Creating the Right Climate, Culture For Product Innovation in Your Business

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Another Critical Performance Driver

A Positive Climate, Culture, Organization & Leadership

A Product Innovation & Technology Strategy to Focus on the Right Arenas

Resources: Making the Right Investment Decisions via Effective Portfolio Management

Creating Big Ideas, Executing with an Effective Idea-to-Launch System: Stage-Gate®
Climate & Culture Is a Critical Success Driver

An innovative, supportive climate and culture is the #1 success driver in the Diamond!

- Leaders leading!
- New values, attitudes & beliefs: Old Game vs New Game
- Time off or scouting time – resources & time off to creative & passionate employees to work on their own projects
- NP ideas rewarded – rewards or recognition to employees who submit NP ideas.
- Resources available for creative work – support and resources for creative employees to pursue their own projects
- Skunk works and ‘unofficial projects’ encouraged
- Risk averseness – less afraid to invest in more venturesome projects

How many of these practices does your business have in place?

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New Values, New Attitudes, New Beliefs, New Rules

<table>
<thead>
<tr>
<th>Old Game</th>
<th>New Game</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renovations &amp; Modifications in Traditional Markets</td>
<td>Innovative Bold New Products in New Markets</td>
</tr>
<tr>
<td>Stable, predicable markets, competitive &amp; mature</td>
<td>Customer &amp; competitor uncertainty, disruptive trends</td>
</tr>
<tr>
<td>Many incremental bets ... few kills</td>
<td>Bold investments, but disciplined kills – a correct kill is a ‘success’</td>
</tr>
<tr>
<td>Traditional stage-and-gate process – linear, rigid, not adaptive</td>
<td>New I2L system – adaptive, flexible, agile, accelerated</td>
</tr>
<tr>
<td>Late stage-customer feedback – in Testing or Field Trials phase</td>
<td>Early &amp; frequent customer feedback via iterations – spiral development</td>
</tr>
<tr>
<td>Do it right the first time – no mistakes!</td>
<td>Fail often, fail early, fail cheaply – learn from mistakes</td>
</tr>
<tr>
<td>Internal environment for control – avoid risk</td>
<td>Internal environment for Big &amp; Bold – take &amp; mitigate risks</td>
</tr>
<tr>
<td>Do the obvious and build on what already exists</td>
<td>Search for unconventional, radical ideas &amp; solutions</td>
</tr>
<tr>
<td>Project teams focussed on delivering documentation</td>
<td>Project teams focused on delivering something physical – on results</td>
</tr>
</tbody>
</table>
#1. The Role of Senior Management

Top management must lead & support the product innovation effort

**Top management’s role:**
1. Adopt a long term commitment to product development
   *Products before profits (Steve Jobs)*
2. Develop a vision, objectives & strategy for Innovation driven by the Business’s objectives & strategy
   *New and exciting markets, strategic arenas*
3. Make available necessary resources & keep the commitment!
4. Empower project teams, & support committed champions – act as godfathers, sponsors or executive champions
5. Do not meddle in projects on day-to-day basis!

Most top managers get it wrong!

<table>
<thead>
<tr>
<th>Push their own ‘pet projects’</th>
<th>Under-resource innovation</th>
<th>Ineffective gatekeepers</th>
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<tbody>
<tr>
<td>Half-hearted support for innovation</td>
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Top Management Support for Innovation

<table>
<thead>
<tr>
<th>Percent of Businesses Where Senior Management is Committed to Innovation</th>
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</thead>
<tbody>
<tr>
<td><strong>Senior management strongly committed to NPD</strong></td>
</tr>
<tr>
<td>Poor Performers</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>79.3%</td>
</tr>
<tr>
<td><strong>Provide strong support &amp; empowerment to team members</strong></td>
</tr>
<tr>
<td>65.5%</td>
</tr>
<tr>
<td><strong>Senior management involved in Go/No Go decisions</strong></td>
</tr>
<tr>
<td>79.3%</td>
</tr>
<tr>
<td><strong>Leave day-to-day activities/decisions to project team</strong></td>
</tr>
<tr>
<td>89.7%</td>
</tr>
</tbody>
</table>
Communicate Expectations Clearly

- Leaders must clarify and over-communicate expectations at every level
- From top to bottom, everyone should know the organization’s...
  - Mission & values
  - Goals and objectives for NPD
  - Strategy and areas of focus
  - and be able to align with them
- Leaders at every level must regularly clarify standards and performance expectations
- With clear communication, there should be no surprises in what’s expected

Give People a “Vision” to Pull Them Toward Action

- Fear may push people to action
  - But this approach is not sustainable
  - Ultimately leads to either burnout or extreme apathy
- The imagining of a new, better future where there are compelling rewards
- Pulls and attracts people forward
- Emotionally engages them:
  - Let people know, often and sincerely how much you appreciate them
  - If you can’t reward high performance with cash, use social rewards
- Social rewards (recognition) are more powerful
Some Best Practices

- **GE helps innovation to take root in the company**
  - Growth councils in each business
  - Venture funds
    - To support innovative projects
  - Virtual idea boxes
    - For easy idea submission
  - Growth awards
  - Growth volunteers
    - To help would-be entrepreneurs

Source: B. Comstock, “Marketing as an engine for growth”, GE presentation at ISBM Penn Stage Conference.

