Leading with Intellectual Integrity

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BY A.G. LAFLY AND ROGER MARTIN,
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By the time people reach the most senior levels of a company, they are expected to have a degree of personal competence and a strong gut feel for making good executive decisions. Otherwise, they wouldn’t be considered for a top job. But how do they attain this acumen? At Procter & Gamble (P&G)—where we (A.G. Lafley and Roger Martin) served as chief executive and one of the senior advisors to the company, respectively—we developed a systematic approach to cultivating that skill among emerging and senior executives. We found that business literature contains a great deal of advice for chief executives about strategy and execution, but much less is written about how to become the kind of person who can bring the right judgment to bear on business decisions, especially when facing a disruptive environment. Thus, many CEOs develop their own form of on-the-job training, quietly honing their own heuristics for strategic thinking. That makes it difficult to tease out and develop the personal attributes that separate successful leaders from less-successful ones.

In our view, leaders would do well to take a more systematic approach to developing their decision-making capabilities. The place to start is where we started at P&G: with intellectual integrity. In common usage, the word integrity means honorable or virtuous behavior. For our purposes, though, we draw a distinction between exhibiting honorable behavior (moral integrity) and exhibiting discipline, clarity, and consistency so that all of one’s decisions fit together and reinforce one another (intellectual integrity).
In our work with companies, boards, and government agencies, we see people wrestle with the need to make tough choices—those critical decisions made in service of a relevant strategic goal for which there is no fully satisfactory option and every path seems to demand a trade-off. These are the kinds of decisions for which intellectual integrity is particularly vital.

Most people, including experienced executives, don’t like to make choices because it means giving up options. There is a clear temptation to hedge bets, to try to do everything, to attempt to keep all doors open at once by refusing to pick from among existing options or to work to create a better answer. Procter & Gamble was certainly not immune to this phenomenon. At certain times in the 1990s and 2000s, for instance, it was tempting to compete in as many markets as possible, as quickly as possible. Internally, there was a good deal of concern that competitors would make inroads into important emerging economies that P&G had not yet entered. But P&G couldn’t be everywhere at once and succeed. Judgments had to be made about which markets to enter, and in which ways. We explicitly chose to enter first those promising but underdeveloped markets where none of our global competitors had a preexisting advantage (for instance, China as it created special economic zones, Russia and eastern Europe after the fall of the Iron Curtain) and then to expand thoughtfully in other developing markets. For example, we entered many Asian countries with our baby-care products first, conscious that demographics suggested most of the world’s babies would be born in Asia for the foreseeable future. To fully engage in these countries, we had to defer or delay pursuit of other markets, in some cases indefinitely.

Intellectual integrity is the quality that enables a CEO (or any other organizational leader) to set these kinds of priorities, to articulate the rationale behind them, to stand behind them even when the outcomes are uncertain, and to provide the support that others need to stand behind those choices as well. Only a CEO with integrity can respond to the avoiding-choice temptation appropriately: “No, we can’t do everything. We must choose to do some things and not others. We just have to think harder and create the choice that is right for us.”

We’ve seen a lack of intellectual integrity, and its consequences, in many settings: in large and small businesses, startups, nonprofits, private equity turnarounds, and government agencies. Conversely, we’ve seen integrity—on the part of a CEO or other executive leader—ripple out and deeply affect the culture of an organization. When a leader has intellectual integrity, the people of the enterprise are less likely to be distracted by irrelevant considerations, and more likely to keep focused on the indicators that matter most: those related to customers and competitors. They are more likely to maintain a long-term view when making their decisions, and are less susceptible to the dangers of short-term decisions driven by quarterly financial reporting.

Integrity of this sort is like a muscle. In a healthy organization, it is exercised often. But if it is ignored by an organization, the muscle can atrophy, and the organization becomes more scattered and vulnerable. Such an organization moves in different directions at the same time, subject to the parochial ideas and priorities of individual business units and functions. That is why by the time a CEO is appointed, he or she should have
developed his or her intellectual integrity, and should be prepared to help develop it in others.

