

# SOUNDVIEW Featured Book Review

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## Creating a Culture of Innovation

### A Game Plan for Sustainable Growth and Profit

Review by Stephen Wolter

#### THE GAME-CHANGER

By A.G. Lafley and Ram Charan

*Crown Business*, \$27.50

On June 6, 2000, A.G. Lafley received the most important phone call of his career. For the previous 11 months, Lafley had been working in an executive position in the beauty division of Procter & Gamble. As he was about to enter a business meeting on that June day, he answered a phone call from former Procter & Gamble CEO John Pepper, who wanted to know if Lafley was prepared to accept the CEO position at P&G. Lafley was stunned. Just the day before he had had a discussion with P&G's current CEO regarding the company's plans for the rest of the fiscal year. Now Lafley was informed that the CEO had resigned and that he was the man chosen to take the helm of one of the world's biggest and most recognized companies.

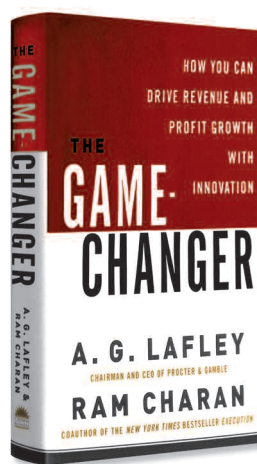
Lafley accepted the job immediately, left his meeting, and flew back to P&G's headquarters in Cincinnati. During the flight, he reflected on what he would have to do as CEO in the coming days, weeks and months, which he soon discovered was quite a lot. In 2000, P&G was struggling. Despite producing a huge number of popular products, with brand names such as Pampers, Tide, Olay and Crest, P&G's stock price had plummeted 50 percent in the first six months of the year. The company had recently changed its organizational structure while it adjusted to an increase in global competition and a host of different challenges presented by the new economy. As Lafley studied the numbers

more closely during his first 24 hours as CEO, he found little to be encouraged about. "We were in worse shape than I suspected," Lafley writes.

How Lafley and his employees turned around the fortunes of Procter & Gamble is the topic of *The Game-Changer*, which Lafley cowrote with Ram Charan, the author of such business books as *Execution* and *Know-How*. Charan has built a reputation in recent years as a top-notch consultant to upper management at some of the world's largest companies.

#### Attributes of a Game-Changer

The two authors begin their book with an epigraph, a faux dictionary entry that defines the term "game-changer." Their definition includes seven qualities that a game-changer possesses, chief among which is the concept that the customer — not the CEO — is the boss of any organization. The other key idea that defines a game-changer is innovation. For Lafley and Charan, a successful leader uses innovation to sustain profitable growth and drive every element of a business. This leader sees innovation as an integrated end-to-end process rather than a series of steps, and understands that innovation is a social process, in which the way a company's employees interact with each other is more important than technology. In fact, the two authors examine innovation so much that the concept earned a place in the subtitle of the book: "How You Can Drive Revenue and Profit Growth with Innovation." It's an excellent summation of the ideas behind *The Game-Changer* and the motivation compelling Lafley and Charan.



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The book is organized in such a way that Lafley and Charan take turns contributing their personal insights on what it takes for a leader to function as a game-changer, sometimes writing an entire chapter individually and sometimes sharing authorial credit for the same chapter. Still, the majority of the text appears to be written by Lafley, who filters his business philosophy through his experience as the Procter & Gamble CEO. (Charan, presumably, is the author when companies other than P&G are discussed.) As Lafley explains in the book's opening chapter, every business gathers around a central organizing principle, and for P&G that organizing principle is innovation. "Let me simply say," Lafley writes, "that innovation is the foundation for controlling your destiny, and was for P&G (in my experience) the real 'game-changer' — the real source of sustainable competitive advantage and the most reliable engine of sustainable growth."

### Customer-Centric Innovation

In order to illustrate how game-changing works, Lafley and Charan provide a simple graphic in the book's early pages that depicts a wheel from which a series of spokes stretch outward. The wheel represents "customer-centric innovation," which is the beating heart of their business philosophy. For the authors, game-changing proceeds from the above-mentioned concept that the customer is boss. Each "spoke" attached to this core philosophy represents an aspect of an integrated managerial process necessary for any company. The authors call these processes "drivers," and each is important in delivering results when customer-centric innovation is the bedrock of a company's

approach to conducting business. The drivers include such concepts as the purpose and values of a business, how to build on a company's core strengths, and the best ways to build enabling structures within a company.

