

Shifting to a Strategy of Innovation: The Key Role of Leadership in Consumer Packaged Goods

From Penn State Executive Programs in the Smeal College of Business, The Pennsylvania State University



The recommendations in this report have been prepared by Penn State Executive Programs, Innovative-Thought, and the Penn State Leadership and Innovation Laboratory (collectively the Penn State team). The Penn State team is comprised of Sam Hunter, Pete Steinberg, and Maria Taylor. Please refer to the attached experience summaries.

Introduction

In today's fast moving and complex global environment, the ability to innovate and deploy faster and more profitably than competitors is now a requisite for growth and success. For companies that are founded on new products, such as Apple, the focus on innovation has always been a fundamental part of the culture. For many companies, the move to dynamic innovation is more difficult for many reasons which include a diverse customer base, a complex mix of products and services, a focus on minimizing risks and a traditional static-control culture.

The burst of focus in the last decade has focused on innovation processes, such as Stage-Gate, and on the CEO's role in setting strategic vision and creating organizational structures and processes that unleash creativity, risk-taking, and collaboration throughout the organizational culture. Very little has been written on *Innovation Leaders*, those individuals who lead a new product or service through ideation, design, development, market launch and implementation. These Innovation Leaders will be the catalysts for change by bringing diverse parts of the organization together to launch new products and services.

Our research focuses on the Innovation Leader, specifically:

- What are the distinguishing characteristics or capabilities of a successful Innovation Leader?
- What practices do Innovation Leaders follow to enhance their success; and conversely, what practices tend to detract from the success of these leaders?
- What organizational practices support and detract from successful innovation?
- How should organizations select and develop individuals who will be successful?

This paper, the first in a three-part series, provides some recommendations for companies that are making the transition to dynamic innovation. To successfully transition to a more innovative focus, organizations must implement talent management and organizational processes to attract, develop, and empower Innovation Leaders.

Leading Innovation

Consumer Packaged Goods (CPG) companies are classic examples of organizations that have to move from a static-control to a dynamic-innovative focus. Innovation is critical to the success of CPGs. An Accenture study showed that on average, top-quartile performers generate 20 percent more revenue from new product introductions than companies in the bottom quartile. The research also showed that high-performance businesses introduce more new products and bring them to market five times faster. However, a 2008 study by AMR Research in consumer goods companies found that only one in two product ideas moved from development to launch and that only two-thirds generate the revenues expected. The study also found that over fifty percent of new products are brand extensions rather than breakthrough products.

Innovation is a multi-disciplinary, cross-functional activity. In CPGs, the innovation process needs to touch all areas of the business including sales, operations, R&D, market research as well as retailers and manufacturers. This network of resources places specific demands on the organization to find people who can manage not only the process, but also the people involved.

Innovation Leader Capabilities

Our research included a survey of the literature and interviews with leaders inside CPG organizations and innovation experts, consultant firms that specialize in helping companies create innovative ideas, as well as leading academic faculty. In summary, we found that successful Innovation Leaders:

- Take ownership to drive through the organization with passion and dedication for the product and brand
- Have the ability to alternate between the creative mind and the technical/operational/business mind at different stages of the process
- Are consumer-focused
- Possess curiosity, intuition, and flexible problem-solving
- Provide technical competency and functional expertise
- Can effectively manage the creative process, collaborate, simplify, and inspire

Essentially, the Innovation Leader must think and act as both inspired, creative genius and the strategic general manager. They must alternate among: 1) facilitating broad, creative thinking about what is possible, 2) bringing disparate ideas and consumer insights together into revolutionary product/service ideas, 3) analyzing the business risk, financial return, and operational implications of taking the product to market, 4) motivating a cross-functional team to collaborate, and 5) building support throughout the organization. Clearly, this role requires a resiliency to accept ambiguity and to toy with, reframe, and abandon ideas.

These Innovation Leader capabilities have been validated and translated into assessment tools by the Penn State Leadership and Innovation Laboratory. The three tools: Individual Creative Potential Assessment, Leader Skill in Facilitating Innovation, and Team Climate Assessment for Innovation can be used in recruiting, development, and performance management.

Innovation Leader Best and Worst Practices

Successful Innovation Leaders employ a common set of best practices that allow them to navigate between generating creative, consumer-focused insights and making hard, analytical decisions about feasibility and strategic fit. The best Innovation Leaders know how to work with the cross-functional teams to allow the process to happen as broadly as possible, pulling ideas from outside, protecting the “wild idea,” and creating a safe environment to make mistakes and have crazy ideas. These leaders also know how to work with the innovation experts and other facilitators to spark creativity while being intensely aware of how to get things done inside the organization.

