



THOMAS J. DELONG,
WARREN BRACKIN, ALEX CABAÑAS,
PHIL SHELLHAMMER, DAVID L. AGER

Procter & Gamble: Global Business Services

Dave Walker, vice president of Business Service Opportunities and chairman of the Governance Team at Procter & Gamble, sat and stared at the reports and presentations that were piled on his desk. As head of the Governance Team, Walker was responsible for leading a lengthy review aimed at answering one question: “What should P&G do with its Global Business Services (GBS) unit?”

GBS brought together internal services such as finance, accounting, employee services, customer logistics, purchasing, and information technology into a single, global organization providing services to all P&G business units. GBS leveraged P&G’s scale, capitalized on new technology, and standardized work processes to deliver improved services at significantly lower costs to all of P&G. In late 2000, GBS had achieved significant cost savings for the company, but many P&G top executives began to question whether or not continuing to invest in GBS was the best use of the company’s resources. A. G. Lafley, chairman and CEO, saw the decision as one about strategic focus: “We’re a development and commercialization company. That’s really what we do. We develop and commercialize brands and products. So we need to evaluate networking or partnering everything that is required to support a development and commercialization [kind of] company.”

Lafley and other top executives were pleased with the cost savings and efficiencies that GBS had already delivered, but they were looking for more.

One option was to spin off GBS as a separate entity. The business process outsourcing (BPO) industry, which provided financial, accounting, purchasing, and other critical business services to a wide variety of companies, was young but promising. In early 2001, a comprehensive review revealed that GBS had market value as a stand-alone business that could compete in this BPO market. GBS could continue to support P&G, but as a separate entity that also provided support services to other firms. However, although GBS had the expertise to effectively serve P&G, it was not clear that this expertise would be sufficient to enable the group to be competitive with BPO industry leaders.

A second option was to contract with an outside company for the services that GBS currently provided. Although this option was similar to a typical outsourcing deal, it was different in at least one major feature. Often when companies outsourced support functions, the employees that worked in the support units were laid off. P&G, however, valued their GBS employees, 5,700 of which could potentially be affected by this option, and had decided that this would be a different kind of outsourcing deal. They wanted any potential outsourcing partner to offer jobs to the GBS employees. This would mean that GBS employees would have the option to continue to work on P&G campuses around the world and serve P&G business units but would be employed by an outside company.

Professor Thomas J. DeLong, Warren Brackin (MBA 2004), Alex Cabañas (MBA 2004), Phil Shellhammer (MBA 2004), and Ph.D. Candidate David L. Ager 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.

Copyright © 2004 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

While this was a promising option, Walker and his team had several concerns. First, it was unclear how stressful and demotivating this transition might be for GBS and other P&G employees. Additionally, the Governance Team was unsure whether a single company existed that was sufficiently large and diverse that it could provide *all* the required GBS services at a lower cost and a higher service level. And finally, even if such a company could be identified, would P&G be able to negotiate a contract that protected the jobs of all 5,700 of their GBS employees?

A third option was to outsource the GBS divisions separately to best-of-breed companies. This would be an outsourcing deal similar to the one discussed above with respect to GBS employee retention, but instead of seeking and engaging a single company to provide all the GBS services, P&G would contract with several different support function specialists. There were many companies that could provide services in specialized fields such as IT, accounting, and logistics, and these companies could potentially provide P&G with superior service and innovation. However, as with the single-company outsourcing option, there were numerous management concerns. Additionally, the multiple partnerships necessitated by this option could prove extremely complicated to integrate and manage.

Last, keeping GBS in-house had to be considered as an option. Despite all of this analysis, perhaps P&G would be better off continuing to improve GBS as an internal service provider. GBS had just been formed in 1999 and was still developing its own capabilities as an organization. The unit had saved P&G several hundred million dollars in just over three years of operations, and perhaps there were more cost savings that could be achieved. Keeping everyone in-house would certainly be the least disruptive option.

In April 2001, P&G management had announced to employees in the GBS unit that they were considering “strategic opportunities for GBS.” Employees both inside and outside of GBS had varied reactions to the news. Many were understandably concerned about their future at P&G. Others were excited about the possibility of working for an outside company that specialized in their area of expertise. Then there were those who were unsure how to react: Would the company that they had been loyal to for decades now ask them to work for another company?

