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ROSABETH MOSS KANTER

MATTHEW BIRD

Procter & Gamble in the 21st Century (B): Welcoming Gillette

> *"The combination will create the best consumer products company in the world."* – Jim Kilts, former Chairman and CEO, Gillette
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> *"It's a no-brainer."* – A.G. Lafley, Chairman and CEO, P&G
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> *"It's a dream deal."* – Warren Buffet, Chairman, Berkshire Hathaway, Gillette's largest shareholder

In November 2004, Jim Kilts called A.G. Lafley at P&G's Cincinnati headquarters. Kilts, who had been Chairman and CEO of Gillette for four years, was seeking a buyer of the global Boston-based company. Lafley, who had been Chairman and CEO of Procter & Gamble for over four years, was out of the office and had to call him back, unaware of what Kilts was about to propose.[1]

Lafley questioned Kilts on three topics. First, what was Gillette's price? Kilts said he wanted a fair offer. Not $60 per share, but not $50. "Jim," Lafley responded, "I can do the math. Are you thinking $55 a share?"[2] Then he asked about leadership commitment. Kilts said he was willing to convert his Gillette holdings into P&G stock and options and hold them for an agreed period of time. He would also consider staying with P&G for a year after the official merger. Finally, Lafley asked about the compatibility of the two company cultures. Aware of the P&G stereotype, Lafley gave Kilts a description of the new culture he helped forge during his turnaround of P&G. "The P&G culture is more collaborative, open, and competitive than you may know it to be," he said.[3]

Three days later, Lafley met at Kilts's personal office in Rye, New York. They spoke the entire afternoon and agreed to expand negotiations to include select senior managers. At one point, Kilts asked Lafley why he didn't bring any bankers or lawyers. Lafley said they weren't necessary. Kilts, Gillette CFO Chuck Cramb, and vice chairman Ed DeGraan met with Lafley and his CFO, Clayt Daley, to work out the merger terms. Culture and tone were major issues for Lafley. "We were looking for a collaborative culture," he said. "In fact, I decided that we were going to be collaborative in the negotiations. We had a friendly deal here, and there was no reason not to have the cards on the table."[4] Lafley called someone that both he and Kilts respected, Rajat Gupta, former managing director of McKinsey, who urged Kilts to give Lafley an open look at potential cost synergies and a peek at Gillette's planned technological innovations. Kilts agreed. But come December 2005, they halted negotiations, realizing that they couldn't strike an agreement before the upcoming analyst meetings and holidays.

Professor Rosabeth Moss Kanter and Research Associate Matthew Bird prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Lafley called Kilts back after Christmas. From a strategy standpoint, Lafley considered the acquisition a "no-brainer."[5] Both companies would obtain the scale needed to drive the global expansion of its products. P&G's developing market size was five times Gillette's – $11 billion in annual sales versus $2.2 billion. Together, the combined entity would include 21 billion dollar brands, 16 from Procter & Gamble and 5 from Gillette. Gillette's brands further migrated P&G's product portfolio toward higher-margin beauty, health and personal care categories. The merger would fortify retail customer relationships, especially through the combined knowledge of male consumers, from Gillette, and female buyers, from P&G. And they could leverage respective business strengths, such as Gillette's trade-up practices and P&G's go-to-market expertise, to improve growth.

On January 28, 2005, they announced what became a $54 billion deal, making it the largest acquisition in P&G history. From the start, Lafley framed the acquisition as a friendly merger. Former Gillette board member, Warren Buffet – the billionaire head of Berkshire Hathaway, which held 9% of Gillette's stock – lauded the deal. "This merger is going to create the greatest consumer products company in the world," Buffet said. "It's a dream deal."[6] He promised to increase Berkshire Hathaway's stake through an additional $350 million investment, bringing total ownership to 100 million shares of P&G stock. In the final deal, Gillette was valued at nearly $54 per share, almost 20% higher than its closing price before the announcement. Gillette had revenues of $11 billion, sold its products in over 170 countries, and employed 30,000 people. P&G promised to deliver $1.0 to $1.2 billion in cost synergies by year three, while cutting 5,000 to 6,000 of the total 140,000 jobs from the two companies. They also committed to obtaining $750 million in revenue synergies by year three. Now, Lafley and P&G had to follow through on their promises.

Introducing the Deal to Employees

Ask a Procter & Gamble or Gillette employee where they were when they first heard the merger news and they can tell you. "It's like remembering the day JFK was shot," Madalyn Brooks, future HR director for P&G UK and Ireland, said. She found out while at home in Geneva, having taken the day off in preparation for a long holiday weekend. Rodrigo Alponti worked for P&G Brazil but was in Toronto completing an MBA course and heard the news from classmates there. Luis Quintero, a Columbian national working for Gillette in Brazil, received a phone call after midnight early Friday, hours before the announcement, from a friend and colleague in Mexico who gave him the scoop. Quintero went to the office the next morning and read a posting on the company website, stating that P&G and Gillette had "merged." "It didn't say, we sold, nothing like that," he said. Many in the U.S. heard the news on the radio driving to work. Those in Asia didn't receive word until the following morning.

Gillette employees reacted with concern. "A 104 year-old company was sold." Ed Shirley, former Gillette president of international commercial operations, said. "It was an absolute shock. We thought we were going to acquire. We thought we were going to be the ones who were going to eat. But instead we were eaten." A manager in Latin America echoed the fears of many who worked in support functions: "There's going to be blood on the walls." While other reactions were less dramatic, many Gillette employees were anxious about their future.

