

## **An evening with Paul Polman President of the International Chamber of Commerce; Chairman of the B-Team; Vice-Chair of the U.N. Global Compact; and CEO of Unilever (2009-2018)**

**Wednesday 09 January 2019**

**18:00 – 20:00**

### **Introduction**

Philippa Foster Back CBE, Director at the Institute of Business Ethics (IBE), opened the event by welcoming guests and introducing the guest speaker. Paul Polman has challenged business to think long-term and collaborate with others to reach common goals. Such thinking is in line with the IBE's strapline: doing business ethically makes for better business.

### **Presentation by Paul Polman**

Paul Polman thanked Philippa Foster Back CBE and the Institute of Business Ethics for inviting him to speak. He explained that being an ex-CEO means that he no longer has to wear a tie. However, he does not want to be known just for being an ex-CEO, like an ex-husband that should not talk to his ex-wife. Instead, he would like to be known as a space transformer, but does not think the world is ready for him to call himself that. He was the CEO of Unilever for 10 years, and thought that was more than enough, so has great admiration for Philippa Foster Back CBE who has been Director of the IBE since 2002 and is still looking young and smiling.

Having an organisation that has grown from 30 companies to 190 companies is quite a growth curve. He thinks every company would be jealous of those numbers in terms of percentages. He also knows that there are some companies among the audience that are not currently subscribers to the IBE. He thinks that any company must be ludicrous not to be subscribers to the best institute for business ethics in the world. In today's world, he feels, these companies are playing with fire. The resources and intellectual capital that you get, as well as free time and learning, from the existing network of subscribers is a must for companies, like Unilever. He would not want to be the CEO of a company like Unilever without having the assurance of belonging to the Institute of Business Ethics or equivalent if they existed, but the Institute has to be the finest in the world.

He feels very much at home at the IBE. The IBE was founded by business people for business people and that is what makes it so useful, effective and important. Even more so, they share a common philosophy which is equally important: a commitment to promoting the highest standards in business and this is absolutely needed now when we have this enormous trust deficit. Before giving a talk, he usually picks up the Financial Times and goes through the pages. It feels like every day someone is getting caught and it is not a pretty sight. He certainly likes what the IBE is doing with codes of ethics. He has looked at the three most critical areas and the first one is the most important one: acting with respect for others. If we do not protect human dignity for everybody, we undermine democracy, which is really what is happening globally.

Many of the issues that we face in businesses that we have to deal with go back to a code of ethics that is inadequate. Openness and integrity should be underlying principles for any company. The IBE also has a broad group of practitioners who come from different walks of life, be it compliance, legal affairs, risk or communications. You are all here to drive these standards higher and higher, and you should be credited for that and the work you are doing. The world is a better place for it and now we have to make sure that more companies live up to the same high standards as you. The work it is doing, therefore, has never been more important than now and he emphasised he was not just saying this for the sake of saying it. He really means it because the business environment has changed quite drastically. Even more so than he initially thought.

In his ten years of tenure at Unilever, it is hardly surprising that the expectations on business have changed and that so many people feel they are being left behind. We can see this now with the yellow jackets in France. There is really a feeling out there, by far more people than we think, that the capitalist system works for a few people, but it does not work for us. Banks were too big to fail and people were too small to matter. This really comes down to a trust gap that is widening and more ingrained than we expect it to be. This is hardly surprising if you look at

our current economic system that is not quite working. This becomes apparent if you look at things that we have to deal with such as climate change and the poor experiencing growing inequality. 86% of the wealth created in the world last year went to 8 people. The top 1% have the same wealth now as the bottom 3.5 billion people. Then you have pervasive poverty and we are starting to push more people into poverty. Carbon emissions are going up and more people are going to bed hungry. It used to be 800 million, now it is 840 million, so despite some people telling you “don’t worry, we’ll solve it”, we are not moving in the right direction.

It is true that there is an enormous distrust of every institution. Trust in government, without a doubt, is actually very low and we have not figured out how to make global governance work, and instead are focusing on our own territories. Populism exists in most countries in the world and that is not helping. Business is actually rebounding, but he still thinks trust in business is too low. The Financial Times said it well a few weeks ago when it said “like it or not, but business is already being dragged into society’s thorniest debates”. If we look at issues like immigration or LGBT rights, the pressure that is already coming from citizens is what transfers to business because, to some extent, businesses are more easily accessible now than governments.

When the IBE published its latest poll in December, it said that as global political uncertainty overshadows much of the news, business on the contrary seems stable and responsible in the public eye. Consumers also see that they are able to have more of an impact on business decisions, while to some extent they feel powerless in regards to governments, and that is probably true. The Edelman Trust Barometer, of which a new one is coming out in a couple of weeks, actually said that the citizens of the world expect companies to take a higher profile towards some of these issues that, in his opinion, affect humanity. Two thirds of the world’s citizens want CEOs to lead on public policy change and actively speak up about it. 64% believe that companies can take action to increase gross profits while tackling economic and social conditions. If you do not spend your time on improving the economic and social conditions, you will not have the financial success. The reasons why businesses can do this are not surprising, because they tend to be more global, have a longer horizon, and increasingly more resources.

