the negative side of this is that survivability and sustainability in such surroundings are “challenging" to say the least.

For a corporation, a rapidly changing environment can only mean an intensely hyper-competitive business setting, in which all players are fighting for a limited piece of market share in an industry. In order to succeed in such an environment, corporations have to be responsive entities that are flexible to change.

Corporate governance

Corporate governance is a multi-faceted subject, which deals with the issues of accountability, essential fiduciary duty, and the protection of shareholders. The corporate governance structure is determined by the board of directors. It is a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

In a rapidly changing environment, chief executive officers (CEO) of blue-chip corporations like Jeff Immelt (General Electric Co., or GE), and A.G. Lafley (Procter & Gamble Co., or P&G), realize that relying solely on good corporate governance does not ensure the corporation's success. Success normally refers to excellent performance and sustainability through the improvement of two important factors:

1. efficiency; and
2. quality.

A good example of a system that focuses on these two factors is Six Sigma. It is a system of practices originally developed by Motorola to systematically improve processes by eliminating defects. It focuses on operational excellence and on “doing things right first time”. By its very nature, because it is a “precision management tool”, Six Sigma fosters a very low tolerance for risk.

The biggest challenge may be making the leap from Six Sigma process skills to a new way of thinking which encourages creativity and risk-taking and even tolerates failure. This of course does not mean the end for Six Sigma. In fact, the lessons learned throughout the Six Sigma experience should be looked upon as a foundation on which managers can transform the hard-driving, process-oriented corporation into one steeped in creativity and wired for growth.

Innovation and innovative leaders

In general there are two types of innovation – product innovation and process innovation. Product innovation is about improved products, or completely new products, that are
introduced to meet an external or internal need. Alternatively, process innovation refers to the corporate structure and administrative processes. Basically, process innovation covers the changes introduced into a corporation’s production or service operations to improve the ways in which the products or services are conceived and distributed to customers.

The term “innovation” and creativity always go hand in hand, indicating a strong link between them. The same cannot be said about innovation and management. Most corporations who do not understand believe that innovation stresses the freedom to be unconventional (and hence costly) while management, on the other hand, stresses control mechanisms that stifle creativity. It is no wonder many corporations gave up trying to understand innovation. The truth is that innovation is really a management process. Innovation needs to be managed so that risk can be limited.

The knowledge economy as we know it is being eclipsed by something new, labelled by influential CEOs as the “creative economy”. Analytical work associated with knowledge, such as pricing, cost-cutting, efficiency, quality and deal-making (activities normally performed by the “left-brain”), which were once central to corporations, are fast being shipped off to cheaper, highly trained Chinese, Indians, Hungarians, Czechs, and Russians. It seems that more and more, the power of the “right-brain” is being harnessed. The new core competence is creativity, and innovative corporations are now taking full advantage of it to generate top-line growth. The playing field is changing. It is not just about math and science any more. It is about creativity, imagination, and, above all, innovation.

The innovation cultural revolution

A successful innovation effort requires the full participation of everyone in the corporation to ensure that the end results of research and development are in the interests of society at large. Corporations should also work on a whole new set of leadership traits in order to connect with a new set of values and corporate principles.

General Electric

In an effort to unearth a new leadership trait to lead the innovation culture within the corporation, GE went through a comprehensive internal effort and came back with five traits which they now use at their training centre in Crotonville, New York. The new leadership traits are:

1. imagination and courage;
2. external focus;
3. decisiveness;
4. domain expertise; and
5. inclusiveness.

GE believes this is the foundation of how managers could become more innovative.

Corporations need visionary leaders, or better yet, “innovation champions” to initiate innovation efforts. Innovative leaders need to convince others in the organization that innovation and creativity are something crucial to pursue. The innovation champion needs to frame the whole corporation in such a way that others will see the benefits of innovation the way he sees it. Framing is a way to use language to manage meaning, a way for leaders to influence how events are seen and understood. It involves the selection and highlighting of one or more aspects of a subject while excluding others. Imaginative leaders are those who have the courage to influence boards of directors to fund new ideas, lead teams to discover better ideas, and lead people to take more educated risks. What is unfolding is the commoditization of knowledge.

Under its former CEO, the renowned Jack Welch, GE produced a number of outstanding results using precision management tools such as Six Sigma and rewarding executives by giving rich incentives for efficiency. At that time, the skills GE prized above all others were deal-making and cost-cutting. Continual improvement of operations is of the utmost
importance, and that mindset helped make the $152 billion industrial and finance behemoth a marvel of earnings consistency. In the last three and a half years, however, Jeff Immelt (current GE chairman and CEO) has been on a mission to transform the hard-driving, process-oriented company into one steeped in creativity and innovation. Immelt wants to change GE’s corporate governance focus, and turn its precision management mindset into a legion of innovators with a flair for creative thinking.

Quite clearly we can see that GE’s top man is pushing for a cultural revolution. The outcome of this revolution (which at the moment is priority number one), is to move GE’s average organic growth rate to at least 8 per cent from about 5 per cent over the past decade. This is something which competitive pricing, cost-cutting and improvement in efficiency (skills which Jack Welch deemed important) could not deliver. This does not mean that Immelt has turned his back on the “teachings” of Jack Welch. It is just that under him, GE’s imperatives have changed from a process-oriented company into one that embraces risk-taking, sophisticated marketing, and above all, innovation.

Procter & Gamble

As stated earlier, GE is not alone in the effort to merge good corporate governance with innovation. Another company that has done it fairly well is P&G. When A.G. Lafley took over as P&G’s CEO in 2000, his main agenda was to take the corporation into new markets, product areas, and industries. He does this by encouraging his managers to connect with consumers and learn to take risks; he gives them incentives based on how imaginative they are. Through this, Lafley aims to influence the strait-laced corporate governance structure (board of directors) into accepting a novel business model that is based on a new research and design (R&D) strategy and innovation method. This is very important in the effort to transform the corporation into an innovative entity, since it is the board of directors that prioritizes which projects are to be pursued, and the funds to be distributed among different projects.

The basics of this new business model which Lafley is championing are quite simple. At its core is the need to be focused on where customers are going, and he believes this can be achieved in part by playing into major demographic trends. It starts with observation; for example, going out and directly looking at how consumers shop at supermarkets, how they eat in restaurants, or how they are treated in hospitals – in other words, observing how consumers interact with the corporation. Once all the information is gathered, managers are then required to brainstorm for new ideas, followed by prototyping, with the use of models or videos. This enables managers to visualize concepts and make decisions on which ideas to improve and which to discard. Therefore, the product can be assessed for commercial viability much faster.

In ensuring ideas are accepted by the decision makers of the corporation, articulation of ideas or “storytelling” is very important. Managers have found that placing a potential new product within an emotional story that connects with consumers raises its chances of success. This changed P&G’s entire product creation process, making it consumer-centric rather than driven by new technology. The final ingredient in this new business strategy is ensuring that the corporate structure will follow all these processes through all the time. This kind of change can be a wrench for a corporation, but the benefits are worth the effort.

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