These best practices help to set project team expectations and provide a compass for each stage of the product development process:

Best Practices	Worst Practices
Ground idea in consumer needs	Take consumer input at face value
Align strategically and operationally	Lack of portfolio management
Use the Stage-Gate process	Change mind without rationale
Build strong cross-functional team	Keep ideas secret
Experiment and cut losses early	Get stuck in an idea
Work within needed timeframe and prices	Lack insight into timing and price
Communication and project management	Negativity
Plan for risks, disasters, and contingencies	No post-mortem to learn from mistakes

The role of the Innovation Leader is very difficult as the path forward is never clear. These leaders must keep a team motivated and moving forward despite a seemingly constant set of obstacles and failures. Certain worst practices tend to derail the Innovation Leader’s success as well as sabotage the project. With over 50 percent of ideas failing to pass through the Stage-Gate process and lead times of 18 months or more from conception to launch, the Innovation Leader must have a strong desire to succeed and a willingness to experiment. These leaders must also work to challenge the operational status quo. The research is clear on what organizational practices support and detract from successful innovation.

Driving Transformational Change

Our research finds that an organization’s ability to move from a static-control to a dynamic-innovative culture is enhanced by the combination of four elements:

- Innovation Leaders possess a distinctive set of leadership capabilities
- Rigorous deployment of a set of best practices
- Strategic focus and organizational support for innovation
- Organizational processes for innovation

Moreover, organizations that were successful in transforming: 1) had one or more executive champions who actively challenged the status quo and first piloted projects through successful new product launch and implementation, then 2) systemically inculcated each of the four elements.

We recommend an approach that combines the latest thinking in innovation leadership with customization to the strategic context to drive change. This approach incorporates the following steps:

1. **Strategic Review:** Base all initiatives in the strategic direction and goals of the organization taking into consideration the competitive market environment and the business operations.
2. **Talent and Performance Management Review:** Understand the existing processes for performance management, talent development, and competency models.
3. **Innovation Leader Profile:** Create a customized Innovation Leader Profile integrating the strategic context with the Innovation Leadership Capabilities.
4. **Innovation Leadership Assessment:** Assess the current pool of leaders in the Innovation Leadership Dimensions of Creativity and Innovation Leadership. Identify the capability and quantify the developmental requirements to meet strategic goals.
5. **Creative Climate and Culture Assessment:** Assess the current climate and culture for creativity.
6. **Develop the Innovation Talent Management Strategy:** Develop an Integrated Talent Management Strategy for innovation. The strategy should consider the development of existing Innovation Leaders and key cross-functional team members as well as anticipating the future capacity required to meet strategic goals. Elements of the plan include group and individual development plans and a talent identification process including recruiting screens.
7. **Develop the Innovation Scorecard:** Finally, create a scorecard that links strategic goals to innovation goals and to units and individual goals. The Innovation Scorecard balances current, past, and future innovations along with the organization's current performance review process.

This process encourages the Innovation Leadership development process to be linked and aligned with organizational goals and reinforced through performance management. Without a similar process it is possible that innovation leaders may be developed or the innovation strategy could be successful in reaching its goals, but those leaders or the goals would not be supporting the organizations long-term strategy.

About the Penn State Team

Dr. Samuel Hunter is an Assistant Professor of Industrial and Organizational Psychology at Penn State University, with expertise in both leadership and innovation management. He has partnered with a range of organizations on applied and academic projects, including Lockheed Martin, NATO, Google, Nike, and Epic Games. His research has been funded the National Science Foundation, Office of Naval Research, and the Department of Defense. Dr. Hunter is the current director for the Leadership and Innovation Lab at Penn State University.

Pete Steinberg is an Adjunct Faculty with Penn State Executive Programs and Principal Consultant of Innovative-Thought. Pete provides consulting in strategic planning, marketing, innovation, executive coaching and organizational development. He focuses on supporting organizations that have super-smart or creative people and helping them select and develop their talent. Peter has worked with senior executives as an executive coach helping them develop their skills, identify their goals and guide them through career changes. He has worked with multiple organizations in their innovation process including Raytheon, Teleflex, NERA Economic Consulting, Thompson Corporation and Del Monte Foods.

Maria Taylor is the Managing Director of Penn State Executive Programs. Maria has worked with organizations to formulate strategy, build organizational capability, and align talent development to build the processes, systems and talent required for profitable growth, including American Express, Auntie Anne's Corporation, Office Depot, Parker Hannifin, Penn State Hershey, Pfizer, Raytheon, and the United State Navy and Marine Corps. Maria co-authored *Human Resource Transformation* (Davies-Black 2008) and *The Strategic Human Resource Leader: How to Prepare Your Organization for the 6 Key Trends Shaping the Future* (Davies-Black 1998).

