

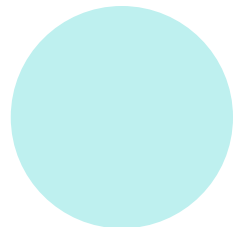
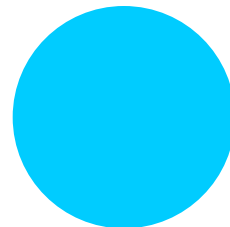
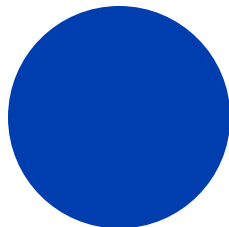


Speech Transcript:

Values-Based Leadership

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Presented to P&G new hires and students at several U.S. universities in 2008 and 2009



I want to talk about a subject that's very important to me and, I think, important to you: values.

I start with the premise that it's better to have a goal in life, and to lead your life by a set of principles, values, or morals.

Imagine that you're in a hospital somewhere and you're going to die, and one of your loved ones says to you, "Did you accomplish what you set out to accomplish in your life?"

What would you answer? Would you have an answer? Have you ever thought about it?

I can assure you that, as a professional person, you will have a very full schedule, and you'll have a choice: either you control your schedule, or you allow your schedule to control you. You need to have a goal that you set with yourself and your loved ones, and then make sure your schedule follows that goal. This will be better than meandering through life going from activity to activity, not ever being sure that you're going to get where you want to go. That's premise one.

Premise two is that it's important for each one of us to get in touch with the organizations we're members of, get in touch with life. Understand how we've been socialized -- because that socialization makes us unique -- and then understand how our socialization has led to a belief system.

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Procter & Gamble has changed a lot in my 28 years with the company. When I began at P&G, only 25 percent of our business was outside the U.S. Today, almost 60 percent of our business is outside the U.S. In 1980 we had just crossed \$10 billion in annual sales. Today, we're an \$80-billion company. In 1980 we employed 61,000 people; today we have 138,000 people.

So obviously, things change. If you don't remember anything else today, I want you to remember this: **The one thing you can count on is that things are going to change.**

You're heading into a world where businesses must improve their productivity if they are to be successful. P&G sales have increased eight-fold while the number of employees has increased two-fold. There are lots of reasons for that: globalization, the acquisition of companies, global scale, and new technology. What differentiates those who succeed in an ever-changing world is the ability to learn.

As you attended college you learned all kinds of things; but the most important thing you learned is how to learn. I can guarantee you that the future is going to be different from

the present. And the speed of change in the future is actually increasing; and that's the competitive, flat and fast-paced world you're entering.

My advice is to develop a values system that keeps you grounded in this ever-changing world. In his books, *Built to Last* and *Good to Great*, Jim Collins wrote that great companies change everything but their values. You have to be willing to change everything else because if you don't, you won't grow personally and you won't grow your business.

In 1980 when I joined P&G, it was good enough to be an effective leader in your own culture. Today, in our global economy, you have to be an effective leader in cultures outside your own -- you have to learn.

Whenever I talk about values, I start with the purpose and values of The Procter & Gamble Company.

Our Purpose is to improve the lives of the world's consumers. That's why most of us joined Procter & Gamble; that's why we come to work every day; and that's really what keeps us excited about the job.

I've been in nearly every country in which P&G operates and I can tell you there are a lot of people whose lives are not as fortunate as ours. What we try to do is to create products and services that help people have better lives, and we take that very, very seriously.

We also have strong values, which have been passed down from generation to generation of P&G employees.

The first two are *leadership* and *ownership*. We expect every employee to be a leader and to act like an owner of the company. In fact, more than 10 percent of our stock is owned by employees. That's a real accomplishment for a company our size, because it inspires employees to run the company as if the dollars they spend and the decisions they make are their own.

We also stress *integrity*: we don't lie, cheat, or steal and we don't tolerate people who do. That's a very important value for us.

We also have a *passion for winning*. Our goal on the job every day is to win with consumers and beat the competition.

Last but not least is *trust*. The fact that P&G is a build-from-within culture and that we all trust each other makes us a much more efficient company.

So these are the values of The Procter & Gamble Company, and they are my values as well.

P&G's sustainability efforts go hand in hand with our values. We've been in business since 1837. We celebrated our 170th anniversary in 2007 and we want to be around another 170 years.

We recognize that to sustain a company, we have to continue to deliver outstanding business results, but we also have to take care of our environment and the people and communities where we operate, now and for generations to come.

So we have developed strategies to significantly improve the footprint of our physical operations around the world. We are also creating billions of dollars of new products that are better for the environment.

In my experience, the best companies and leaders operate by a clear purpose and consistent set of principles or values. People like working for leaders who are transparent about what's important to them.

As I share my 10 beliefs and how I developed them, I hope you'll think about getting more in touch with your own values system, talking it over with your loved ones, setting a goal in life, writing it down, and checking on it every six or 12 months.