At GE, Imagination Breakthroughs (major internal projects) are making innovation a core capability

- **Monthly CEO Reviews**
  - Funding
  - Milestones
  - Punch list

- **Tracking Financials**
  - Revenue
  - Cost (funding)
  - Heads (dedicated people)

- **IB Project Deep Dives**
  - In-depth reviews with each business

- **Sharing Best Practices**
  - Funding
  - Milestones
  - Punch list
Another Best Practice Company

- Grundfos (major European pump manufacturer)
  - Openly & strongly promotes NPD at every opportunity
  - NPD is evident everywhere
    - Company’s annual report, which devotes more pages to product innovation than to finances
    - Show-case of new products that occupies its entire headquarters front lobby
    - Campaign of posters seen throughout company premises emphasizing innovation
    - The motto everywhere:

  ![Bio-booster Waste-Water to Clean Water System](image)

Seven Habits of Successful Leaders of Innovation

1. **They embrace & support product innovation at every opportunity – both words & actions:**
   - They are passionate about products and innovation
   - They put the resources in place
   - They put products before profits (profits will flow if the products are right)

2. **They lead the development of an Innovation Strategy for their Business**

3. **They practice effective gatekeeping:**
   - They develop ‘rules of engagement’ & commit to these rules
   - They are actively involved in making Go/Kill decisions at gates

4. **They are the portfolio managers:**
   - They understand the business’s development portfolio
   - They play an active role at quarterly portfolio reviews
Seven Habits of Successful Leaders of Innovation

5. They understand & embrace their business’s I2L or gating system
   - Not circumventing the system, no ‘pet’ projects
   - Asking the right questions at gates
   - “Good behavior”

6. They foster the right climate & culture for innovation
   - Rewarding & recognizing innovation
   - Putting resources in place
   - Resources for more innovative, risky projects

7. They keep score:
   - They hold themselves, other executives & project teams accountable for results
   - When they miss the target, they find out why – they promote continuous improvement

Innovation is a prerequisite for sustained growth.
No other path to profitable growth can be sustained over time.
A. G. Lafley, CEO, Procter & Gamble

Keep Score!

Innovation metrics part of management’s annual objectives
- Poor Performers: 14.3%
- Average Business: 34.3%
- Most Successful Innovators: 50.0%

We keep score - innovation results are measured
- Poor Performers: 29.9%
- Average Business: 45.2%
- Most Successful Innovators: 62.1%

Percent of Businesses Where Metrics Are in Place
#2. Rewards & Recognition for Project Teams

<table>
<thead>
<tr>
<th>Section</th>
<th>Poor Performers</th>
<th>Average Business</th>
<th>Most Successful Innovators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product champions recognized/rewarded</td>
<td>0.0%</td>
<td>28.8%</td>
<td>58.6%</td>
</tr>
<tr>
<td>Project team rewards/recognition</td>
<td>7.7%</td>
<td>30.1%</td>
<td>55.2%</td>
</tr>
<tr>
<td>No punishment for product failure</td>
<td>42.3%</td>
<td>55.9%</td>
<td>55.2%</td>
</tr>
</tbody>
</table>

Percent of Businesses

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Best Practice Companies:

- **Air Products & Chemicals:**
  - The CTO has made innovation his number one priority
  - Innovations awards are offered each year for commercialized ideas
  - Also a Chairman’s award
  - Rewards up to $100,000
    - A serious statement on the importance the organization accords its product innovators

- **Kraft Foods:**
  - Successfully leading a NPD team is a necessary step in one’s upward career path

- **Emerson Electric**
  - Honors project teams & team members on their ‘wall of fame’ at corporate headquarters

People do what they are incented to do!
Set up the appropriate rewards & recognition in your business for ‘good work’ in product innovation.
#3. Provide Scouting Time & Resources

Innovation Needs Time to Develop

No one ever feels like they have time to spare

People get so consumed with putting out fires and chasing short-term targets that most can’t even think about the future

Giving up control when the pressure is greatest is the ultimate innovation paradox

That’s why iconic brands like 3M and Google give their employees about 10-15% “free time” to experiment with new ideas

The software company Atlassian encourages employees to take “FedEx Days”
- Paid days off to work on any problem they want
- But just like FedEx, they must deliver something of value 24 hours later

Create a structure for “unstructured time”
Free Time or ‘On the Side’ Projects – 3M