**Coming to Grips with Reality**

Many company leaders think their situation is significantly better than it actually is, because they look only for data that confirms their existing view of the world and listen only to those voices that agree with them. By contrast, intellectual integrity requires that one hold oneself and one’s company up to rigorous, challenging examination. That is the only way to learn to anticipate when reality is likely to fall short of expectations.

Failure to come to grips with the reality of the situation led directly to several major competitive losses at Procter & Gamble in the 1990s. For our oral-care products (including Crest toothpaste), we invested heavily in overseas distribution in emerging countries such as Brazil. We thought it would be easy for us to build a business there, on the basis of our strength in innovation and the brand equity we had developed in other markets. We didn’t fully recognize that our largest competitor (Colgate) had far more extensive global distribution, spent twice as much on oral-care R&D as we did, and had already built up great brand loyalty in Brazil and other emerging markets.

Because we were distracted by our expectations, we lost millions of dollars on these investments before we realized that we needed to change our expansion strategy. We decided to retreat from Brazil and get our house in order before returning there. We also saw we needed a broad P&G strategy for scaling up in new markets, building a sustainable business one core brand at a time. In Brazil, this led us to focus on our strengths in laundry products and baby care. For oral care, we explicitly concentrated on winning in North America and China before turning our attention back to Brazil. When we demonstrated that integrity in our strategic decision making, things worked much better for us in Brazil and elsewhere.

Similarly, in our Pampers disposable diaper business, we held a strong belief that the best way to leverage our global scale was to install a single, sophisticated manufacturing system, using state-of-the-art “converters” that could produce all our diapers across all our different markets. To compete with lower-priced rivals in developing markets, we assumed, we needed only to switch to less-expensive materials and remove some of the features. Because, in effect, we let the machines dictate our strategy, we didn’t see that our technology solution failed to address the real needs of emerging market consumers. When this became clear, we began to design new kinds of products, specifically engineered for emerging market consumers—with consumers, and not the machines, in mind. This meant we had to reverse course on some very expensive manufacturing systems, and switch to different machines for different markets.

**The Strategic Choice Cascade**

To instill intellectual integrity throughout a company—as opposed to leaving its development to chance—some kind of explicit, ongoing decision-making process is needed. At Procter & Gamble, the method we used was known as the strategic choice cascade. Each year, we asked hundreds of company leaders, at all levels, to develop choices explicitly using this framework. The cascade consisted of five interdependent choices (see Exhibit). We said explicitly that none of these choices should be treated as “silver bullets” to solve short-range problems. Nor could they be made in isolation from each other.

Exhibit: **The Integrated Cascade of Strategic Choices**

Going through a process that integrated these five strategic choices within a single system led to a higher level of intellectual integrity among the leaders of Procter & Gamble in the 2000s.

The first choice is that of a winning aspiration. Winning matters. Without a competitive goal, it is easy to become complacent and settle for being “good enough.” Settling for good enough means failing to make the tough choices and do the hard work of building outstanding capabilities. At P&G, we chose, at the
Choosing where to play means choosing in which markets, for which customers, in which product lines, in which geographies you will compete.

company-wide level, to meaningfully improve the lives of the world’s consumers and, by doing so, drive consistent double-digit profit growth. Articulating a winning aspiration was not a major stretch for most P&G leaders, given the company’s long history of attempting to achieve decisive product leadership across its many categories. Nonetheless, it was a message that warranted reinforcement.

