Case 5-1

Procter & Gamble and the Focus on Stakeholders

Procter & Gamble is a very large consumer products company. It makes and markets laundry detergents, cleaning supplies, soaps and cosmetics, razors and blades, toothbrushes and toothpaste, infant diapers, paper towels, toilet paper, pet food, and a few snacks and beverages. Brands include Tide, Cascade, Dash, Cheer, Bounce, Mr. Clean, Swifter, Pantene, Olay, Head & Shoulders, Secret, Sure, Gillette, Pampers, Luvs, Always, Tampax, Charmin, Bounty, Iams, Pringles, and Folgers. The company is headquartered in Cincinnati, Ohio, and operates globally. Procter & Gamble, in short, is a very dominant consumer products firm.

Procter & Gamble is also a very profitable consumer products firm. For years it has recorded steady increases in revenues, profits, and stock prices. Revenues in 1995 were $12.17 per share; in 2008—despite the start of a very severe recession—they had grown to $27.53 per share. Annual profits in 1995 were $0.93 per share; in 2008 they had grown—again despite the severe recession—to $3.64 per share. Stock prices at the end of 1995 were at $19.95 per share; at the end of 2008 they were at $60.40 per share. No one could say that this did not constitute excellent financial performance. Procter & Gamble, however, does not focus on creating profits for *shareholders;* instead they concentrate on establishing relationships with *stakeholders.*

Stakeholders, as described in the text, are people who are associated in some way with the company, and—in the famous phrase—can affect or are affected by the achievement of the company's objectives. These people include factory and office workers, functional and technical managers, senior executives, scientists and engineers, suppliers, distributors, customers, creditors, owners, and local residents. All, clearly, have an interest, a "stake" in the future of the firm. And all, equally clearly, must contribute their best efforts for Procter & Gamble to continue to be so successful.

The chairman and CEO of Procter & Gamble, A. G. Lafley, believes that this broader focus on stakeholders rather than shareholders is needed because of the broader range of demands, requirements, and responsibilities that are encountered in a global economy. He spoke of this broader range in an interview with a reporter from the *Wall Street Journal* that was published in 2006, and is reproduced here:

> A. G. Lafley, Procter & Gamble's chief executive, doesn't talk much about shareholders. Instead, he talks about stakeholders.
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> Who are those stakeholders? Well, add together the company's employees; the retailers and distributors and wholesalers the company sells to; its suppliers; the employees of those retailers, wholesalers, distributors and suppliers; the 2-1/2 billion people who