Some Gillette leaders, such as CFO Chuck Cramb, already knew about the merger since they were involved in the negotiations. Kilts called others, such as Peter Hoffman, head of the blades and razor business, the night before the announcement. "I told them what was happening," Kilts said, "there was excitement."[7] He explained to his leadership team that scale was the future of the consumer goods industry. To keep growing, Gillette needed scale and Procter & Gamble could provide it.

Two weeks after the announcement, Lafley traveled to Boston along with global human resources officer Richard (Dick) Antoine, external relations head Charlotte Otto, and CFO Clayt Daley to introduce themselves and P&G to Gillette employees. Kilts stood at Lafley's side, acknowledging in his opening statement the emotions Gillette employees were having. "It is really an historic time for us, for our industry and our company. But in many ways it's also a sad time. We've been an independent company for over 100 years and we have a very proud heritage and it's never easy to give up your independence. But I think most of all, it is a very, very exciting time. And as you'll see, we are joining a tremendous partner to create the best consumer products company in the world."[8] Lafley began with his personal biography – he was a General Electric brat who moved around a lot, his grandmother worked for decades at a local hospital in Belmont, he remembered watching Ted Williams hit at Fenway Park – followed by an overview of P&G, starting with its Purpose, Values, and Principles (PVP) statement.

Lafley emphasized similarities between the two company cultures. On one side, he compared P&G's purpose statement to Gillette's vision. On another, he placed P&G's values side-by-side with Gillette's (See **Exhibit** 1). Ed Shirley recalled: "Both talked about the similarities in the culture. We didn't really understand that because we never talked about the Gillette culture, and we certainly didn't know what the P&G culture was. People just accepted that as a truism that the cultures are the same because the way we went to market and all the values and the principles were the same." Gillette employees asked instead about procedural issues affecting their work and jobs: When would organizational changes be announced? How would P&G integrate Gillette's businesses into P&G's business units? How would P&G leverage Gillette's differences? What were the success criteria for new employees assimilating into P&G?

P&G and Gillette leadership used the time between the merger announcement and the official change of control to clarify organizational design, business processes, and human resource issues. They worked feverishly to meet a July 1 deadline for closing, but by June it became apparent that regulatory hurdles in the U.S. and Europe would delay the merger until the Fall.

Steering the Integration of People

> *"There's no substitute for how you behave, so when we did the merger with Gillette, and I still call it a merger rather than acquisition, we approached it very differently than anything we had ever done before."* – Bob McDonald, vice chairman of global operations and future COO, P&G

P&G's leadership – including Lafley, Daley and McDonald – signaled commitment to collaboration by creating a joint Global Integration Steering Committee, which paired P&G and Gillette senior managers by function to give them shared responsibility for merger planning. Daley and Kilts were co-leaders, followed by joint heads from Human Resources, MDO/Commercial Operations, Marketing/GBUs, Finance, IT/Business Services, Supply Chain/Manufacturing, Purchasing, R&D, Legal, and Planning/Project Manager (See **Exhibit** 2). Integration activities would flow from these sponsors down into the organization. The Global Integration Steering Committee was finalized six weeks after the merger announcement.

In February, Daley tapped Gordon Wright, finance manager for the global family care business, to lead the Global Integration Steering Committee's planning activities. Wright, who joined P&G in 1985, had two integration responsibilities: financial oversight, ensuring that the plans developed would meet the cost and revenue targets committed externally; and management of the various integration teams, including training and issue resolution. Roughly 70% of the integration took place in McDonald's global operations area, so Wright worked closely with McDonald and his integration team. "Gordon was the key guy in the engine room," McDonald said. Wright also worked intimately with Daley. "The fact that Clayt was appointed the P&G executive leader, along with Jim Kilts for Gillette, was huge," Wright said. "With Clayt we had a vice chairman of the company as a hands-on leader in the integration. I had enormous access to him to get issues resolved and get them resolved quickly. He joined my central integration team at least 50% of the time, maybe more, depending on his schedule, so he was in touch." Wright credited the decision to create joint-planning teams prior to his arrival as one reason for the positive tone among the integration leadership.

In March 2005, Wright worked with key leaders to identify merger principles prior to the first steering committee meeting on April 1. After discussion and debate, they reached a consensus on several points: Maintain/build P&G and Gillette business momentum; field the best team; treat people with dignity/respect; move quickly, making decisions promptly, objectively, and fairly; and communicate openly and proactively – all in addition to the overarching principle of collaboration.

While Wright, Daley and senior P&G leaders identified merger principles, Kilts and Ned Guillet, Gillette's senior vp of HR and a steering committee co-leader for that function, spoke to Gillette associates. Guillet introduced the global steering committee's structure and members. He then discussed the "field the best team" concept, used first in the merger announcement and reiterated by Lafley during his presentation to Gillette employees in mid-February. "We're working very closely with Procter & Gamble to establish a process to staff the organization with the very best leaders from each company whenever possible, and we're starting at the top levels of the organization," Guillet said.[9] Staffing decisions would be based on factual data and would depend on several factors: the vision of the future organizational structure, the need for talent upgrades, gaps in succession planning, existing and anticipated vacancies, and diversity of gender, race, culture, geography, skill, and experience. Guillet promised to provide transparent communications in a timely manner, especially through an intranet site. He acknowledged that speculation was human nature, but urged caution about rumors: "Having read just about everything that has been written since January 27, I can assure you that most of it, in fact, is untrue," he said.[10]