For the bulk of the book, Lafley and Charan describe the various qualities of the eight drivers, sometimes devoting an entire chapter to a single driver, sometimes covering several drivers in a chapter. Regular readers of business books will recog-

nize this as a typical device that authors often use — working through a list of ideas that form an overall business theory. But the authors are quick to point out that although they are presenting their ideas in a linear, sequential manner — something that is necessary when writing a book — the drivers should in practice be seen as part of an integrated process. Lafley admits that in his own experience this integration, in which drivers are performed in parallel, can be a messy way to work. Sometimes, as he puts it, you have to adapt and muddle your way through.

Lafley also makes it clear that he views this model of eight drivers circling a core philosophy of customer-centric innovation as exactly that — a model. He does not believe that the only method to success for every company is by following his plan precisely. Adapting to ever-changing conditions must also be taken into account. However for Lafley, and for the success of Procter & Gamble, the position of the customer remains paramount. The P&G corporate culture is filled with words and phrases that define the company's mission, he explains. But the one phrase that sums up all of P&G's priorities simply states that "the consumer is boss." That may not be the most original motto ever embraced by an American business — a slight variation, really, of "the customer is always right" — but Lafley insists that it is far more than just a slogan.

Lafley writes that for his company, customers are a rich source of innovation, but only if they are listened to and observed in their daily lives. In order to accomplish this, some P&G employees may actually take the step of living for a time with the customers who buy the company's products.

"The most essential component to game-changing innovation is deeply understanding your consumer at both the rational and emotional level," Lafley writes. "This goes well beyond basic demographics and psychographics." He goes on to explain that understanding the consumers' needs is not enough: a business must also understand its customers' aspirations.

Lafley describes a town meeting held for employees early in his tenure as the P&G chief executive. He told his coworkers that the company faced two moments of truth with its customers every day. The first was at the point of sale, when the customer was in the store and had to decide whether or not to purchase a P&G product. The second was when the customer was in her home, using the product and deciding if it was worth the money.

Did P&G do enough to convince the customer to purchase a product, and later, did it keep its brands'

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promise with the customer? Only by winning both moments of truth on a daily basis, Lafley told his employees, would P&G earn its customers' loyalty, and in turn, continue to grow as a company over both the short and long term.

### **Who is Your WHO?**

Understanding the customer better — as a means to spark innovation inside a company — sounds good on paper, but just what does it take to achieve that type of understanding?

Lafley concedes that when he took over as CEO at Procter & Gamble, the company wasn't doing a good job of seeing its customers as active participants in the innovation process. For P&G, the role of the consumer had become a passive one, in which consumers simply responded to stimuli in various demographic experiments, but with little input beyond that.

What the company needed to do was look at its customers more broadly. When matching products to customers, Lafley writes that P&G only looked at components of each customer group. For example, for shampoo, the focus was on hair; for laundry detergent, the emphasis became dirty clothes and washing machines, and so on. The company had developed a type of myopia that saw only what was important to P&G, namely products and technology.

What was missing was a solid understanding of a typical customer's life: how busy the customer was, what job responsibilities she held down (Lafley writes that P&G refers to its customers in feminine terms, as women make up the majority of those who purchase its products), what her family role was, and even what her personal aspirations and dreams were for her and her family.

Lafley provides one telling example of how P&G misunderstood what its customers really wanted in a product, despite the fact that it had created something new and, to all outward appearances, innovative. In the 1980s it developed a laundry detergent called Ariel Ultra. According to Lafley, the detergent delivered better cleaning performance while using only half as much product. Because of this, it could be packaged in smaller containers, which took up less shelf space. These were important factors when the company marketed the detergent in Mexico. Given the fact that the average income was \$600 per month for a typical Mexican family, P&G reasoned, correctly, that lower-income families had limited living space. The smaller container, and the fact that customers used only half as much product as other detergents seemed like a sure winner for the Mexican market.

Wrong. Despite the fact that a huge campaign for Ariel Ultra was launched in Mexico, the product was a failure there. Mexican women would later tell P&G why the product didn't sell, although by then it was too late for the company. First of all, the women didn't believe that using half as much detergent would clean their laundry properly. And second, despite the fact that added enzymes actually improved the cleaning properties of the detergent, it didn't foam the way a typical detergent did. As P&G would later learn, many of the lower-income wage earners in Mexico perform manual labor as their principal job, and were highly aware of odor in their clothes. To the Mexican women doing laundry, foam was a sign that perspiration odors were being eliminated from dirty clothing. In just a matter of months, Ariel Ultra was eliminated from the market. As one P&G executive put it, "We could have understood. We should have understood. We didn't, so we failed."

