

MAY 2014

# Business, society, and the future of capitalism

**Paul Polman**

Unilever chief executive Paul Polman explains why capitalism must evolve, his company's efforts to change, and how business leaders are critical to solving intractable problems.

**Capitalism has** served us enormously well. Yet while it has helped to reduce global poverty and expand access to health care and education, it has come at an enormous cost: unsustainable levels of public and private debt, excessive consumerism, and, frankly, too many people who are left behind. Any system that prevents large numbers of people from fully participating or excludes them altogether will ultimately be rejected. And that's what you see happening. People are asking, "What are we doing here? The amount of resources we currently use is 1.5 times the world's resource capacity. Is that sustainable? A billion people still go to bed hungry. Is that sustainable? The richest 85 people have the same wealth as the bottom 3.5 billion. Is that sustainable?" Digitization and the Internet have given consumers enormous abilities to connect and aggregate their voices. Power is dispersed, but wealth is concentrated. Further development and population growth will put a lot more pressure on our planet.

Capitalism needs to evolve, and that requires different types of leaders from what we've had before. Not better leaders, because every period has its own challenges, but leaders who are able to cope with today's challenges (see sidebar, "From the archives: The social role of the world enterprise"). Most of the leadership skills we talk about—integrity, humility, intelligence, hard work—will always be there. But some skills are becoming more important, such as the ability to focus on the long term, to be purpose driven, to think systemically, and to work much more transparently and effectively in partnerships. There are enormous challenges, but business leaders thrive on them and are well placed to solve them, as they also offer enormous opportunities. I often say it's too late to be a pessimist.

## **The new corporation**

Business is here to serve society. We need to find a way to do so in a sustainable and more equitable way not only with resources but also with business models that are sustainable and generate reasonable returns. Take the issues of smallhold farming, food security, and deforestation. They

## From the archives: The social role of the world enterprise

The relationship between business and society isn't a new concern for Unilever. In *McKinsey Quarterly's* Winter 1974 issue, the company's chairman, who was then Sir Ernest Woodroffe, wrote about the need for multinationals to be "less foreign" as they worked to "temper economic sense with social considerations."

We who work in multinational enterprises cannot expect to be loved for our own sake. . . . [Resentment] is directed against the alleged power of the multinationals; against decisions that are thought to be taken in remote Head Offices; against foreigners on whom nationals depend for jobs; and, in particular, against foreigners who appear to manifest their superiority by the very imposition of their expertise and different standards, who appear to threaten cultural identity. . . . This is the

problem of the multinationals. Yet these very multinationals . . . have been satisfying the needs of many hundreds of millions of people. . . . They have made huge contributions—in capital and jobs, in technology and commercial know-how, in management skills and management coaching. If their contribution is not to be stifled, those of us who work in multinational enterprises must heed the reactionary pressures . . . and be sympathetic to national sensitivities.

often require ten-year plans to address. But if you're in a company like ours and you don't tackle these issues, you'll end up not being in business. We need to be part of the solution. Business simply can't be a bystander in a system that gives it life in the first place. We have to take responsibility, and that requires more long-term thinking about our business model.

In our effort to achieve that at Unilever, we first looked inward. We actually had a ten-year period of no growth, and that forces you to make your numbers or you're under pressure from your shareholders. You end up underinvesting in IT systems and training your people; your capital base erodes. And bit by bit, you become internally focused, think in the shorter term, and undertake activities that don't create long-term value. So how do you change that?

The first thing is mind-set. When I became chief executive, in 2009, I said, "We're going to double our turnover." People hadn't heard that message for a long time, and it helped them get back what I call their "growth mind-set." You simply cannot save your way to prosperity. The second thing was about the way we should grow. We made it very clear that we needed to think differently about the use of resources and to develop a more inclusive growth model. So we created the Unilever Sustainable Living Plan, which basically says that we will double our turnover, reduce our absolute environmental impact, and increase our positive social impact.

Because it takes a longer-term model to address these issues, I decided we wouldn't give guidance anymore and would stop full reporting on a quarterly basis; we needed to remove the temptation to work only toward the next set of numbers. Our share price went down 8 percent when we announced the ending of guidance, as many saw this as a precursor to more bad news. But that didn't bother me too much; my stance was that in the longer term, the company's true performance would be reflected in the share price anyway. Our final internal change was to alter the compensation system to bring in some incentives related to the long term. Ultimately, a year or so was needed to make it very clear internally that we were focused on the long term, on sustainable growth. To reinforce that message externally we focused our effort more on attracting the right longer-term shareholders to our share register.

### **The benefits of long-term thinking**

Thinking in the long term has removed enormous shackles from our organization. I really believe that's part of the strong success we've seen over the past five years. Better decisions are being made. We don't have discussions about whether to postpone the launch of a brand by a month or two or not to invest capital, even if investing is the right thing to do, because of quarterly commitments. We have moved to a more mature dialogue with our investor base about what strategic actions serve Unilever's best interests in the long term versus explaining short-term movements.

That's very motivational for our employees. We may not pay the same salaries as the financial sector, but our employee engagement and motivation have gone up enormously over the past four or five years. People are proud to work on something where they actually make a difference in life, and that is obviously the hallmark of a purpose-driven business model. We're getting more energy out of the organization, and that willingness to go the extra mile often makes the difference between a good company and a great one.