On April 1, the steering committee approved the merger principles and made some key decisions. P&G systems and processes would be used unless there was "a strong business reason to do otherwise." Gillette would integrate over time into P&G's GBU, MDO, GBS and Corporate organizational structure. A new Gillette GBU would be created to manage the blades/razors, Braun, and Duracell businesses, and would include the company's Global Technical and Manufacturing (GTM) arm, which consisted of R&D, engineering, and production capabilities. The blades and razors business would remain in Boston, while Braun would stay in Germany and Duracell would continue in Connecticut. The oral and personal care businesses would integrate into existing P&G GBUs. The combined entity would go to market as one company in order to realize cost targets and revenue synergies; Gillette's subsidiaries would integrate with P&G's MDOs. Finally, the company would maintain P&G's shared services model, which outsourced payroll, benefits, transactional accounting, facilities management, and data storage functions to third-parties, such as Hewlett-Packard and IBM, who ran them from specific global sites. On April 14, the steering committee posted their decisions on the company intranet sites. The postings, accessible to 140,000 employees, also detailed the merger's guiding principles.

Integration Teams

By May, two kinds of joint teams had formed and were working to meet their first deadlines.

Clean Teams Companies often create clean teams during mergers and acquisitions to take advantage of the downtime dedicated to due diligence prior to regulatory approval. Legal restrictions prevented firms from sharing proprietary information before the official merger, and in the U.S. any major communication between the companies dealing with the merger had to be filed with the SEC. To speed planning on confidential topics, organizations often separated key people and placed them together with an independent third-party who arbitrated the exchange. Should the merger fall through, workers were not eligible to return to their respective businesses since they possessed competitor information, such as finance or go-to-market knowledge. P&G and Gillette immediately set up various clean teams with McKinsey acting as an intermediary.

Transition Planning Teams Transition planning teams were created for each major business function represented by the steering committee, with 70% of the integration work falling under global operations, led by Bob McDonald and Rob Steele for P&G and Ed Shirley and Joe Dooley for Gillette. P&G divided its worldwide MDO operations into seven regions – North America, Latin America, Western Europe, Central & Eastern Europe/Middle East/Africa (CEEMEA), Australasia and India (ASEAN), Northeast Asia, and Greater China. Moheet Nagrath, the HR vp for global operations, was appointed the MDO integration leader and worked with Wright. Beneath Nagrath, each region designated co-leaders, one each from P&G and Gillette, with team members giving part-time support from finance, marketing, shared services, and supply chain. Below them were 84 subsidiary-level teams which shared a similar organization structure. They worked part-time on the integration, while maintaining primary work responsibilities.

By the beginning of May 2005, top transition teams were staffed and meeting bi-weekly. Wright trained new team members on the merger principles. "I can't tell you how many times I went through this," he said. P&G's merger principles cascaded to sub-integration teams and partners. The oft-repeated objective was to create the best consumer packaged goods company in the world. Clear integration team structures, roles, and responsibilities were identified and people were held accountable. The first round of deliverables was due May 15. Finance leaders on the teams played a critical role, as they led the process to develop detailed plans to deliver the cost and synergy targets.

Nagrath worked closely with Mike Sharp, his HR integration team counterpart in Gillette. Nagrath said, "In the beginning you're going in blind. You can come across as very arrogant or very ignorant or both. But we had these teams. Through Mike Sharp, I learned the culture of Gillette. I learned what the issues were. I learned where I could help, where I could intervene, where there was a communication gap. On the flip side, he wanted to understand from me how we thought about things that we were planning. Trust between us trickled down into our organizations."

Back-office integration of services and supply chain, such as order, shipping, billing, planning, human resources and other systems, was necessary before P&G and Gillette could go to market as one company. "The hardest integration work was in the MDO because you have a complete merging of the organization, including the movement to a single systems platform, SAP," Wright said. Individual plans for that transition needed to be worked out for each region and country. P&G benefitted from strong existing partnerships with HP and IBM which allowed them to flex resources, ramping up and down as needed. McDonald estimated that the surge capability would enable the companies to complete the integration in roughly a quarter of the time, even though it was four times bigger than any previous P&G acquisition. If done correctly, they would avoid the information bottlenecks that had occurred during O-2005, the company's last big restructuring.

Senior Managers

While staffing the integration teams, P&G leaders pondered the role of the top 15 Gillette managers: Would they join the combined company or were they going to be a transition leader? Various factors influenced the decisions of senior Gillette managers, including tempting outside offers, the opportunity to take a golden parachute and either retire or change career directions, or reluctance to relocate families physically from Boston. Dick Antoine, the global human resources officer for P&G, listened to and worked with each individual on their plans.

After the second integration steering committee meeting in May 2005, P&G announced the appointment of key Gillette leaders to staff the new Gillette GBU, an essential step for ensuring organizational continuity and business momentum. This work was led by Antoine along with A.G. Lafley, Clayt Daley, and Bob McDonald. Mike Cowhig was tapped as the president of global technical and manufacturing (GTM) for blades and razors, batteries, and appliances, Peter Hoffman would become president of global blades and razors, and Mark Leckie would head the Duracell and Braun businesses. The two commercial operations leaders, Ed Shirley for international and Joe Dooley for North America, would also take leadership positions, to be determined at a later date. Less than a month later, in mid-June, P&G made two additional Gillette appointments when it announced its own annual management changes. Mary Ann Pesce, who headed Gillette's global personal care business, and Bruce Cleverly, who led Gillette's oral care business, would also become presidents in the combined company.

Nagrath explained the speed of these decisions: "One of the first things you need to do, once you are able, is to say who are the leaders and you need to tell the leaders when we have a job for them. Because once you have the leaders they can help manage their organizations. Insecurity goes away when they know 'oh I know this person. He or she is in charge, this is okay, they'll take care of me.' Or 'I have confidence they'll do the right thing'."

