**A Change at the Top at Procter & Gamble: An Indication of How Much the CEO Matters?**

A. G. Lafley joined Procter & Gamble (P&G) in 1977 as brand assistant for Joy dishwashing liquid. From this beginning, he worked his way through the firm’s laun- dry division, becoming highly visible due to a number of successes including the launching of liquid Tide. A string of continuing accomplishments throughout the firm resulted in Lafley’s appointment as P&G’s CEO in June 2000, a post he held until retiring in mid-2009. Bob McDonald, who joined P&G in 1980, was Lafley’s handpicked successor. McDonald took the top position at P&G in July 2009, but resigned under pressure in May 2013. Lafley, revered by many, was asked to come out of retirement and return to P&G as president, CEO, and chair of the board of directors. Lafley said that when

contacted to return to P&G, he agreed immediately to do so, committing to remain “as long as needed to improve the company’s performance.” However, speculation is that Lafley likely would not remain beyond three years.

What went wrong for McDonald, a long-time P&G employee who seemed to know the firm well and who received Lafley’s support? Not surprisingly, a number of possibilities have been mentioned in response to this question. Some concluded that, under McDonald’s lead- ership, P&G suffered from “poor execution globally,” an outcome created in part by P&G’s seemingly ineffective responses to aggressive competition in emerging mar- kets. Other apparent problems were a failure to control the firm’s costs and employees’ loss of confidence in

McDonald’s leadership. Still others argued that McDonald did not fully understand the effects on U.S. consumers of the recession in place when he took over, and that, during that time period, P&G “was selling BMWs when cash- tight consumers were looking for Kias.” The net result of these types of problems included P&G “losing a step to rivals like Unilever.” In turn, this caused investors to become frustrated by “P&G’s inability to consistently keep up with its rivals’ sales growth and share price gains.”

But why bring Lafley back? In a few words, because of his previous success. Among other achievements during his first stint as P&G’s main strategic leader were building up the firm’s beauty business, acquiring Gillette, expanding the firm’s presence in emerging markets, and launching hit products such as Swiffer and Febreze. An overall measure of P&G’s success during Lafley’s initial tenure as CEO is the fact that the firm’s shares increased 63 percent in value while the S&P fell 37 percent in value. Thus, multiple stakeholders, includ- ing investors and employees, may believe that Lafley can return the firm to the “glory days” it experienced from 2000 to 2009.

Product innovations are a core concern and an area receiving a significant amount of attention. Analysts suggest that P&G needs to move beyond incremental innovations, seeking to again create entirely new prod- uct categories as it did with Swiffer and Febreze. This will be challenging, at least in the short run, given recent declines in allocations to the firm’s research and devel- opment programs. These reductions have resulted in a product pipeline focused mainly on “reformulating rather than inventing.” Additionally, efforts are underway to continue McDonald’s strong, recent commitments to reduce the firm’s “bloated” cost structure and reenergize the competitive actions it will take in global markets.

Restructuring P&G’s multiple brands and products into four sectors, each of which will be headed by a pres- ident, is a major change Lafley is initiating. Currently, the firm has two global business divisions—beauty and grooming and household care. Final decisions about the precise compositions of the four sectors were not announced by mid-2013. Speculation, though, was that each sector would be formed “to reflect synergies between various businesses.” For example, one expec- tation was that paper-based products such as “Bounty paper towels, Charmin toilet paper, Pampers diapers and Always feminine care products” would be combined to form a sector. Moreover, Lafley’s replacement was expected to be selected from among the four presidents who would be chosen to lead the new sectors.