Belief one: **Living a life driven by purpose is more meaningful and rewarding than meandering through life without direction.**

My life's purpose is to improve lives. This operates on many levels. I work to improve the lives of all 6.5 billion people in the world with P&G brands, and I work everyday to have a positive impact in the life of each person I meet. This life goal led me to be a Boy Scout when I was young, to attend West Point and become an officer in the U.S. Army, and then to join The Procter & Gamble Company.

People like to work for leaders who operate with a clear and consistent purpose. The leader's job is to understand and enable the purpose and dreams of their employees. In this sense the task of the leader becomes a calling, a profession, not a job.

Belief two: **Everyone wants to succeed, and success is contagious.** People like to be part of a winning team. So what we have to do, as leaders, is to create that team. At P&G we call this a "high-performance team."

How do we as leaders create a high-performance environment?

I'd like you to think back to this morning. The alarm clock went off, you rolled out of bed. How many of you said, "I'm going to class today, and I'm going to do my darnedest to fail?" Raise your hand! Come on, there's somebody out there who wanted to fail, right? How many are trying to flunk out? You all think that's ridiculous, right? I want you to lock that thought in your mind: nobody wants to fail; nobody wants to flunk out.

But as leaders, how does this translate to the way we treat the people we work with?

In business, you never have enough time. And unfortunately what you end up doing sometimes is trying to catch people making mistakes so you can correct them, rather than trying to catch people succeeding and turning that into bigger success.

In the army, when I had my first unit, it was a platoon of about 20 men, most of whom had not graduated from high school. My challenge was to teach them to succeed, then take that success and build it into self-confidence, so they can do even more and create even greater success.

Since success is contagious, one success will always lead to another, and one successful person will always influence another to be successful. Our job as leaders is to start the fire that fuels the virtuous cycle of success.

Belief three: **Putting people in the right jobs is one of the most important jobs of the leader.**

We need to get the right people on the bus and get them in the right seats on the bus. I talked recently with Jim McNerney, who is CEO of Boeing, a former P&G employee, and member of our Board of Directors. Jim said that in each of his leadership positions, it took him too long to get the right leaders in the right jobs.

So how do you know if you've got the right leaders in the right place? Think for a moment about your favorite course at school. Now think about the course in which you get the best grade. Is it same course? People like to do what they're good at. If someone is unhappy all day long, they're not in the right job. Ask them and observe them to see if they like what they're doing. If you're running a company of 138,000 people, you want each of them in a job that takes advantage of their strengths.

Belief four: **Character is the most important trait of a leader.**

This belief came from my experience in the Army and also from Procter & Gamble. I define character as putting the needs of the organization above your own. In the Army, as an officer, I would make sure all my soldiers ate before I did. The idea wasn't that we were going to run out of food. It was symbolic: to show the soldiers that their well-being was more important to me than my own.

People like to follow leaders with character. Jim Collins calls this "Level Five Leadership": leaders whose ambition is for the organization and not for themselves.

An important part of character is taking responsibility. When I showed up for my first day at West Point I was quickly informed that as a plebe, a freshman, I was the lowest form of life on earth. You find out your first day that you have four answers to any question: "Yes, sir." "No, Sir." "Sir, I do not understand." And, "No excuse, sir."

Now imagine, I had pressed my trousers, my shoes were shined, and I was walking out to formation. My friend John who was walking near me stepped in a mud puddle, splashing muddy water onto my shoes and pants. An upperclassman comes up to me and says, "McDonald, you tool box, can't you clean your trousers? Can't you shine your shoes?"

I ran through my answers: "Yes sir." (That's really not an answer.) "No sir." (That integrity thing is going to be an issue.) So for the first few weeks I said, "Sir, I do not understand." After a couple of weeks of this, I was sent to the hospital for an audiology test. They thought there was something wrong with my hearing, but I was just a slow learner.

Finally I got it: the correct answer is "No excuse, Sir." "No excuse" takes responsibility. As a leader, if something goes right, give the credit to the people in the organization. If something goes wrong, take responsibility. "No excuse. It won't happen again."

You have to be careful with this idea. My wife and I trained our children to take responsibility, and we read all the parenting books in the world. One day we saw our daughter's room was a mess. We put together a lesson plan on what we were going to teach her about this life experience. She came home from her friend's house, she went up to her room, we went up the stairs, we had our parenting books, and we thought we had it all together. We walked into the room ready to deliver our speech. Our daughter looked at us and said, "Dad, I know, I shouldn't have gone out to play. My room was a mess. I apologize. No excuse, it won't happen again." I wanted to give my speech but the moment was gone. So be careful who you teach this to.

At West Point I also learned to **choose the harder right, rather than the easier wrong.**

This comes from the West Point Cadet Prayer. Have you ever noticed that the easy thing is usually the wrong thing? My advice for P&G people is that if something feels easy to do -- too easy -- get skeptical.