McDonald, Shirley, Guillet, and Nagrath then began work on the next managerial layer, the 120 general managers in the company. With the integration of multiple business units and subsidiaries, there was going to be a large redundancy of general managers. McDonald asked Shirley, his co-head on the global operations integration team, for advice – "I need to meet the people because I'm trying to decide which people we're going to separate. I can't make that decision about somebody and their family without meeting them," McDonald said. Shirley convened a meeting in New Hampshire in late May at which McDonald spoke and Nagrath participated.

P&G leaders wanted to identify the best individuals from both companies fairly and with respect for the dignity of the people who would be displaced. Antoine and Nagrath rejected the idea of P&G performing their own deep assessment of Gillette managers. Instead, they asked the Gillette leaders who their best people were, trusting in their judgment and performance rating systems. Several general managers were already scheduled to change positions during the time of the integration. "You had the wrong people in the wrong places, in the wrong job sometimes. You had people en route to jobs who were going to land in a place where there wasn't a job," McDonald said. For example, a Gillette GM for Canada was scheduled to move to Australia before the merger announcement. But P&G already had someone there. McDonald and Nagrath had to understand his performance, why he was headed to Australia, and then compare him to other P&G managers. In the end, the Gillette manager stayed with P&G. "Each decision required an immense amount of review and deliberation," McDonald said. "It was unbelievable the amount of detail to go through to place the right people in the right places. Where it was a close call, I needed to talk to both people, and interview them, in essence, without them knowing what I was doing." Nagrath also played a crucial role determining where needs were and which managers would go.

McDonald and Nagrath relied heavily on Gillette's performance appraisal systems and on recommendations from Shirley and Guillet. Shirley was particularly concerned about what he called jump balls, instances when the performance and capability of both managers were relatively equal. "One thing I did personally with Bob was to say, look, if there's a jump ball for a job there's every reason why a P&G-er would be chosen, for a general manager of a country or a leader of a customer team or whatever it might be. But let me suggest that if P&G wins all the jump balls it's not going to send the right signal. My recommendation is: Can you make some highly-visible strategic choices to place Gillette leaders who worked on my team in jobs that people would say wow, we've got a chance?" McDonald agreed. A female Finnish leader who ran Gillette's Germany, Austria, and Switzerland markets was offered leadership of the Nordic organization. The head of Gillette Russia became the manager of Central Europe. A U.K. general manager was tapped as the leader of a key business unit in Western Europe. Another general manager became responsible for one of the fastest growth areas in China. "I trusted Ed, Jim and Ned and their evaluation of the people in making these appointments," McDonald said.

As decisions were made on the second managerial layer, Nagrath and his team prepared announcements, hoping to send them weeks after the still-assumed July 1 closing, especially since it was the area of organization with the highest concentration of employees. Nagrath explained: "We wanted to tell the whole Gillette world that these managers in your country have been offered jobs and this is the kind of job they have, because if they're not worried about their future, country managers can focus on integrating. And the fact that they would be in the new role would increase confidence in the rest of the folks down there."

Fielding the Best Team

The "field the best team" concept was originally conceived by Clayt Daley, co-leader of the integration. A week before the first announcement of Gillette's senior management appointments, Dick Antoine and Ned Guillet, co-leaders of the HR integration, distributed a memo explaining the "fielding the best team" initiative. (See **Exhibit** 3) Top leaders had already discussed several issues: the transfer of "key Gillette talent" into P&G's organization, the cross-fertilization of P&G and Gillette employees within the businesses, and P&G's ability to absorb Gillette people. The communication reiterated that the total workforce would be reduced by 4% or 5,000 to 6,000 people throughout the organization and not just in overlapping areas. While decisions had not been made and nothing could occur until the merger was finalized, P&G promised to notify employees of their status within six months after change of control. Those losing jobs would get appropriate notice, severance and job placement assistance.

The rationale behind the communiqué was to provide "certainty of process," an idea from a Harvard Business School professor offered at the May 2005 meeting of Gillette general managers in New Hampshire. "When there's a major change going on, if you can't tell people what the result or the outcome is, explain the process," Nagrath said. "That will help relieve the anxiety and then when the outcome comes, it comes. When we talked about fielding the best team, what we tried to do was make sure we explained the process. Even though you don't know whether you have a job or not, you at least know what the process is to get there."

Two weeks later, a second statement – "Succeeding in a 'build from within' company" – was framed around questions Gillette employees were likely to ask: Why does P&G believe in the promote-from-within philosophy? What are the risks of building from within? Is it possible for me to be successful and happy coming into a company where many others were hired at entry level? If I join P&G, will I have real opportunities for promotion and career growth? Employees could find on the web "seven tips for success" from P&G employees brought in from earlier acquisitions. This memo came on the heels of the announcement of senior Gillette appointments, adding further signs of commitment to the integration of Gillette employees. And even before official closing of the deal, P&G leaders moved three Gillette employees in three countries into key P&G positions due to vacancies, after checking with legal counsel to ensure that it would not pose a problem.

Although the "fielding the best team" principle relieved concern for Gillette employees, it caused new worries for some in P&G, who until then never had to consider possible job losses in the wake of an acquisition. "At first, there was some anxiety," Roisin Donnelly a member of the UK and Ireland integration team said in reference to the communication. Nagrath explained: "What the P&G-er said, was hey, what do you mean? You don't even know that manager. And you're appointing a new person in my position." Meanwhile, some mid-level Gillette managers who had initial concerns over job cuts became more hopeful. "When they announced the acquisition, there was a second and third communication about it. It was we are going to field the best team regardless of origin. It was a strong message. It was 'hold your horses. We are going to do what is best for this combined company.' We had a lot of anxiety, and they walked the talk." Rodrigo Alponti, the Brazil integration leader, recognized that P&G, during previous acquisitions, had never expressed such a strong commitment to an acquired company's employees.