It was clear to Walker that he and the other Governance Team members assigned to create a final recommendation to the board would need to be clear about the human-capital challenges inherent in their recommendation and how P&G would address these challenges.

“People Will Always Be Our Most Important Asset”

The Procter & Gamble Company was established in 1837 by a partnership between William Procter, a candlemaker by trade, and his brother-in-law, James Gamble, who had apprenticed himself to a soapmaker. The two might never have even met had they not married sisters, Olivia and Elizabeth Norris, whose father convinced his new sons-in-law to become business partners. The company began where both men had settled, in one of the busiest centers of commerce and industry at the time: Cincinnati, Ohio.¹

Throughout its 165-year history, P&G had been known for its innovation and growth. By 1859, the company had increased in size to 80 employees, and sales topped \$1.0 million. In 1879, P&G

¹ The Procter & Gamble Company, “P&G History: 1837–1889,” The Procter & Gamble Company Web site, http://www.pg.com/about_pg/overview_facts/history.jhtml?document=%2Fcontent%2Fen_US%2Fxml%2Fcorporate%2Fcorporate_history_1837.xml&templateFile=%2Fabout_pg%2Foverview_facts%2Fhistory.jhtml, accessed December 10, 2003.

introduced Ivory, a floating, inexpensive white soap. Three years later, in 1882, P&G, through its Ivory campaign, was the first company to launch an advertising campaign directed at consumers. In 1887, P&G instituted one of the first profit-sharing programs for factory workers. In 1911, P&G introduced Crisco, the first all-vegetable shortening. In 1917–1918, a chemicals division was established to research and develop new products. In 1924, P&G established one of the first consumer research departments to study consumer preferences and buying habits. In the years that followed, P&G introduced a myriad of new products, including Tide laundry detergent (1946), Crest toothpaste (1955), Downy fabric softener (1960), Pampers disposable diapers (1961), and Head & Shoulders shampoo (1961). In 1985, the company expanded into health care through the purchase of Richardson-Vicks (NyQuil and Vicks) and G.D. Searle's nonprescription drug division (Metamucil). The company also expanded into cosmetics with the purchase of Noxell (1989, Cover Girl and Noxzema) and Max Factor (1991).

By 2002, P&G had become a titan in the consumer products industry. Many of its products had become globally recognized brands such as Tide, Crest, Pampers, and Folgers. If separated from the parent company, 13 of P&G's brands (all with sales over \$1 billion each) would rank in the top 70 companies on the *Fortune 500* list. In fiscal-year 2002, the company reported net revenues of over \$40 billion and net earnings of almost \$4.4 billion (see **Exhibit 1**). P&G employed 98,000 people globally, 15,000 of whom were based in Cincinnati.²

One major factor that had contributed to P&G's growth and success over the years was the devotion of its workforce, which was attributed to the company's uncommon commitment to its employees. The company was often recognized by national publications as a great place to work (see **Exhibit 2**). P&G's culture revolved around people. The degree to which P&G valued its employees was reflected in a document entitled "Purpose, Values, and Principles" that was given to each employee when he or she joined the company (see **Exhibit 3**). The section on core values read: "P&G is its people and the values by which we live. We attract and recruit the finest people in the world. We build our organization from within, promoting and rewarding people without regard to any difference unrelated to performance. We act on the conviction that the men and women of Procter & Gamble will always be our most important asset."³

Throughout the years, these values were embedded in the minds of many of the firm's employees. To many residents of Cincinnati, being hired by P&G was the best guarantee of job security and satisfaction. As a former employee, who left the company to pursue his MBA at Harvard Business School, explained: "When I announced I was going to leave P&G to get my MBA, many people were amazed. 'Why would you leave P&G?' some asked. It seemed inconceivable to some of the older employees that someone would leave the company when they were performing well and moving up in the organization."

P&G was organized into five global business units (GBUs). Each unit was focused on a different sector of the company's business: fabric and home care; beauty care; baby, feminine, and family care; health care; and snacks and beverage. P&G also had three other types of organizations, separate from the GBUs, which supported these business units: market development organizations (MDOs), which were P&G's "on the ground connection to local customers and consumers"; Corporate Functions, which served as functional centers of expertise; and Global Business Services.