Let me be clear, though: a longer-term growth model doesn't mean underperforming in the short term. It absolutely doesn't need to involve compromises. If I say we have a ten-year plan, that doesn't mean "trust us and come back in ten years." It means delivering proof every year that we're making progress. We still have time-bound targets and hold people strictly accountable for them, but they are longer than quarterly targets. Often they require investments for one or two years before you see any return. For instance, one of our targets is creating new jobs for 500,000 additional small farmers. We had 1.5 million small farmers who directly depended on us, and we've already added about 200,000 more to that group. It's a long-term goal, but we still hold people accountable. The same is true for moving to sustainable sourcing or reaching millions with our efforts to improve their health and well-being. All of this is hardwired to our brands and all our growth drivers.

## Convincing investors

When we reported on a quarterly basis, we often saw enormous volatility in our share price, which attracted short-term speculators. By abolishing full quarterly reporting of the P&L, we took some of the volatility out. But moving to a longer-term focus required spending significant time reaching out to the right shareholders. Any company—certainly a company of our size—has thousands if not millions of shareholders, and they can have different objectives. Some want you to spin off businesses and get a quick return. Some want share buybacks, some want dividend increases, some want you to grow faster. It's very difficult to run a company if you try to meet the needs of all your shareholders. So we spent time identifying those we thought would feel comfortable with our longer-term growth model instead of catering to shorter-term interests.

We have seen our shareholder base shift. That's probably not happening as fast as we would have liked, but we are starting to see change as our results come in more consistently and we can provide more proof: several years of consistent top- and bottom-line progress, many years of consistent dividend increases, and so on. We're starting to attract more longer-term thinkers, who are sufficiently numerous to satisfy our business model. It's the same thing with consumers. Which consumers are you seeking? You cannot appeal to all of them; you decide which ones you want and then target those. Why not apply that same principle to your shareholder base?

It's not only corporate leaders who need to take a longer-term view of capitalism. Pension funds own 75 percent of the capital on US stock exchanges, representing companies like ours. These funds are actually there to guarantee longer-term returns for all of us when we eventually retire. They firmly believe in that mission, but many of them have activity systems that do not support it. They might offer quarterly incentives to their fund managers; they might employ short-term hedge funds and others, disturbing the normal economic process. It is increasingly clear now that a lot of this activity actually destroys more value than it builds.

A fund manager, like a company, needs to think, "How can I stimulate the right behavior? How can I have a more mature discussion? How can we look at other drivers so that we see we've got a model for longer-term returns?" I think we will all end up being in a better position than we otherwise would. At Unilever, we've looked at our own pension fund, with \$17 billion of assets, and questioned whether it was invested according to our views on long-term capitalism. We are seeking to adhere to the responsible-investment principles that the UN Global Compact is championing. We have also issued our first "green bond" in consumer goods to galvanize change in the financial markets. We are talking to the growing group of high-net-worth individuals about putting their money to good use. More people are becoming more amenable to the argument than would have in the past.

## A new business model

In the coming 15 years, we need to align on the new Millennium Development Goals.<sup>1</sup> We have a unique opportunity to create a world that can eradicate poverty in a more sustainable and equitable way. That is very motivational. Business needs to be part of it. Corporate social responsibility and philanthropy are very important, and I certainly don't want to belittle them. But if you want to exist as a company in the future, you have to go beyond that. You actually have to make a positive contribution. Business needs to step up to the plate.

Although some people might not like business or fail to understand that it needs to make a profit, they do understand that it has to play a key role in driving solutions. In the next ten years, I think you are going to see many more initiatives undertaken by groups of businesses to protect their long-term interests and the long-term interests of society. Governments will join these initiatives if they see business committed. It is, however, becoming more difficult for governments to initiate such projects in the current political environment as long as we don't adjust our outdated governance model.

The Tropical Forest Alliance<sup>2</sup> is a good example of what can be done. If we keep going with deforestation, which accounts for 15 percent of global warming, our business model and, frankly, our whole society are at risk. On top of that, the consumer is saying, "I'm not going to buy products anymore created through deforestation." So industry got together and said that we need to use combined scale and impact to create a tipping point. The Consumer Goods Forum (representing \$3 trillion in retail sales), which we helped to create, is one of these coalitions of the biggest manufacturers and retailers. When they said, "By 2020, we're not going to sell any more products from illegal deforestation, whether soy, beef, pulp, paper, or palm oil," that sent an enormous signal across the total value chain and generated action on the supplier side. Governments are now joining. We're actually close to a tipping point to address these issues. That is the new world we have to learn to live in. □

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<sup>1</sup> A set of eight goals adopted by world leaders at the United Nations' Millennium Summit in 2000, with the aim of addressing major global issues, such as poverty, sustainability, and education. Leaders agreed on set targets to be met for each priority as early as 2015.

<sup>2</sup> A public-private partnership created by the US government and The Consumer Goods Forum to decrease tropical deforestation undertaken to source commodities, such as palm oil and soy. The alliance now consists of multiple nongovernmental organizations and national governments, including those of the Netherlands, Norway, and the United Kingdom.