Merger leaders from both companies recognized the pros and cons of the "field the best team" phrase. For Ed Shirley, it sent a powerful motivational message: "The statement was totally different from prior acquisitions. Before, P&G hires the smartest and the brightest from the best universities. They've got great talent. But with this one, they stepped back and they said we want to retain the institutional knowledge from this very successful company and we want the people because you guys have got the same values, the same principles. You work differently. We'd like to get some of that and make P&G an even better company." Wright observed: "Many Gillette employees interpreted it as we are the best team." he said. "They were very proud of what they delivered and they had an incredibly good four or five year run when Kilts was the CEO. But 'field the best team' got misunderstood."

For P&G, the Gillette acquisition was a once in a lifetime opportunity in terms of upgrading the quality of the combined company, which was why Clayt Daley originally recommended the idea. "We wanted to ensure that the top talent of Gillette had the opportunity to join Procter & Gamble." Wright said. "That meant that we were going to displace some Procter & Gamble people to make that happen." McDonald acknowledged that the approach was unique, even unorthodox: "We said that we were going to take the top performers in both companies and keep them. And that meant we'd separate some low performing P&G-ers and replace them with Gillette people. That's unheard of in acquisitions."

Regulatory delays became apparent by June. This gave the various integration teams the time to get clarity on the third managerial layer of directors and associate directors located in the regional and country operations, using Gillette's performance ratings to work through decisions. The quality of the tracking system made it possible to promptly extend offers to Gillette employees, reducing anxiety after closing, and to keep the promise of notifying all employees of their status within six months after change of control.

P&G also added a new element to its annual bonus program with the intention of incentivizing integration work. Wright designed a scorecard with components such as business momentum, financial integration, field the best team, and project tracking, with measures graded red, yellow, or green versus targets established at close. The bonus would begin in the 2005-2006 fiscal year, would last for a three-year period, and was extended deep into the organization to the band three level (entry level was one). Leaders planned to publicize it with the change of control, again demonstrating

P&G's integration commitment. "It's all these separate things that can help unify the organization to understand the importance of this work," Wright said.

Best of Both: Identifying Best Practices

> *"It wasn't just 'best of both' in terms of leadership management and staff, it was 'best of both' in terms of systems."* – A.G. Lafley, Chairman and CEO, P&G[11]

> *"We actually articulated that Gillette was a catalyst of change before the change of control because we knew it had to be financially. What we had to do was accelerate the growth, and using Gillette as a catalyst for improvement was the idea."* – Bob McDonald, vice chairman of global operations and future COO, P&G

Lafley and Kilts did not want to just strip out costs and realize basic revenue synergies. "If all the acquisition of Gillette did was keep us on our 10%+ earnings per share line, we wouldn't have accomplished all of our objectives," McDonald said. "We would have just become bigger, but no accelerated growth." This growth required the leveraging and hybridization of capabilities – innovation and technology synergies, cross-marketing opportunities, and go-to-market reinvention based on best practices from both companies.

Lafley already had some information about Gillette's go-to-market capabilities. After the merger was public knowledge, he called several retail customers to ask what they liked about Gillette. They said that despite P&G's strengths, it was not as agile, flexible, or responsive as Gillette. Lafley listened. "I give him incredible credit for that," Shirley said. "It's hard to step back, when you're great and recognize that you could be even better." Then one of the clean teams, which focused on trade terms, began to report back, supporting this finding. "We both go to market effectively with retailers," Lafley said, "but we looked at their trade terms and trade promotion incentive programs and we looked at ours and we said 'you know we like some things about their program, we think it's a little bit better than ours'."[12]

Lafley and integration leaders decided to adopt Gillette's pay for performance approach to customers, to be announced and implemented after the closing. P&G's policy was to have its sales teams treat customers in an equitable fashion without giving them differential terms based on performance and return on investment. Fairness for P&G was treating everyone the same. Gillette, on the other hand, had a different understanding of fairness. "Equality wasn't everyone gets the same," Shirley said. "Gillette felt that if you can give us a profitable return on our investment then we'll invest in you. If you don't or won't, then we won't. And so the equity lens was on pay for performance and return on investment. It wasn't about same." As a result, Gillette sales teams worked more dynamically with customers. P&G recognized this and combined it with its trade strengths. "It's not either/or, it's about and," McDonald said. In a hybrid model, P&G would provide the value of its broad product line and likely get favorable payment terms. It would combine them with Gillette's return-on-investment, pay-for-performance criteria on the demand-creation side to create an integrated trade-terms model. Such a shift redefined the role of P&G sales employees, giving them an entrepreneurial motivation and the opportunity to develop more joint-planning with customers.

A second decision was to set up a new team to benchmark best practices. If there were trade term advantages, P&G leadership reasoned, what else was there? The initiative was announced in May 2005. Kerry Clark, the P&G vice chairman of the health, baby, and family care business unit, would head the project, and his team would work alongside the Gillette integration team. "We also thought that getting people together working on the hybrid would be a way for both sides to respect and appreciate each other," McDonald added. Although P&G reiterated that it would not change its organization structure, it did announce that it was planning to improve performance and productivity by revitalizing the organization.