- Not every project starts out in the formal NTI or NPI processes (3M’s Stage-Gate system)
- 3M has a policy that anyone in the firm can get a project going, and spend 15% of their work-week on it
- There are no rules to starting the project or to getting approval
  - Formal start approval is not needed.
- Most of the leaders of these 15-percent projects tend to be technical people
  - When you are hired as a technical person, it is made clear that you are expected to “dabble” – to undertake such projects.
- Thus it becomes very much part of the culture

Details of 3M Free Time System

- What Types of Projects?
  - Existing strategies and roadmaps in 3M businesses do provide the guidance
  - But some people on these 15-percent projects work “off the grid” – way off strategy
  - This is allowed. But about 80% of these 15% projects are indeed aligned with a strategy in a defined sector.
- How Do They Get Resources?
  - People working on these 15-percent projects rely heavily on their personal networks for physical help and advice.
  - Typically these projects are not brought into the formal NPI process to seek formal resource approval (3M’s stage-gate model) but leaders find any help they can.
  - There are also grants of about $10K that help too: Genesis Grants and Discover Grants.
Getting Resources

- The personal network is very important for getting support and approval for such projects.
- The “project leader” says: “Look, I have an idea and I know other scientists and I’ll call them”….. then
  - “Here’s what I am up against – can you help me”
  - The “three-phone call” rule usually works – by the third phone call, he gets what he needs.
- Sometimes it’s difficult to find the 15% time to devote to these projects, but people try
  - The joke is “the 15 percent is between the 135% and 150% of my daily workload”
- These 15-percent projects enable the leader to acquire enough resources and time “to put together something to get feedback from a customer”
  - It allows one to bridge from technology to the marketplace – “make a little, sell a little” (although they really don’t sell any!)

#4. Encourage Ideation by Employees

![Chart showing the percent of businesses that have an idea system or reward ideas]

<table>
<thead>
<tr>
<th>Idea suggestion scheme in place</th>
<th>Poor Performers</th>
<th>Average Business</th>
<th>Most Successful Innovators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.0%</td>
<td>23.1%</td>
<td>34.5%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Idea submissions rewarded/recognized</th>
<th>Poor Performers</th>
<th>Average Business</th>
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<tbody>
<tr>
<td></td>
<td>7.7%</td>
<td>24.8%</td>
<td>44.8%</td>
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</table>
Best Practice Companies Support Internal Ideation

- **Kraft Foods: idea recognition is important**
  - Meals Division: the Division General Manager awards employees *light bulbs* for developing ideas
  - Awards for 'Innovator of the Month' & 'Innovator of the Year'
  - Recognition typically not monetary, but peer praise
    - Viewed as more effective than financial rewards

- **Saint Gobain (France):**
  - World-wide ideation system
  - Submitters get points as their ideas move thru each gate
  - Can redeem points for prizes

- **Bausch & Lomb:**
  - Uses limited monetary rewards to reward new ideas
  - The employee can get anywhere from $5 to $5000
    - Depending on how far the idea progresses thru the NPD process

- **Swarovski**
  - I-Lab – a team dedicated to help employees submit ideas
  - I-Flash – IT support to facilitate idea submission & evaluation

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#5. Organization: Effective Cross-Functional Project Teams

- **The right organizational structure & design are keys to new product success**
- **A true cross-functional team approach**
  - Team members from all key functions
  - Equally accountable for results
- **A clearly defined team leader**
- **Team empowerment**
  - Control of their resources & time
  - Authority to make decisions
- **Team accountability**
  - A rigorous Post-Launch Review
  - Actual results versus promised results
How to Organize for NPD

- Projects undertaken by cleared identified team of players:
  - Poor Performers: 38.6%
  - Average Business: 61.6%
  - Most Successful Innovators: 79.3%

- Team is cross-functional: Technical, Marketing, Sales, Operations:
  - Poor Performers: 53.8%
  - Average Business: 72.1%
  - Most Successful Innovators: 79.3%

- Team does project from beginning to end of project:
  - Poor Performers: 23.1%
  - Average Business: 48.6%
  - Most Successful Innovators: 72.4%

- Team members accountable for project’s end results:
  - Poor Performers: 7.7%
  - Average Business: 32.4%
  - Most Successful Innovators: 55.2%

Best innovators foster a team culture – poor performers do not

Some Organizational Design Options

- **Skunk works**
  - A self-managed team
  - Operates outside of the official bureaucracy of the company
  - Team leader report to senior person(s) in company
  - Team members are free from their functional areas, bosses & day-to-day responsibilities

- **A ring-fenced Innovation group**
  - 100% on Innovation projects
  - Typically at Division or HO
  - Handles major projects

- **Free-time projects**
References – Good Reading

Many articles are online – free download at www.sbobcooper.ca ; books available at www.amazon.com