Next come the choices of “Where will we play?” and “How will we win in our chosen markets?” These are the core choices, the heart of any strategy. Choosing where to play means choosing in which markets, for which customers, in which product lines, in which geographies you will compete. Choosing how to win means figuring out how to create a sustainable competitive advantage on a specific playing field. These choices can have integrity only when they fit together consistently; that is, when the how-to-win choice is made in the context of the where-to-play choice. At P&G, our where-to-play choices focused on a core group of brands, customers, and geographic markets. We would start with market leadership in the home, beauty, health, and personal-care sectors, and position for long-term growth in emerging economies. Our how-to-win choice was to build powerful consumer-focused brands that took advantage of ubiquitous distribution and global scale.

We rethought brand and product positioning in terms of where to play and how to win as well. For example, for the skin-care brand Olay, we shifted our where-to-play from women over 50 who were targeting wrinkles, to women age 35 to 50 who were fighting the first signs of aging, which we successfully characterized as “the seven signs of aging.” How would we compete to win with this new segment? By upgrading the active ingredient, transforming the packaging, and partnering with our mass retailers to create a “masstige” (mass-prestige) in-store experience that rivaled the prestige brands in department stores. The result was a fast-growing, high-profit brand that revitalized the category.

For household cleaning, we thought entirely differently about cleaning hard surfaces. We determined that there might be new cleaning jobs around the home not served by existing products. Rather than continue to focus on well-served areas like countertops and sinks, we turned to floor cleaning. There, we pioneered an entirely new category, a new way to win in household cleaning, with the Swiffer electrostatic mop. Subsequently, with our Mr. Clean brand, the key where-to-play area became stains on household surfaces. To win, we launched the “Magic Eraser,” an innovative line of products that remove scuffs and stains easily, taking some of the hard work out of cleaning. In short, with both Mr. Clean and Swiffer, we saw a need for quick-cleaning solutions, and rather than attempt to force-fit existing products to consumers’ needs, we pursued a path with more intellectual integrity. We devised entirely new-to-the-world products, designed specifically with a consumer need in mind.

In our fine fragrances business, intellectual integrity meant taking the long view. Fine fragrances can be an intensely competitive field, so we made an important where-to-play choice to focus first on the male fragrances segment, which was considerably less competitive than the women’s market. To win in fragrances over the long term, we built on our existing expertise. P&G has long been the world’s largest purchaser of fragrances, which go into laundry detergents, soaps, shampoos, conditioners, deodorants, dish soaps, fabric soft-
ners, and other products. We put our deep experience in combining scents and formulating appealing fragrances to work on licensed fragrance brands like Hugo Boss and Lacoste. As we expanded our fragrance lines, eventually turning to women’s brands as well, our scale enabled us to both purchase our ingredients and manufacture our products very cost-effectively. Over time, we grew more sophisticated in understanding consumer reactions to fragrances. This further enhanced our formulation expertise. It enabled us to build a strong business in beauty care.

Cohesion and Cascades

These first three choices—our winning aspiration, where to play, and how to win—are closely tied to the final two choices on the cascade: “What capabilities must be in place for us to win?” and “What management systems are required?”

Capabilities are those things you must do exceedingly well in order to deliver on your aspiration, where-to-play, and how-to-win choices. In thinking about our capabilities in light of our other choices, we came to see our core capabilities as deep consumer understanding, innovation, brand building, going to market with customers and suppliers, and global scale. In each of these areas, we had room to deepen and grow our expertise.

In terms of scale, we had tended to focus on scale within a brand or category, such as laundry detergent or beauty care. We had to work hard to expand our thinking about scale to encompass the whole company—for example, by bringing our global business services (IT, HR, and other internal functions) together into one department. This encouraged the leaders of our global business services to ask how they could better serve their internal customers globally, and how they could smartly outsource their lower-value-added activities. Now, the real scale advantages began to accrue. We reduced costs across the company, worked more closely with customers in ways that increased our importance to them, and managed our supplier relationships in new ways that made all of us better. These changes were possible only because of our growing intellectual integrity.

Finally, one must ask, “What internal management systems are required?” Select the ones that can best ensure that your required capabilities add up to a platform for advantage. Systems and measures are essential to building capabilities and supporting the other strategic choices. But to have intellectual integrity, a leader must make an explicit choice to develop these systems.