The analysis of go-to-market capabilities was already high on McDonald's list when he became the global operations head in 2004, so much of the groundwork from P&G's end had already been laid. "When I came into my prior job, there was a whole bunch of stuff going on, capabilities that people were trying to build, but no employee could sit down with me and tell me how capability A connected with B or C or D. It was all disparate," he said. "I was trying to make sense of that by articulating better strategies. Then when we saw the Gillette capabilities we wanted to get those expanded across the company, but keep the part of P&G that was good, we needed a hybrid." P&G would attempt to use Gillette as a catalyst for change.

Ed Shirley used the initiative to help retain Gillette leadership. "We did all the pre-work with the expectation that the deal would be approved. And we created this new incredibly advantaged capability," Shirley said. "That was the sell point to the Gillette people while I was on the team. 'Look, if we all leave, then the ability to influence them and be a catalyst for change will disappear'."

Like "field the best team," the "best of both" message could be ambiguous and subject to misinterpretation. To maintain business momentum, P&G initially preserved Gillette's global technical and manufacturing (GTM) organization, which included R&D, engineering, purchasing, and production capabilities. Early on, P&G's top leadership stated that it wanted to learn more about the GTM model, which was distinct from how P&G organized its technical functions, before making changes. In Gillette, they were led by a single president-level manager, while P&G had separate R&D and supply chain heads. However, the communication did not filter through the GTM organization as desired. While the GTM leadership understood the signal's meaning, as it worked its way down into the organization and day-to-day operations, it got interpreted as "nothing's going to change": "That was a significant barrier to making progress in the integration planning in those technical organizations," Wright explained. "It can't be 'no change' because GTM needed to adopt some of P&G's basic planning and reporting processes." Clayt Daley and other P&G leaders resolved the issue by going directly to the group to make sure that the correct message was shared throughout the organization.

Wright and his integration team learned that signals travelled through at least two channels: mass communication, such as through intranet postings, accessible by 140,000 employees at once; and a human chain, which relied on the accurate relay and clarification of messages as they passed between people, from managers to subordinates and among peers.

Do the Same Values Create the Same Culture?

> *"The principles and the values were the same. There really wasn't much difference. The difference was in the culture."* – Ed Shirley, legacy Gillette executive and future Group President, P&G North America

One of Lafley's first questions to Kilts during negotiations was about the compatibility of company cultures. Both leaders had led behavioral changes in their respective organizations. Lafley created a more collaborative company, one that focused more on external rather than internal competition. Kilts shocked Gillette out of complacency to create a culture of confidence, one that broke out of a pernicious trade loading cycle and losing streak. The day of the merger announcement, Lafley highlighted the companies' shared values and expanded upon their similarities a week later in his first presentation to Gillette associates in Boston. P&G's values of leadership, ownership, integrity, passion for winning, and trust mapped onto Gillette's values of achievement, integrity, and collaboration.

There were gestures of trust from the beginning. Lafley didn't bring bankers and lawyers to initial negotiations. Kilts gave Lafley an open look at Gillette's books and a peek at its innovation pipeline. Both sides assumed joint ownership of integration planning and trust developed between top-level managers. Then it worked its way down into the organization. McDonald, in his May 2005 talk to Gillette general managers, addressed the issue head on. "Look," he said, "the thing about this value of trust is that it's unconditional. The day you walk in the door, just like the day I walked in the door. You were walking in from Gillette, I was walking in from the U.S. Army. You are trusted, and it's up to you whether you want to keep that and build on that or give it up. You can give it up if you want, but it's unconditional. You don't have to earn it."

As planning progressed, however, it became apparent that shared values did not necessarily translate into common ways of behaving. There were important distinctions, visible first to those closest to integration planning. A sign of the cultural challenge came six to nine months in, especially on the regional and country-level integration teams which worked under time pressures. "Sometimes at the operating levels, Gillette folks didn't feel like they were being listened to. This was not true everywhere, but there were pieces of this in places," Wright explained. The P&G employees in the regions and countries had deadlines and felt pressure to get processes, such as the first combined profit forecast, in place. Gillette people were given the opportunity to provide input, but on occasion felt as if it weren't heeded. Wright and integration leadership redoubled their "best of both" communications efforts, but no amount of communication could change subtle but ingrained differences between the two companies.

"P&G was like a family and Gillette was like a team," Kilts said. Gillette was once a promote-from-within company but had changed over the years. "Gillette used to be very similar to that, but later on we just brought in the best athletes who could do the job," Shirley explained. McDonald said that he had a hard time wrapping his head around the company: "The problem I had was Gillette was a moving target. Gillette pre-Jim Kilts was one thing and Gillette post-Jim Kilts was another."

Gillette had responded to challenges of a global matrix structure by clarifying decision rights. Responsibilities were more end-to-end. Shirley admitted that initially there was a false perception among P&G-ers who viewed Kilts as a puppet master. "It couldn't be farther from the truth," he said. "He set clear goals and clear strategies about where he wanted us to go, but we were the ones who took the decisions based on the clarity of the decision rights. We had rigorous debates with data on whatever the decision was. Rigorous debate in the room, but then when we walked out of the room, the decision was made and then we went forward." This gave Gillette greater agility, which was crucial for quick global adaptation. It had clarity on roles and responsibilities. However, its mode of decision-making also made the company feel more top-down and autocratic.

Decision-making at P&G was inquiry-based, consensus-driven, and iterative. P&G was more structured, with global terms and price lists, but processes were more fragmented and had multiple owners. "We're more like a Japanese company. We take longer to make decisions, but when we make them, everyone is totally into the decision, because they've been part of the decision-making process," McDonald explained. Like Gillette, decisions were driven by data. However, pushing ideas through relied on the use of social networks – who you knew, how you knew them, the relationship you had with them, the trust that was built over time. P&G's decision-making process offered several advantages. Employees felt joint-ownership and multiple inquiries could potentially produce better and more creative decisions. However, it also came at the cost of speed and agility.

