

Management of innovation at P&G; a long term view of the reasons for P&G's success

Lafley is back¹.

After stepping down in 2010, A.G. Lafley has been brought back to recover P&G's financial performance. His contribution was outstanding during his earlier 30-year career at P&G.

Is there a possibility that an outsider will be brought in to propel hedge-fund and shareholder interest in making short-term profit gains?

Is P&G's business innovation model in need of improvement?

What happens now?

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1. Background

By reading this Profile you can expect to understand more about the management practices which P&G has applied, particularly since 2000, to their process of innovation. Clearly P&G has, since 1837, demonstrated an outstanding record of managing its brands and new product introductions. There is much to be learned from their experience. By our² parsing and articulating P&G's experience, the process of understanding and adapting P&G's experience to one's own corporation becomes clearer³.

White & Partners completed its **first profile on the management of innovation at P&G in late 2008** at the time that A.G. Lafley, who was CEO and Chairman of the Board of P&G, co-authored with Ram Charan, their book – The Game Changer. For the first time in P&G's history the inside story was available at least through the eyes of two authors.

¹ Original Profile Prepared – Late 2008, Updated, January, 2010

² White & Partners

³ For more information on the research behind the 25 Factors, please visit the web site; <http://www.corporateinnovationonline.com>

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Building and sustaining innovation
Articulating innovation

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The first profile focused very much on the period after 2000, the year when Lafley, after a 30-year career, became the head of P&G. The book, however, did offer insights into P&G prior to 2000. Lafley's return to the helm of P&G has prompted this updated profile. Perspectives arising from a new book⁴, completed during his brief sojourn from P&G, are incorporated into the profile.

The first book with Charan focused very much on the subject of innovation and the steps Lafley had undertaken to bring about growth through innovation. The focus of the book was on innovative practices at P&G. Lafley's latest book focuses very much on the issue of strategy, using Olay and other product categories as examples of the methodology in place at P&G for strategic planning. The first book provided, in our opinion, more insight into innovative management practices than does the second book but both are highly informative. Both books focus on the period up to 2009.

For researchers, and by way of the two books, P&G has provided information on its management practices and approaches to the management of its business. Insights into the challenges and issues faced by P&G are presented and underlying reasons for P&G's success and failures made clearer.

For most of its history P&G did not share information about its successful operating policies and practices with the corporate community at large. Executives and other personnel were intensely guarded about making comments; secret, even to the point where secrecy seemed to be a matter of pride within the corporation. P&G executives used to say⁵ that university graduates never had to take an MBA since, by joining P&G, all the training one needed would be provided by P&G and at no cost. Some of us did not believe this but some did and joined P&G, never to mention the training they received, until now.

Lafley, on the other hand, given his interest in management per se and obviously in authorship, allows us to learn much more about P&G, albeit with the opinions heavily weighted in the author's direction.

Lafley was succeeded as chief executive officer by Robert A. McDonald on July 1, 2009 but continued to serve a short time as chairman of the board to support the management

Quick Innovation Profile of P&G – the numbers

- Close to 126,000 employees
- Highly admired for its strategy and management practices
- Both organic growth and acquisitions contributed to growth from a \$40 billion in 2001 to \$84 billion in 2012
- 300 brands in 180 countries
- 25 billion-dollar brands
- Return on assets at 7.6%, not good
- P&G's acquisition of Gillette was the biggest value-creating acquisition
- 'Deep-dive' ethnographic approach to consumer research is one of P&G's key strengths
- The largest player in the consumer goods sector by far. Unilever is close. Colgate-Palmolive is the best at creating shareholder value.

⁴ Playing to Win, A. G. Lafley and Roger L Martin

⁵ Personal experience circa 1956

transition, a practice that P&G had followed during multiple management changes over decades.

Lafley stepped down from any significant executive or Board role with P&G in 2010 but has now been rehired⁶ after the ousting (not too strong a word) of MacDonald.

During the interim period Lafley, with Roger L. Martin, co-authored a new book⁷ which sets out much of how he 'did it' using a variety of product categories and brands as examples. One is reasonably sure that while writing this latest book, Lafley did not anticipate returning to P&G! Are there therefore insights into what might now happen? Is there to be more of the same or will there be a whole new approach to managing innovation at P&G? If the definitive books on managing innovation have been written, what more does one need to know? Do we really know as much as we should about what is going at P&G with regard to management?

What does this surprising change in leadership say about the role of the Board in selecting leaders and even more importantly, Board planning for succession? Lafley's comment while still CEO and Chairman of the Board was to the effect that;

'Succession planning is an important element of this focus on leadership. We are methodical about identifying multiple succession candidates for every senior executive leadership position and then ensuring each individual gets the experience to be ready for the job. We began planning for my successor as CEO several years ago. Bob McDonald emerged as the right choice to lead P&G in the decade ahead. Bob has nearly 30 years of brand-building, market development, global business unit and global operations'.

The successor did not pan out!

What did Lafley do in his first term? Might his earlier success be replicated? According to the P&G web site this is what he did.

'Since becoming president and chief executive officer in June 2000, A.G. Lafley has refocused P&G on consumer-driven innovation and consistent, reliable sustainable growth. The Company has more than doubled sales since the beginning of the decade, and has grown its portfolio of billion-dollar brands - brands that generate at least \$1 billion in annual sales - from 10 to 22. On average, annual organic sales have grown 5%,

⁶ "Unless and until the board decides otherwise, A.G. will be the CEO with all the authority and responsibility that goes with the position," P&G spokeswoman Jennifer Chelune said, noting that it's not an interim assignment.

⁷ Playing to Win, How Strategy Really Works. A.G. Lafley and Roger L. Martin, Harvard Business Review Press, 2013