In Lafley's view, if an innovative product doesn't achieve widespread use, it's not really innovative after all. That point can be debated, but Lafley is seeing the issue from the vantage point of a CEO, and if his company doesn't sell products, all the innovation in the world won't matter when it comes to the bottom line. To avoid mistakes like the one with Ariel Ultra, Lafley writes that a favorite slogan among the knowledge workers of P&G's various product divisions is "Who is your WHO?" WHO represents the customer. Know, appreciate and respect your WHO, Lafley advises. For those companies that don't, innovation won't happen.

### **Innovation Leaders**

For a company to embrace a culture of innovation, it needs a leader who truly believes in the concept. Lafley writes that his most important role as a CEO is to integrate innovation into everything Procter & Gamble does. This means that he also sees himself as occupying the position of CIO — chief innovation officer.

Lafley expresses two deeply held convictions regarding innovation and leadership. The first is that innovation leaders are made, not born. The other is that innovation leadership is about making choices. He defines the job of an innovation leader as someone who inspires his company's knowledge workers in a way that will unleash their creativity, initiative and productivity. This type of inspiration requires, as Lafley puts it, a blend of IQ and EQ. The intelligence quotient of a good leader is a given, but Lafley also puts emphasis on empathy — the EQ. Empathy, he writes, is incredibly important in a people-intensive business. "We have to develop the intuition to understand and appreciate people's intentions, feelings,

and motivations,” Lafley says, “all of which have been shaped by experiences that may be sharply different from our own.” This sentiment reflects how Lafley views P&G’s customers.

Along with their empathy, innovation leaders are also curious and accountable. They are not threatened by excellence, but rather recognize and reward it. And the most profound quality that makes innovation leaders different is their ability to embrace change — to actively seek it, in fact.

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In addition to providing a detailed description of the skills that innovation leaders possess, the authors include a thorough description of the evaluation and recognition process that these same leaders must perform. Typically, they write, evaluation is tied to quantitative measures of performance. But just as in sports — where numbers are often analyzed by so-called experts to explain a team’s successes or failures — the authors claim that numbers do not necessarily tell the whole story. In a company that is innovation-centered, perfor-

mance appraisal needs to consider the qualitative element along with the quantitative. Why? Because, as Lafley and Charan put it, not all innovations are created equal, and different innovations follow different time horizons. Innovation leaders recognize this and are aware that some innovations are riskier than others.

## Spreading Innovation

If there’s a drawback to *The Game-Changer*, it’s that the heavy emphasis on Procter & Gamble’s business strategies and products can sometimes overwhelm the message. The cynical reader might see the book as nothing more than a 300-page infomercial for one of the world’s biggest companies. But Lafley is writing about the culture he knows best. After all, if you pick up a book written by Jack Welch, you’re going to learn a lot about the business culture at General Electric. In fairness to both Lafley and Charan, other major companies are discussed in the book. Also, Lafley isn’t shy about saying that he’s learned a lot from his failures at P&G, and he’s willing enough to declare that there have been failures at the company he leads.

The concluding chapter, presumably written by Charan, focuses on the innovation leadership of Jeff Immelt, who succeeded Jack Welch at GE. After so much of the book has been about the innovation culture at P&G, this concluding chapter turns to another megastar company to probe the current impact of innovation leadership, adding an interesting twist to the discussion.

Nevertheless, throughout their book, Lafley and Charan provide thought-provoking ideas about a business philosophy that many CEOs may not have seriously considered before. The authors insist that you don’t have to be the leader of a billion-dollar company for innovation to work, and that customer-centric innovation can succeed at any organizational level.

But, predictably enough, innovation must begin at the top. When a company has a strong innovation leader, the authors claim, who pursues innovation with passion and then reinforces it with action, innovation will spread down to every level of the company. If a company leader recognizes innovation as the key to sustainable growth, and innovation is embraced with discipline, then it will become self-reinforcing within that company’s culture, ever-present in the daily work of each employee who holds a position of influence.

**The authors:** A.G. Lafley is chairman and CEO of Procter & Gamble. In 2006 he was named CEO of the year by *Chief Executive* magazine. Ram Charan is the author of more than a dozen books on the topic of business management, including the best-selling *Execution*. His expertise has been sought by many of the world’s top companies including DuPont, Nokia and Hewlett-Packard.



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