² The Procter & Gamble Company, 2003 Annual Report, pp. 1 & 7, http://www.pg.com/annualreports/2003/pdf/PG2003AnnualReport_Online.pdf, accessed December 10, 2003.

³ The Procter & Gamble Company, "Purpose, Values & Principles," The Procter & Gamble Company Web site, http://www.pg.com/jobs/company_culture/purpose.jhtml, accessed December 10, 2003.

Global Business Services

The Global Business Services unit was established on July 1, 1999, as part of a larger reorganization at P&G called Organization 2005. The main thrust of this transformation effort was to move P&G from operating by regions to operating by products. GBS brought together accounting, financial reporting, facilities management, human resources services, and information technology into a single global organization that provided services to all P&G business units. GBS leveraged P&G's scale, capitalized on new technology, and standardized work processes to deliver improved services at significantly lower costs. GBS had saved P&G several hundred million dollars in its first three years of operations.

The services provided by GBS were:

- **Finance and accounting services.** These included accounts payable, expense accounting, and standard financial reporting.
- **Customer logistics and financial services.** These included order management, credit and collections, and delivery systems.
- **Employee services.** These included human resources systems such as employee benefits, payroll, and travel management and reporting.
- **Purchases.** These included corporate facilities, transportation, and consultants and contractors. They did not include raw materials purchases, which were handled by the individual GBUs.
- **Information services worldwide.** These included business information services and market measurement data.
- **Technology services worldwide.** These included P&G's computing and telecommunications infrastructure.

P&G also intended to collocate many of these services into strategic work centers in each of the geographic regions in which the company operated. The goal of collocation was to provide the greatest quality service possible to the internal customers that GBS supported. P&G planned for these regional centers to be fully operational by June 2004, in the following locations:

- North America and Latin America: Cincinnati (U.S.) and San Jose (Costa Rica)
- Europe, Middle East, Africa: Newcastle (U.K.), Brussels (Belgium), Prague (Czech Republic)
- Asia: Kobe (Japan), Manila (Philippines), Guangzhou (China), Singapore⁴

The concept of shared services was not new. Most companies had internal functional units, such as accounting and IT departments, that managed "back-office" operations and supported the line organizations that produced and sold the company's products. Prior to the reorganization in 1999, though, many P&G employees in supporting functional roles served only a single brand or product category and had only limited interaction with employees performing the same job function for other

⁴ The Procter & Gamble Company, "Global Business Services Backgrounder," The Procter & Gamble Company Web site, http://www.pg.com/news/media_release.jhtml?document_id=%2Fcontent%2Fen_US%2Fxml%2Fnews%2Fnews_jun091999_global_business_services_backgrounder.xml&page=0, accessed December 10, 2003.

brands. By combining all internal services into one organization, management expected to find synergies that would lead to reduced costs and increased productivity throughout the company.

Working diligently to find these synergies, GBS employees reduced headcount, wrote more effective procedures, and shared knowledge across teams in an attempt to provide faster, cheaper, and higher-quality support for the rest of the company. There were countless examples of employees contributing to help the company, even at the expense of personal gain. As Tom, a GBS manager in Cincinnati, explained:

On one occasion, a manager of an IT call center knowingly worked herself out of a job by recommending that her team's calls be routed to the call center in Costa Rica. This suggestion, and her thorough effort to make it happen, saved the company millions of dollars annually. She was able to aggressively pursue the elimination of her own position because she knew that the company had always taken care of its employees. Soon, she was reassigned to produce more savings leading another team within the IT organization. No one was surprised by her actions. That's just the way things are at P&G. The culture demands that every employee do their part to help the company be the best, and in return, the company always takes care of its own.

Achieving Higher Levels of Service at a Lower Cost

The cost savings and quality of service delivered by GBS were quite impressive. Increasingly, though, the highly competitive global marketplace was forcing managers to do more with less. Lafley had to constantly weigh the pressures of the marketplace against what he thought was right for P&G. He explained: "You have to be able to do it all—which means grow your revenue line *and* your market share *and* you have to improve your costs every year *and* you have to be more productive with your cash every year *and* you have to innovate. It is definitely the power of *and*."