Gillette employees working on integration planning saw the differences. "If you didn't know the network and you didn't grow up in the network," Shirley said, "you didn't know how decisions were made because they weren't as clearly made as they were in Gillette." Gillette employees didn't know P&G people and how things worked there. They had difficulty seeing the total picture, as they could in Gillette which was smaller and, in many cases, more nimble. And P&G's workforce was four-times bigger. Even top Gillette talent began to weigh the costs and benefits associated with working in such a big company, as they too lacked the networks needed to succeed. Shirley saw part of his job as helping Gillette associates recognize the benefits of staying, of having the opportunity to influence the creation of a new P&G that wanted to use Gillette as a catalyst of change. Headhunters were already calling to lure Gillette talent. "We were highly marketable before the acquisition," Shirley said. "Now it was a feeding frenzy."

On the eve of the change of control, Wright recognized the challenges subtle cultural differences had posed. "We got into culture training probably too late," he said. "We could have flipped the communication a little bit more or err on assuming that there are differences. Unfortunately, our approach inadvertently led people to look past some of the more subtle differences that are important to understand."

From Principles to Execution

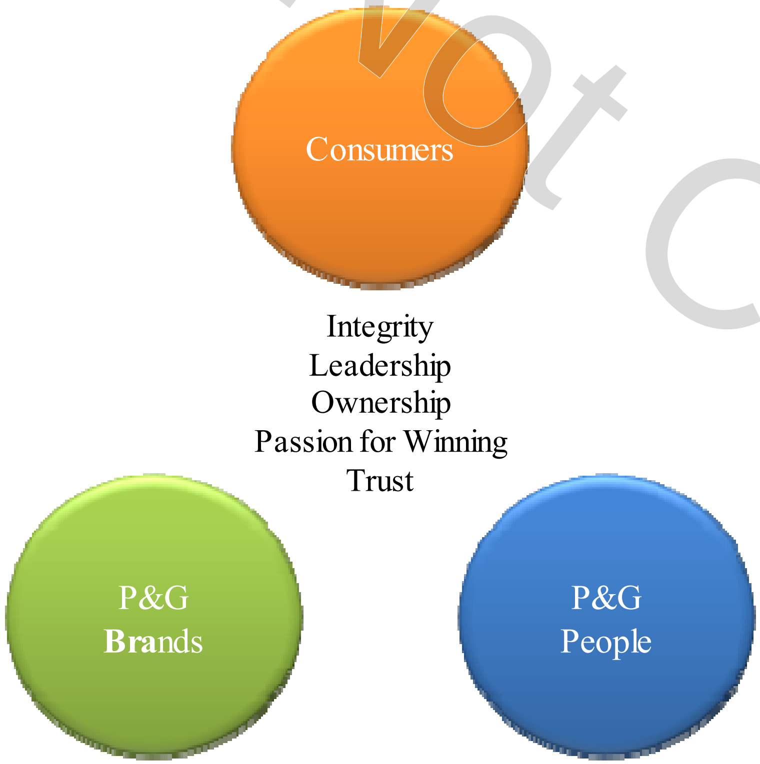
By June 2005, it became apparent that the July 1 closing would not be possible. After mailing joint proxy statements to P&G and Gillette shareholders in the Spring, the two shareholder meetings got pushed back to mid-July. Then, regulatory hurdles in the U.S. and in Europe delayed closing the merger until October 1 2005. "In some respects, we were fortunate that we got a bit of a delay from a pure planning standpoint, given the scope and size of this integration," Wright said.

The additional time allowed greater clarity on staffing decisions and the initial design of a "best of both" hybrid go-to-market strategy, to be rolled out after close. P&G leadership had sent strong signals to Gillette, broadcasting that they would go about the integration in a completely new, unprecedented way. They adhered religiously to the PVP, trusting and showing respect to Gillette employees. They gave them joint-ownership of integration plants. They appointed Gillette leaders to top positions. They promised early notification of employment status within six months after close. They worked diligently to identify Gillette's best practices. They designed a new component for the annual bonus system, which would incentivize the Gillette integration.

But challenges remained. "Field the best had a negative repercussion," Nagrath said. While the two company values were similar, their cultures were more distinct than initially realized. How would different modes of decision-making affect the integration? P&G and Gillette leadership was pleased with how they had managed the integration thus far. But risks always remained, and one of their main objectives was to maintain business momentum. Could sufficient trust be built throughout the globe, in the seven regions and the 84 subsidiaries, to ensure a smooth transition? It was one thing to identify integration principles, quite another to execute a successful integration.

Exhibit 1 Comparison of P&G and Gillette Values

P&G Values



P&G Brands and P&G People are the foundation of P&G's success.
P&G People bring the values to life as we focus on improving the lives of the world's consumers.

Gillette Values

ACHIEVEMENT
We are dedicated to the highest standards of achievement in all areas of our business. We strive to consistently exceed the expectations of both external and internal Customers.

INTEGRITY
Mutual respect and ethical behavior are the Basis for our relationships with colleagues, Customers and the community. Fair practice is the hallmark of the company.

COLLABORATION
We work closely together as one global team to improve the way we do business every day. We communicate openly and establish clear accountability for making Decisions, identifying issues and solutions, and maximizing business opportunities.

Source: Procter & Gamble and Gillette company documents.