At P&G, for instance, when it came to our branding capability, we had traditionally done a poor job of systematically learning from our marketing successes and failures. Most institutional knowledge on brand building and marketing was captured in pithy one-page memos or passed down in anecdotal storytelling by managers who had lived through the experience. The implicit message was that if young brand managers and assistant brand managers hung around seasoned brand builders long enough, they would master all they had to learn about marketing in due course.

In 2000, for the first time in the company’s history, we launched a project to codify P&G’s approach to brand building. The resulting “Brand-Building Framework” (BBF) laid out the company’s approach in one coherent document, which is still regularly updated. With the BBF frameworks in place, new P&G marketers can learn the trade more quickly, and senior managers have an organized and written resource to guide their efforts. The BBF serves as a management system that nurtures and enhances the critical brand-building capacity of P&G. Organizational infrastructure like this was central to everything we did, and it enabled us to improve the overall integrity of decisions made throughout P&G.

It is important to emphasize that for every brand, these five choices must clearly fit together. As a strategist, you can start anywhere in the choice cascade, but you must make all five choices and they must all be coordinated. This is the truly challenging part of strategy. The choices themselves are not terribly complex or difficult. But integrating them, and refusing to stop thinking until they genuinely reinforce one another, takes true intellectual integrity.

Moreover, in a large company, the choices made at the category, function, and company-wide level must also fit together and reinforce one another. The choices made by the Bounty paper towel team, for instance, must have integrity with the overall P&G choices made by the CEO and senior team.

Sometimes, when the cohesion between choices isn’t strong enough, divestiture is the best answer. This was the case for P&G’s pharmaceuticals business. It was a strong and growing business, with important brands and products. But over time, it became clear that the kinds of choices, capabilities, and systems required to win in this business did not mesh well enough with the company’s core businesses. P&G is at its best when it can develop branded products through a standardized
innovation process, sell through its best customers (such as Walmart and Walgreen Company), and develop a long-term relationship with its end consumers. In pharmaceuticals, there is a highly specialized and complex development process with many steps not in common with our standard approach—including blind trials and FDA approvals. The industry also has a different marketing model from that of consumer products. It sells directly to doctors and pharmacies; consumers don’t make the purchase decisions and may never know the brand name of the drug, or who makes it. In the end, we divested a profitable pharmaceutical business, believing it could be more successful elsewhere.

In divesting this business, P&G walked away from billions of dollars of sales and profits, but it was the right decision. Walking away allowed the company to reinvest cash, human resources, and other assets in businesses that did have integrity with its overall set of strategy choices: beauty, home, and personal care. When P&G acquired Gillette in 2002, it was as much for the sake of integrity—for its fit with the firm’s choices and competencies—as it was for the strength of its male grooming, personal-care, and oral-care brands.

Building Integrity at P&G
The five cascading choices provide a structure within which to practice intellectual integrity. Participants are continually drawn back to the same crucial decisions: what to aspire to, where to play, how to win there, which capabilities to build, and which management systems to set up. This framework removes a great deal of fear and anxiety, especially among lower-level managers and those far from headquarters, about doing the right thing.

But, like any other system involving behavior change, the cascade process takes some time to learn and requires concerted attention. At P&G, once we recognized the importance of consistent, integrated decision making, we looked for other ways to foster it. We knew that integrity is not a fixed quality that people inherit at birth; it can be cultivated and developed, in part through training but mostly through better business practice and by encouraging the right types of conversations.