Lafley also knew that the business environment was changing much faster and far less predictably than in the past and that managers and leaders were going to have to be more flexible. But the need to be flexible and swift was in conflict with the culture of analysis at P&G. It tended to be a company that would "test, hypothesize, test, develop and qualify, test again, make sure you've got it right, and then roll it out."⁵ Lafley and the rest of the management team would need to reconcile this need for flexibility and speed with the culture of analysis in order to keep the company moving forward.

As early as the end of 2000, the management team was asking itself, "Which businesses should we be in? And if we could make the decisions again today, which of our current businesses would we enter again?"⁶ This was a fundamental strategy question, and GBS was one obvious focus of the discussion. P&G counted on GBS to support the rest of the company by providing critical business services, and since the reorganization in 1999, GBS had delivered improved functional support at reduced costs. But did it make sense for P&G to expend resources to continue to grow and support GBS if this was not P&G's core business? Perhaps there were options that could provide P&G with even better support services at even lower costs. This would allow the company to create value more efficiently by focusing on their core competency—developing and commercializing products and brands.

⁵ A. G. Lafley, interview by authors, Cambridge, Massachusetts, November 4, 2003.

⁶ Ibid.

Pursuing answers to these questions, a comprehensive analysis was performed in early 2001 that indicated GBS had market value as an end-to-end service provider separate from P&G. Mike Power, head of GBS, wanted to capture this value through a spin-off of GBS. Power's idea initiated a series of brainstorming sessions focused on improving service levels and lowering costs. Thirteen different options were discussed in these sessions, including the four options that Walker and his team currently pondered. Each idea was evaluated on the basis of potential cost savings, service-level improvements, and the impact it would have on employees. Additionally, Power and his group were mindful that any support-service structure needed to be flexible and sufficiently nimble to react to acquisitions, expansions, and changes in corporate strategy.

In April 2001, despite the fact that the review process had only just begun in earnest, P&G executives notified GBS employees that investigations into outsourcing GBS were underway. There was some concern over the uncertainty this would create among GBS employees, but P&G executives felt that it was important to communicate freely and openly about the process from the beginning. Additionally, they wanted feedback from GBS employees regarding proposed solutions. Members of the GBS leadership team visited all GBS centers to communicate this decision in person.

Over the next several months, GBS leadership continued to explore the many options for the future of GBS. Top executives soon realized, though, that GBS leadership had a conflict of interest and was probably not best suited to make these decisions. In other words, "How do you outsource yourself?" Because of this apparent conflict of interest, in September of 2001 the Governance Team was formed to take over the investigation. This Governance Team was headed by Walker and included 12 other top executives, including GBS and non-GBS managers. Regardless of the outcome, the employees chosen to serve on this team would be retained by P&G, thus eliminating any apparent conflict of interest. The Governance Team was responsible for investigating the options for the future of GBS, making a final recommendation to the board in June of 2002, and developing a communication strategy for the media and P&G employees—especially, GBS employees.

Managing Employee Reactions

One of the biggest issues that P&G leadership faced was how to handle the reactions of their GBS employees. Management decided to announce via Webcast in April 2001 that the company was considering "strategic opportunities for GBS." It was clear in this communication that inherent in some of the options was the possibility that current GBS employees could be sent to work for a different company or companies. There were a few reasons to inform employees of the potential change so early in the process. First, the management team knew that it would be impossible to conceal the strategic opportunities review from the employees and that potentially destructive rumors would surface if employees were kept in the dark. But Lafley also wanted to communicate with the employees early and often because:

We wanted the GBS managers' and employees' input. In so many cases, [GBS employees] evaluated the [proposed options]. We wanted feedback on the reputations of the companies [we might consider partnering with]. We sent teams of our managers and employees to each of the prospective suppliers/partners to see. And then they came back and reported to us—what we liked, what we didn't like, what we thought looked good, what we were concerned about.

