

LEADERSHIP IN THE FIELD: Interviews with Global Leaders

By Russell Reynolds Associates
with Roger O. Crockett

Procter & Gamble's CEO and Chairman shares his view on the principles of leadership and management that create successful, innovative cultures and drive performance in today's global marketplace.

Bob McDonald on Innovation—An Edited Transcript

Roger Crockett: Innovation isn't just about products; it's about people and about culture. In what ways, Bob, do you recommend bringing innovation to management processes and to your leadership team?

Bob McDonald: That's a great question Roger because I think at the Procter & Gamble Company, we think about innovation as our lifeblood. We talk about the fact that we have five strengths. One of those strengths is innovation. We expect every employee to deliver innovation. We have to do that because we know as a company, we want to keep our purpose and our values the same but be willing to change everything else in order to achieve our growth targets. So, whether you're the worker in a factory line, you're expected to innovate the process of making the product. Whether you're an executive assistant in a general office, you're expected to innovate that job in order to continue to improve our ability to touch and improve lives, which is our purpose.

Roger Crockett: Is there a system for helping that innovation process, whether it's on the factory floor or in the boardroom? Sometimes innovation doesn't come easily. How do you get your teams to really get there?

Bob McDonald: It's in everybody's work and development plan—what we call the annual performance review or the work and development plan. Everybody in their work and development plan has, as a goal, some kind of innovation and then that gets reviewed every quarter, every year, and that's the way we drive it.

Roger Crockett: P&G, of course, is famous for its program to partner with outside entities, but partnering sometimes is a little bit dicey. How do you recommend going about partnering in order to get the best and most innovation?

Bob McDonald: In the 1980's, we created a leadership model for Procter & Gamble we called the 3E Model. Envision. Enable. Execute. What we discovered was we had to add a new E. We've now gone to a 5E Model, and one of the E's we added was Engage. The idea is collaboration—that no leader of value does anything by themselves today. The leader really has to engage those around them in order to get the job done. So, we actually train people in collaboration. We train them in our leadership colleges. They get feedback from their organization on their ability to collaborate and so it's part of our leadership training.

Roger Crockett: So it really comes down to leadership. If the leaders embrace engagement, then they can hand that down to the rest of the organization and thus innovation will be more likely to happen?

Bob McDonald: If your purpose is to touch and improve lives, you've got to get out and try to live the life of the consumer whose problem you're trying to solve. So, we go into homes. We go shopping with consumers. We try and understand what's the tension in their life? How can we come up with an insight that might result in a big idea?

Roger Crockett: Being involved in the community leads us tangentially to your purpose-driven strategy. Explain this purpose-driven strategy. Why do you feel that this approach makes good business sense when it comes to innovation?

Bob McDonald: The world's become a lot more cynical. There's just a cynicism and consumers want to know, before they spend their money to buy a new brand or a new product, they want to know what am I buying into? Not just for that brand but how about the company behind it. So, we believe it's important that we communicate to consumers that we are a purpose-inspired company. We do that through our brands. But, we also do that through our philanthropy. What we've discovered is, the employees who get involved in community service claim they have better work life balance than those who don't, even though they're giving up their own time.

Roger Crockett: **That sounds terrific. But doesn't that somehow distract you from the real business, the revenue-driven portion of trying to create and sell products. I mean, is there any danger of forgetting about what shareholders want: trying to drive revenues and profits for the company?**

Bob McDonald: Well, we're lucky, Roger, in that we're a consumer business so there's a tremendous congruency with philanthropy, for example, as well as improving our for profit business. For example, we go into a country like Haiti with our safe-drinking water program. We get to meet the thought leaders of the country. Those people later could become our employees, our distributors, if not just simply loyal consumers.

Roger Crockett: **As organizations attempt to grow, how do you recommend that leaders foster a culture of innovation in other markets?**

Bob McDonald: That's a really interesting question because at Procter and Gamble we believe that diversity isn't just a strategy, it's absolutely a necessity. We're a global company. We have 127,000 people all over the world, and we believe that diversity is absolutely critical to our ability to innovate. One of my favorite authors is a fellow named James Burke. He wrote a book called "Connections," and in that book, he talks about how innovations never get used for what they were planned for. Thomas Watson once said the entire United States might need two or three computers someday. It wasn't that Thomas Watson was silly. It was that in those days the computer was used to take the census of the country. So, innovations never get used for what they were designed for. What we need to do is create an organization that is so diverse that we create all these diverse nodes that can be connected because the innovation is often times – most of the time the unexpected connection of two seemingly unconnected ideas. So, we purposely put teams together of diverse people to create that opportunity for innovation. And I think that's critically important to creating an innovative company. Then in an innovative company, the Golden Rule is no longer good enough. Remember, the Golden Rule, as we learned when we were kids, is to treat everybody the way you want to be treated. Well, in a diverse organization, you can't treat everybody the way you want to be treated. You've got to treat them the way they want to be treated. So, we call that the Platinum Rule. Now, that means you have to know their language, you have to know their culture, you have to know everything about them. It's an awfully high bar. So, that's why we work very, very hard around the world to understand all the cultures of the world and to be part of those countries and those cultures.

Roger Crockett: **And how do you meet that challenge? As you said, it's a very, very high bar.**

Bob McDonald: Well, certainly one of the ways is you send people abroad on international assignments because from that you develop tremendous empathy for the country that you're working in. As well as, you can scope that up into the empathy you need to have for all countries and all people.

Roger Crockett: **Well, we know you need to innovate in order to introduce new products at different price points for different consumers. But if you have an organization that's built to operate at one price point then it becomes incumbent upon the management team to be sensitive enough to gauge the market and understand it's nuances so that you can innovate where you need to. To me that seems like the tricky part. How do you recommend management teams strike that balance of sensitivity to what's going on in the market?**

Bob McDonald: We want to go from reaching four billion consumers, when I became chief executive to reaching five billion by 2015. We want to triple the amount of new innovation we get from outside the company to \$3 billion of new innovations contributing to our sales. The only way we can do that is to innovate for everyone on the economic pyramid, not just those at the top. And then what we have to do—and this is really critical—is you don't dilute. You don't innovate for the people on the top of the economic pyramid and then simply dilute that product for the people lower on the economic pyramid. You have to get into homes, and you have to work to discreetly innovate at each point in that pyramid.

Roger Crockett: **Give me a sense of how—particularly in a challenging economic time, which we've been in for all too long now—when challenges like this arise, do you meet more often with your management team? Is there a different code of conduct that you and your management teams operate by in order to face unprecedented challenge in the market?**

Bob McDonald: I think the primary thing is: You've got to get out of the office. Just normal human psychology is that when the going gets tough, organizations tend to hunker down and become internally focused. Maybe [managers] even try to place blame within the organization for why things aren't going right, and they just stay in the office too much and try to do what they're already doing. They work harder to do what they're already doing. What I'm suggesting is, get out of the office, get into homes, shop with consumers. Leaders should look for ways to do things differently than they did them before, not simply work harder.



Bob McDonald is CEO and Chairman of Procter & Gamble. He joined P&G in 1980 and emerged as a leader in roles spanning nearly every area of the business. After leading P&G's businesses in the Philippines, Japan and Korea for more than a decade, McDonald was appointed COO in 2007 and became CEO in 2009. Under McDonald's leadership, P&G continues its reputation as one of the most innovative companies in the world.



Roger O. Crockett is a veteran business writer, thought leader and speaker. He is the former Chicago Deputy Bureau Chief for *BusinessWeek* magazine and a contributor to *Harvard Business Review*. His perspectives on business, leadership and diversity are trusted by many of the world's top executives and entrepreneurs.