Exhibit 2 Global Integration Steering Committee

Global Integration Steering Committee

P&G	Role	Gillette
Clayton Daley	Leaders	Jim Kilts
Dick Antoine	Human Resources	Ned Guillet
Bob McDonald Rob Steele	MDO / CommOps	Joe Dooley Ed Shirley
Nancy Swanson	Marketing / GBUs	John Darman
John Goodwin	Finance	Chuck Cramb Joe Schena
Filippo Passerini	IT / Business Services	Kathy Lane
Keith Harrison Rick Hughes Gil Cloyd	Supply Chain / Manufacturing / Purchasing Research & Development	Mike Cowhig Ed DeGraan Joe Scalzo
Jim Johnson	Legal	Richard Willard
Gordon Wright	Planning / Project Managers	Peter Klein

Source: Procter & Gamble company document.

Exhibit 3 "Fielding the Best Team" Communication

FIELDING THE BEST TEAM
DICK ANTOINE, GLOBAL HUMAN RESOURCES OFFICER
18 MAY 2005

A few weeks ago, a P&G/Gillette Transition Team update outlined the guiding principles for the integration process. One key principle is fielding the best team. Completing this work will be a critical factor in the ultimate success of our future Company.

So what does *"fielding the best team*" mean?

It means we will create a stronger, more capable organization from the combined talents of P&G and Gillette. Importantly, we will do this while still building our current business. We'll do this work in a way that allows us to:

- Maintain continuity of talent in both organizations, at and after the date of the merger
- Minimize the loss of talent in any part of P&G or Gillette and where possible, increase the diversity of company talent going forward
- Look for opportunities to integrate Gillette talent within P&G
- Identify and retain employees needed during the transition process

As we move forward with the merger, we will bring "fielding the best team" to life. Senior leaders from P&G and Gillette are already meeting in *"top-to-top"* discussions to focus on the following elements:

1. TRANSFER KEY GILLETTE TALENT INTO P&G'S ORGANIZATION. This will:
   - Retain continuity of key leadership and resources to support the ongoing business
   - Provide positions, as appropriate and available, for high performers, technical masters and institutional knowledge-holders
   - Incorporate the best of Gillette, including its unique business knowledge, technical mastery and culture, into the ongoing operations of P&G
   - Provide Gillette employees and leaders opportunities to learn the P&G business

2. PLACE A SMALL NUMBER OF P&G EMPLOYEES INTO THE GILLETTE ORGANIZATION. These people will:
   - Learn the Gillette business from Gillette managers
   - Foster the transfer of P&G learning and perspectives to Gillette
   - Supplement Gillette talent in leadership roles

3. CREATE CAPACITY WITHIN P&G TO ABSORB GILLETTE PEOPLE. To accomplish this, we will:
   - Identify current and anticipated vacancies within P&G, looking first to fill these positions with Gillette or other P&G employees before hiring externally
   - Identify opportunities for filling gaps in P&G's *"bench strength"* by adding Gillette employees and leaders
   - Identify positions for which Gillette employees have stronger qualifications than incumbents

When we announced the proposed merger in January, we estimated there would be reductions of approximately 6,000 employees, or 4% of the combined workforce of 140,000. These reductions could occur anywhere in the P&G or Gillette organizations, not just in areas of overlap.

All employees affected by the workforce reduction will be notified as soon as possible, although much of this work cannot progress until the merger closes. Also, the staffing work is likely to move forward on different timings based on organization, function and geography. To the extent possible, employees will be given another employment option to pursue. Those who will not have positions within the company will be provided appropriate notice and severance. There will be no employee-initiated separation program.

Within the next month, we expect to announce those senior Gillette managers who have accepted roles in the post-merger P&G organization. These managers will, in turn, work with their P&G colleagues to identify further opportunities to *"field the best team."* In addition, our goal is to notify all employees of their employment status within six months of the closing. This work excludes P&G and Gillette manufacturing operations. They will continue to follow their normal staffing processes.

We will work as quickly as possible to minimize the disruptions to employees, their families and the business. We'll conduct this process in the fairest and most respectful way possible, and in compliance with all relevant employment laws, regulations and legal obligations to works councils. People will always be our most important asset. That's why our staffing plans are among the highest-priority integration work. We are committed to finding and keeping the best talent in every function, operation and geography. By fielding the best possible team, we will be able to recognize our shared vision of being the best consumer products company in the world.

Source: SEC 425 Filing, Business Combination-Transaction Communication, see http://www.secinfo.com/d2eH7.z1g.htm.

Endnotes

[1] More information and frameworks related to this case can be found in Rosabeth Moss Kanter, *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good* (New York: Crown Publishing, 2009)

[2] Patricia Sellers interview with A.G. Lafley, "It was a no-brainer" That's what Procter & Gamble's A.G. Lafley says of his decision to buy Gillette. Here's why he thinks so – and how the deal came about," *Fortune*, February 21, 2005.

[3] Ibid.

[4] Ibid.

[5] Ibid.

[6] *Reuters*, "P&G to buy Gillette for $57 billion," January 29, 2005.

[7] Procter & Gamble Company, Business-Combination Communication Transaction, SEC File 1-00922, Accession Number 1169232-5-406, filed on February 2, 2005.

[8] Procter & Gamble Company, Business-Combination Communication Transaction, SEC File 1-00922, Accession Number 914121-5-368, filed on February 11, 2005.

[9] Gillette Company, Business-Combination Communication Transaction, SEC File 1-00922, Accession Number 950103-5-468, filed on March 17, 2005.

[10] Ibid.

[11] Patricia Sellers with A.G. Lafley, "It was a no-brainer."

[12] Ibid.