Throughout GBS, employees reacted to the thought of working for a different company in a myriad of ways. Initially, most were very shocked by the news and spent many hours speculating with their coworkers about whether their jobs were safe and when the transition, if it were to happen, would take place. Many employees felt betrayed because GBS had done so much to save P&G money

and now they perceived that the company was trying to get rid of them. One employee reflected: "People were very upset. In my organization there were a couple of women, who had been with the company for 20-plus years, crying after the initial announcement. There was an overall sense of betrayal from many of the longtime P&G employees." However, not every GBS worker felt this way. Some saw this as an opportunity. Cash Smith, a GBS project manager, averred: "My reaction was very positive. I'm very confident in my abilities and felt that this outsourcing would provide me an opportunity to grow and develop with a new company." Other employees were conflicted over the announcement that P&G was considering divesting or spinning off the GBS unit. As an IT employee in Cincinnati explained: "If we're so valued and we save so much money, why are we being sold off? As a shareholder, honestly, it's the best thing. Am I happy about it? No. But will it help pay for my kids' college education? Probably."⁷

Dick Antoine, P&G's global human resources officer, commented on employee reactions to the announcement: "Right now, there are 101 questions that people have that we can't answer. What comes with that is uncertainty and anxiety. We're working through those issues as quickly as we can."⁸ But for some GBS employees, P&G was not working through the issues quickly enough. Many decided to flee what they felt was a sinking ship and called upon all their resources to find a position within a non-GBS unit at P&G. These transfer seekers had to work quickly, as P&G set a deadline of June 13, 2001 to block further transfers out of GBS. One human resources employee related: "We had a woman who was part of GBS working in New Jersey. She had been a P&G employee for 28 years and had no intention of leaving the company. She took an administrative job in Cincinnati, left her husband in Jersey, paid her own relocation and planned to work for a year and a half away from her family until she was able to retire."

Some GBS employees even quit their jobs at P&G, reasoning that it was better to leave on their own terms than to risk the unknown.

The employee transfers and departures affected the remaining GBS employees. Work productivity declined, as many people were pulled into both official meetings and impromptu "around the water cooler" debates to discuss the situation and their concerns. As Brian Roush, an IT manager, suggested, "The work still seemed to get done. From the standpoint of actual work productivity, I think the nonessential tasks got put off or dropped as a result of poor morale, people leaving the organization, etc. However, core work was continuing, so management probably didn't notice."

Management Issues with Outsourcing Options

In addition to managing employee reactions, the Governance Team was also concerned with whether or not they wanted to lead the market in an outsourcing deal of this magnitude. P&G had historically partnered or networked with many outside companies—advertising agencies, media-buying agencies, public and government relations agencies, biotech partners, and research laboratories—for many of its business needs, but this deal was much larger in scope. The deal to outsource the services currently provided by GBS was estimated to be valued at roughly \$7 billion to \$8 billion over a 10-year period. Regardless of whether these services were contracted to a single service provider or to multiple companies, this would be one of the largest outsourcing initiatives ever undertaken in the still relatively fledgling BPO industry. The Governance Team was not sure

⁷ Cliff Peale, "P&G employees nervous about outsourcing," *The Cincinnati Enquirer* on the Web, June 23, 2002, http://www.enquirer.com/editions/2002/06/23/fin_p_g_employees.html, accessed December 10, 2003.

⁸ Ibid.

that it wanted to take such chances, especially with the critical functions and processes provided by GBS, and especially with its valued employees.

On the other hand, many members of the Governance Team saw no reason to forestall the inevitable. P&G was on track to post more than \$40 billion in sales for 2002 and was one of the largest companies in the world. As a result, P&G needed a large amount of expertise and capability in accounting, finance, purchasing, and other GBS services. Because the GBS functions were not the core businesses of P&G, they would not receive adequate attention and resources as the company grew. As a result, the GBS units would not be able to provide the innovation and efficiency necessary for P&G to remain competitive in the long term. As Walker explained: "We were concerned that GBS, because it was in-house, might get behind other BPO operations in scale, cost, and quality, particularly as the BPO industry became more prevalent. We wondered whether over time our in-house operation would be able to compete with the scale, focus, and expertise of leading outsourcing organizations."

Since it seemed inevitable that the GBS functions would need to be outsourced eventually, many felt that it was better to do so sooner rather than later. Outsourcing now would position P&G for—and hopefully aid it in—future growth.