The reason Procter & Gamble has been in business for 170 years is that we do the right thing, even when it's hard to do, whether that's pulling a popular product off the store shelves at the first sign of a potential safety issue, or refusing to bribe officials in countries where bribery is standard business practice. Train yourself to do the right thing. If you do that, you'll live a great life.

Belief five: **Diverse groups of people are more innovative than homogenous groups.**

Diversity is a necessity at P&G to reflect the consumers we serve and to drive innovation, one of our five core strengths.

Innovation is the result of connections and collaboration. James Burke, science historian and author/producer of *Connections*, documented that innovation often comes from connecting two seemingly disconnected ideas. A diverse group is better able to make these connections since they have a greater diversity of nodes to connect.

The role of the leader is to create the environment for connections and collaboration to occur. Leaders of the most effective diverse teams follow the "Platinum Rule": treat others as they want to be treated. The leader should know the people he or she works with well enough to know how they want to be treated.

Belief six: Ineffective systems and cultures are bigger barriers to achievement than the talents of people. If you're the leader of an organization and something goes wrong, before blaming the people, take a look and see if you provided the right leadership. Did you establish the right strategies? Did you build the right systems? Did you create the right culture?

This belief was shaped by some training courses with Edwards Deming, the father of Total Quality Management. In one exercise, Deming had a bucket of beads. Some were red, and some were blue. He gave us a little plastic paddle, and in the paddle were little spherical holes. You put the paddle in the beads, shook it around, and your goal was to catch an equal number of blue and red beads in the paddle.

I'd stick the paddle in the bucket, shake it around, and Deming would yell at me, "McDonald, more red beads, more red beads!" I'd put the paddle back in, shake it around, try to get more red beads, pull it out, and continue to get more blue beads.

He was teaching me a couple of things. One was that no matter what you do in a system, it is going to deliver a mean result. Another was that sometimes we give our people bad systems. Later I found out that the red beads were one diameter, the blue beads were another diameter, and no matter what I did, the paddle was designed to hold more blue beads.

It's a terrific metaphor for what we as leaders do to people in our organizations: we put them in a system, we give them strategies, we try to lead, and we expect them to deliver great results, but organizations are perfectly designed to get the results they get. So if you get bad results, redesign your organization. If you get good results, keep it going.

Belief seven: **Some people in the organization will not make it on the journey.**

A clue to finding these individuals is to find who is not happy day-to-day. It is the leader's job to identify those who cannot go on the journey, help them recognize the tension, and help them identify other careers which offer greater promise.

Belief eight: **Organizations must renew themselves.**

Any organization – as with any organism -- that is growing must renew itself. Growth by definition requires change. Change requires renewal. In today's ever-changing world, the standards of performance which are acceptable today will be unacceptable tomorrow if the organization is growing and improving. As such, the leader must provide training and development opportunities for the individuals in the organization to grow.

Renewal is particularly important in a "build from within" Company like P&G. Of Fortune's 50 largest companies when the list was first created in 1955, only nine, including P&G, remain on the Fortune 50 today. What causes companies to stop growing? It's the capability they needed to build but didn't. Leaders must determine which changes in the market place are going to cause your business to become obsolete, and build the right capability for the future.

Belief nine: **Recruiting is a top priority.** When P&G recruits, we're hiring future leaders and future friends. It's why I'm here at your school today, and it's why I go to colleges all over the world. The leader needs to be active in recruiting to ensure we are constantly raising standards and to gauge the level of renewal of the organization.

P&G is a build-from-within company. When I retire, one of you may be in my job, and my livelihood as a P&G shareholder is going to be dependent upon you. So I want to make sure we choose the absolute best people—the future leaders of our company.

Belief ten: **The true test of the leader is the performance of the organization when he or she is absent or after he or she departs.**

Have you built the organizational capabilities so well that when you're not there, the organization can continue to function, to grow and succeed? Or have you built an organization that is so dependent upon you that you have to be there?

While it's a counterintuitive thought for leadership, you want to build an organization that is so capable the leader's presence or absence would not significantly affect business results. This is how you sustain and grow an organization successfully for generations to come.

Thank you very much.

About Procter & Gamble [NYSE:PG]

Three billion times a day, P&G brands touch the lives of people around the world. The company has one of the strongest portfolios of trusted, quality, leadership brands, including Pampers®, Tide®, Ariel®, Always®, Whisper®, Pantene®, Mach3®, Bounty®, Dawn®, Gain®, Pringles®, Charmin®, Downy®, Lenor®, Iams®, Crest®, Oral-B®, Actonel®, Duracell®, Olay®, Head & Shoulders®, Wella®, Gillette®, Braun® and Fusion®.

The P&G community includes approximately 138,000 employees working in more than 80 countries worldwide.

Please visit <http://www.pg.com> for the latest news and in-depth information about P&G and its brands.