We thus began to explicitly identify up-and-coming high-potential executives and coach them in strategy, inquiry, and the process of making integrated choices. We redesigned the strategic review process, turning it into a vehicle for building the strategic integrity muscles of our entire leadership cadre. Previously, annual strategy reviews were like corporate theater—a setting that did not encourage integrity. The presidents of P&G’s businesses and their teams trooped in before the company’s most senior executives with bulletproof PowerPoint presentations. The presenters naturally wanted to show their results, defend their decisions, and get out of the room as rapidly as possible. They didn’t welcome critical probing of the logic of their choices. When senior leadership felt that resistance, they either kept their reservations private or piled on with attacks—in which case the presenting team had no choice but to take the criticism and then slink out, proverbial tails between their legs.

The old strategic review process had also been an impediment to collaboration among P&G’s businesses and functions. If the hair-care category president came into the review seeking only to defend his strategy and avoid any criticism, he would be less likely to talk openly about how the hair-care choice cascade fit with the choice cascade for skin care or home care. Nor would senior leadership be inclined to force the issue. Yet such discussions are vital. Without firsthand experience with just that type of dialogue—knitting together various choice cascades across a corporation—emerging leaders can’t develop their strategic integrity muscle, and senior leaders get less practice doing so as well.

To address these roadblocks, we fundamentally transformed the process and tone of our annual strategy reviews. We shifted the paradigm to one of candid conversation and exploration. Teams still prepared a strategy presentation in advance of the meeting, but rather than take time in the meeting to review it, they provided the work to the senior team several weeks in advance.
The senior team then issued to the category team a set of discussion topics for the meeting.

This enabled us to focus the meeting on constructive dialogue involving those specific strategic issues, and it helped shift the tone from defensiveness to a joint exploration of possibilities. We also initiated a continuous series of conversations on strategic matters, conducted at all levels: brand, category, sector, customer, channel, region, country. A common theme of these discussions was how the choices knitted together, how they fit with the broader corporate strategy, and how the team planned to measure results moving ahead. These discussions were driven by a commitment to asking tough questions, which brought issues to the surface that everyone was thinking privately but nobody felt ready to say out loud. Articulating these kinds of thoughts can create helpful tension and can lead to a true shared purpose.

**Toward a World of Integrity**

Throughout all the strategy discussions at P&G, the objective was to get leaders comfortable with collaborating on strategy, playing with ideas, and challenging their own thinking—and thus to build the integrity of the leadership of the company. By framing strategy as the answer to five integrated questions, we avoided fragmentation. Fragmentation is a trap that all organizations, whether in the for-profit, nonprofit, or government sectors, can fall into—to their own detriment.

In the U.S. government, for instance, right now, many groups are working in one way or another on energy policies. But there is no comprehensive strategy, no single set of aspirations that guide an integrated set of cascading choices for the country’s energy future. Instead of having an integrated aspiration, a sense of where to play, a sense of how to win there, and the right capabilities, the United States is lurching from the Canadian pipeline to alternative energy investments to shale-based oil and gas. Companies fall into the same trap, attempting to do everything at once without a guiding principle to direct resources and drive action. The result is wasted resources, inaction, and disillusionment. It doesn’t have to be that way.

At P&G, every strategy document at every level of the organization had to specify clear where-to-play and how-to-win choices. Not every CEO will define the company’s choices in that explicit way, but every CEO should internalize the need to make every choice—from aspiration through management systems—part of an overarching, integrated strategy.

This will pay off, but it won’t be easy. None of these choices can be exercised through a rulebook or through top-down fiat. They can’t be made once, and then left for all time. Strategy choices have to be made thoughtfully and organically with a good deal of organizational give and take. They must be revisited and reexamined regularly. Norms and assumptions must be challenged, and every attempt must be made to see the world as it is, not as it was or as you would wish it to be. It’s far, far easier to refuse to make these choices, to make them in isolation from each other, or to make them for only one part of the business without considering the implications for the whole.

It takes intellectual integrity to insist upon the continued practice of choice cascades throughout the organization. It’s tough to answer the questions posed in this exercise, and tougher still to follow through with action. But the alternative—attempting to win in the marketplace with no consistent company-wide strategy—is ultimately far more difficult.

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**Resources**


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