Human-Capital Considerations

As Walker and the Governance Team struggled with these important strategic considerations, they were also faced with numerous human-capital challenges. If the board decided to outsource GBS services, then P&G would soon be entering into contract negotiations with potential service providers. This meant that the company needed to determine how it would like the deals to be structured, and some of the most important contract items up for negotiation would be the employment terms for GBS employees. Some of the most pressing issues that P&G would need to consider were:

- **Guaranteed employment.** The new service provider would probably want to keep some, if not most, of the existing GBS employees in order to maintain the intellectual capital resident within GBS. But what about those employees that the new company did not want to retain? Should contract terms mandate that all existing employees receive jobs?
- **Length of employment.** Even if existing GBS employees received new jobs, the new company would not have to employ them indefinitely. P&G wanted to make sure that former employees were not systematically fired shortly after joining the new company. One option was to mandate a guaranteed term of employment; many felt that two years was reasonable. Alternatively, employees could be guaranteed a P&G-comparable severance package if released before a certain time.
- **Salary/benefits.** Should the contracts specify minimum salary and benefit requirements? P&G had been a company with historically generous benefits packages. Should the company be obligated to maintain this level of benefits for its former GBS employees?
- **Credit for years of service.** Many of the GBS employees were worried that they would have to start over in a new company. They might lose vacation time, raise- and promotion-consideration preferences, or other benefits that accrue with longevity of service. Could P&G ensure that GBS employees would not lose these benefits?

These and many more issues would need to be taken into consideration if P&G decided to outsource GBS. A glaring trade-off existed between keeping the costs of the deal low and fulfilling P&G's obligations to former GBS employees.

Culture Fit with Providers

Another concern of the Governance Team and P&G management was the corporate culture of any potential outsourcing partners. Most P&G employees cherished the culture at P&G and worried that if the outsourcing option was chosen, they would be asked to work for a company that did not share P&G's values and culture. P&G management was also very concerned about cultural compatibility. Any new service provider would have to interface with P&G regularly, and compatible corporate cultures would help to make the interface as effortless and efficient as possible.

Lafley was also concerned about the cultural fit of any potential outsourcing partners. P&G was no stranger to service contracts, but the change that was being proposed was different in size, scope, and significance:

What was different here was that there would be a large migration of people that joined P&G moving to another employer. So that's why it was really important that the culture was right. It went way beyond compensation, way beyond benefits, way beyond career growth. It was much more about the culture. I was interested in the culture because these were long-term partnerships. And we weren't just contracting out the cafeteria. And these weren't just a few people.

Moving Forward

It was now April 2002. It had been seven months since the formation of the Governance Team, and over a year of research had been undertaken that had led the 13 options originally discussed in mid-2001 to be reduced to just four. GBS employees were anxiously waiting, unsure of their futures with P&G. Walker sat low in his chair, barely able to see over the mounds of paper on his desk. Once again, he thought through the four options on the table.

Option one was to spin off GBS as a separate business. Power, who had headed up GBS since its transformation, championed this option. Many executives within GBS were excited about this option, but P&G had to consider how a spin-off would impact service levels and costs. GBS employees were already servicing a worldwide client: P&G. Perhaps GBS had the necessary people and skills to compete with other BPO giants such as EDS, ACS,⁹ and IBM. However, business process outsourcing was not P&G's core business. In the event of a spin-off, should P&G retain control or not? Did GBS have the expertise to compete? Would a spin-off divert too much management attention?

A second option was to outsource all of GBS in one deal to one partner. In contrast to most outsourcing deals, P&G would like this partner to offer GBS employees comparable positions as a part of the new contract. As many as 5,700 current GBS employees could be affected by this option. One major concern under this option was the ability to find a single company capable of providing all the necessary services. Did such a company exist? Also, how would P&G effectively manage the transition of its GBS employees to another company? P&G had always taken great pride in its

⁹ EDS, or Electronic Data Systems, was based in Plano, Texas and was one of the world's largest outsourcing companies. ACS, or Affiliated Computer Systems, a smaller outsourcing company, was based in Dallas, Texas.

commitment to its employees. How would this decision affect the loyalty of those employees who remained at P&G?

A third option was to outsource GBS divisions separately to best-of-breed companies. There were many companies that could provide services in specialized fields such as IT, accounting, and logistics. Perhaps this option would ensure a high level of service in each area. On the other hand, was this option too complicated to manage and integrate seamlessly? Would P&G be able to find multiple suitable partners? The company would also still have to deal with all of the human-capital issues presented by the second option.

The final option was to retain GBS in-house. Even having done all of this analysis, should P&G necessarily go forward with outsourcing or spinning off? Keeping GBS would clearly give P&G the most control over its people and processes. Employees were a key asset at P&G, and asking them to work for another company would be difficult. Would a decision to outsource or spin off GBS alter this prized culture? GBS had only just been formed in 1999 and was still developing as an organization. Perhaps there were more cost savings that could be achieved. Perhaps there was room for additional process improvements.

Walker wondered what the Governance Team should recommend to the board in June. Which of the four options would achieve a win for P&G's customers, business operations, shareholders, and employees?

Walker also knew that before his team could finalize their recommendation, they would have to devise a reasonable and thorough implementation plan. None of the options was simple, and Lafley and the rest of the management team would expect to see a detailed outline for how the outcome would be achieved with minimal disruption to the organization. How long should they take to implement their plan? How should they continue to communicate their decisions in the future? What criteria should they look at to measure the success of the plan? Walker had another long night ahead of him.

Exhibit 1 The Procter & Gamble Company and Subsidiaries—Consolidated Statement of Earnings

	Years ended June 30 (\$ millions)				
	1998	1999	2000	2001	2002
Net Sales	\$37,154	\$38,125	\$39,951	\$39,244	\$40,238
Cost of products sold	20,896	21,027	21,514	22,102	20,989
Marketing, research, and administrative expense	10,203	10,845	12,483	12,406	12,571
Operating Income	6,055	6,253	5,954	4,736	6,678
Interest expense	548	650	722	794	603
Other income, net	201	235	304	674	308
Earnings Before Income Taxes	5,708	5,838	5,536	4,616	6,383
Income taxes	1,928	2,075	1,994	1,694	2,031
Net Earnings	\$3,780	\$3,763	\$3,542	\$2,922	\$4,352

Source: The Procter & Gamble Company, 2000 Annual Report, p. 25, http://pg.com/content/pdf/02_investor/financial_reports/annual_report/annual_report_2000.pdf, accessed December 10, 2003. Financial data for 1998–2000; and The Procter & Gamble Company, 2003 Annual Report, p. 35, http://www.pg.com/annualreports/2003/pdf/PG2003AnnualReport_Online.pdf, accessed December 10, 2003. Financial data for 2001 and 2002.

Note: Net earnings include an after-tax charge for Organization 2005 of \$688 million in 2000 and \$385 million in 1999.

Exhibit 2 “Great Place to Work” Awards Received by P&G

Sponsor	Great Place to Work	Year(s)
Fortune's Best Companies for Minorities	P&G ranked within Top 50, #3 for percentage of contributions to minorities.	2001
Wall Street Journal / Harris Interactive	Reputation poll ranked P&G #10 out of a field of 45 U.S. companies.	2001
Hispanic Network Magazine	P&G is listed among America's Top 50 Corporations for Women and Minority Business Enterprises.	2001
Hispanic Magazine	Top 100 Corporations to Work For	2000–2001
	Corporate Elite	2001
Hispanic Magazine	100 top companies providing the most opportunities for Latinos. Based on recruitment, minority business initiatives and funding efforts for scholarships, grants and organizations.	1995–2001
Corporate Angels Network (CAN)	P&G is recognized for its humanitarian role in providing free air transportation on corporate jets for cancer patients needing treatment in other cities.	2001
Cinergy Inclusion Network Leadership Award	P&G recognized for its outstanding efforts in providing workplace access and accommodations to workers with disabilities.	2001
Latina Style Magazine	Latina Style 50 Awards—50 Best Companies for Latinas to Work in U.S.	1998–2000
Working Mother Magazine	"One of the Best Companies for Working Mothers"	1994–2000
		1986–1992
Working Woman Magazine	"25 Top Companies for Executive Women"	1998–2000
Money Magazine	"One of the 10 Big Companies With the Best Employee Benefits in America." Number 1 in 1994 & 1995. Money resumed study in 1999—Ranked #2 in 1999 [#19 in 2000].	1991–1995, 1999
Spanish Institute for Women	Optima recognition to P&G Spain for P&G's diversity efforts	1999
National Business Employment Weekly (WSJ)	Top Ten Companies for Minority Candidates	1999
Food Processing Magazine	10 Great Companies to Work For	1999
Vault.com	Top Ten Places for Minorities to Work (based on recruiting initiatives, internal program, and employee satisfaction)	1999
Careers and the disAbled Magazine	Employers Hall of Fame	1998–1999
	Top 50 US Companies	

Source: The Procter & Gamble Company, “Awards & Recognition: Good Place to Work Awards,” The Procter & Gamble Company Web site, http://www.pg.com/about_pg/overview_facts/awards_recognition.jhtml, accessed December 10, 2003.

Exhibit 3 P&G Purpose, Values, and Principles**Purpose**

We will provide branded products and services of superior quality and value that improve the lives of the world's consumers.

As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.

**Core Values**

P&G is its people and the values by which we live.

We attract and recruit the finest people in the world. We build our organization from within, promoting and rewarding people without regard to any difference unrelated to performance. We act on the conviction that the men and women of Procter & Gamble will always be our most important asset.

Leadership

We are all leaders in our area of responsibility, with a deep commitment to deliver leadership results. We have a clear vision of where we are going. We focus our resources to achieve leadership objectives and strategies. We develop the capability to deliver our strategies and eliminate organizational barriers.

Ownership

We accept personal accountability to meet the business needs, improve our systems and help others improve their effectiveness. We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind.

Exhibit 3 (continued)**Integrity**

We always try to do the right thing. We are honest and straightforward with each other. We operate within the letter and spirit of the law. We uphold the values and principles of P&G in every action and decision. We are data-based and intellectually honest in advocating proposals, including recognizing risks.

Passion for Winning

We are determined to be the best at doing what matters most. We have a healthy dissatisfaction with the status quo. We have a compelling desire to improve and to win in the marketplace.

Trust

We respect our P&G colleagues, customers and consumers and treat them as we want to be treated. We have confidence in each other's capabilities and intentions. We believe that people work best when there is a foundation of trust.

Principles

These are the principles and supporting behaviors, which flow from our Purpose and Values.

We Show Respect for All Individuals

- ☉We believe that all individuals can and want to contribute to their fullest potential.
- ☉We value differences.
- ☉We inspire and enable people to achieve high expectations, standards and challenging goals.
- ☉We are honest with people about their performance.

The Interests of The Company and The Individual are Inseparable

- ☉We believe that doing what is right for the business with integrity will lead to mutual success for both the Company and the individual. Our quest for mutual success ties us together.
- ☉We encourage stock ownership and ownership behavior.

We Are Strategically Focused in Our Work

- ☉We operate against clearly articulated and aligned objectives and strategies.
- ☉We only do work and only ask for work that adds value to the business.
- ☉We simplify, standardize and streamline our current work whenever possible.

Exhibit 3 (continued)**Innovation Is The Cornerstone of Our Success**

- ☉ We place great value on big, new consumer innovations.
- ☉ We challenge convention and reinvent the way we do business to better win in the marketplace.

We Are Externally Focused

- ☉ We develop superior understanding of consumers and their needs.
- ☉ We create and deliver products, packaging, and concepts that build winning brand equities.
- ☉ We develop close, mutually productive relationships with our customers and our suppliers.
- ☉ We are good corporate citizens.

We Value Personal Mastery

- ☉ We believe it is the responsibility of all individuals to continually develop themselves and others.
- ☉ We encourage and expect outstanding technical mastery and executional excellence.

We Seek to Be The Best

- ☉ We strive to be the best in all areas of strategic importance to the Company.
- ☉ We benchmark our performance rigorously versus the very best internally and externally.
- ☉ We learn from both our successes and our failures.

Mutual Interdependency Is a Way of Life

- ☉ We work together with confidence and trust across business units, functions, categories and geographies.
- ☉ We take pride in results from reapplying others' ideas.
- ☉ We build superior relationships with all the parties who contribute to fulfilling our Corporate Purpose, including our customers, suppliers, universities and governments.

Source: The Procter & Gamble Company, "Purpose, Values & Principles," The Procter & Gamble Company Web site, http://www.pg.com/jobs/company_culture/purpose.jhtml, accessed December 10, 2003.