For CEOs building trust is probably the first priority. Financial markets have changed quite dramatically in the last 20 or 30 years. 30 years ago, the assets of a company would probably make up 80% of the market value. Things such as technology have changed so now probably 50% of market value is reflected in your asset value, because reputation has become so important. It is not surprising that Facebook, Wells Fargo or Volkswagen and other companies got caught. When they did get caught, their market value fell by 20-30%. Financial markets get freaked out about it and they are increasingly asking themselves “how can we get more transparency?” Hence, for example, the push on financial markets for financial disclosure. Change is being driven more and more by business. He does not like to say that publicly, but rather that change is being driven more by partnerships. The issues we face and need to address mean that we all have to act together in partnership. Having said that, business has to be an integral part of these discussions and if the private sector does not move, we cannot solve these global issues.

This is one of the reasons why he took on the chairmanship of the International Chamber of Commerce. While we know what we need to do and what direction we need to take, we are not moving fast enough. How can we move the private sector in the same direction at a faster pace and scale to save humanity? We all saw the efforts of the #MeToo movement, for example in the US, which is a good example that leveraging social media and people demanding different changes in norms and ways of doing business means that businesses will actually step up to the plate and bypass traditional government channels to actually change matters in society.

We need to change expectations more than ever. How we do business also needs to change. There are still too many businesses that operate under the principle “I know what needs to be done, but let someone else do it”, “it is the role of governments” or “if I am less negative, that is already good enough”. With the issues that we are facing right now – poverty alleviation, income inequality, or food security – less negative does not work anymore. We really need to be positive. To say “I have less carbon emission” when we have too much carbon emissions or “we have less air pollution” when 8 million people die prematurely every year from air pollution, simply does not work.

You have to show that your business has a positive footprint. We need to move away from Corporate Social Responsibility (CSR), which is very noble, but it falls into the less bad camp to what he calls Responsible Social

Corporations (RSC). If we do not do that as companies and take initiative, unfortunately what we see over and over everywhere in the world is that regulators step up to the plate. This will often make the situation worse because their cycles are so short that they will deal with the symptoms but never actually have the time, the freedom or the space to attack the underlying causes. It is much better for us to take that initiative than having it be imposed upon us by people that often do not fully understand how the private sector operates.

Companies need to adapt and step up if we do not want to pay the price. It is currently not happening and the symptoms show that. The average tenure of a CEO has dropped to 4.5 years. We simply do not have leadership that is able to deal with the challenges that we face in society. The average public lifetime of a company when he was born was 67 years. It has now dropped to below 17 years, and in the last 30 years, half of all companies have gone out of business. Half the world's companies are expected to disappear in the next 10-15 years and this is purely due to technology and other factors, but these statistics do not make any sense. The reason that they disappear is that they are being forced out of operation. They simply do not have the right leaders or the right business models that citizens will support.

He has always believed, unsurprisingly, that business needs to be a force for good. That business cannot be a bystander in the system that gives it life in the first place. We are here to serve society. That is the origin of the business. We are not here to serve the shareholders. By serving society well in a responsible manner, shareholders will always benefit. In the case of Unilever, we have entirely focused on the consumers that we serve, the citizens of this world, but the shareholder return has been 300% over the last 10 years. This is not by focusing on shareholders, but by focusing on what we know how to do – helping a child reach the age of 5 and giving a woman self-esteem or dignity, and all the other things that come with it.

Global companies have an important role to play. At the end of the day, it is the actions on the ground that really matter – the person on the ground noticing a difference and improvement in their life. All actions that we take globally and the theories that we adopt need to be translated on the ground. That is the most important thing. Global companies certainly have the capacity to do that and help put these frameworks in place so that the partnerships that drive these changes will add scale. At Unilever, what we tried to do is go back to the philosophy of William Lever and the history of the company, which we had forgotten a bit about for different reasons. We were getting so obsessed with results that we struggled to get out of that mind set.

William Lever already talked about shared prosperity when he created the company. He did not produce the goods that he did because he wanted shareholders, but because he wanted to tackle the issues of hygiene in Victorian Britain when one out of two babies did not make it past their first year. We have to go back to this “John Lewis on steroids” model. We then have to hire the right people to do this properly and then we will be fine.

At Unilever, we call this the sustainable living plan which basically meant decoupling growth from environmental impact. We cannot afford to use more of the world's scarce resources which we do not have. And we need to maximise our social impact. We translate this by moving to sustainable sources for all our products and by reaching out to a billion people, improving their health and well-being. We can reach one billion people because we serve about 2.5 billion people, so for us a billion people is not impossible. This is, by the way, more than any government.

Unilever has reached about 600 million people when it comes to handwashing. We still have 4 million children die before the age of 5 because of infectious diseases. 78% of that can be cut down with the simple act of handwashing. 50% of absenteeism in schools is because of oral problems, so we want to be a force for good. We put a plan together with 50 targets, including creating 5 million jobs. This has served us well business-wise and reputation-wise. We are the third most looked up company on LinkedIn. We have 2 million people wanting to work for us every year. Our costs are down. From all the angles he has looked at, he has not seen any downsides. That does, however, not mean that you can solve all problems in one go, but you can certainly have a big impact. If more big companies were to move in this direction, he thinks the world would be a wonderful place.

Companies have to take responsibility for their own value chain. Companies who think they can outsource their value chain and thereby outsource responsibility, are wrong. So if you are in our business and you produce food, you have to be responsible for deforestation, intensive farming, food waste or, on the other side of the equation,

obesity. One of the things in our plans is tackling environmental challenges like climate change. 70-80% of our energy is now green energy, but that is only half of being a responsible corporate citizen. The other half actually comes under social progress. This is the 70<sup>th</sup> anniversary of the principles of human rights, but we have not made very real progress on these principles, so social progress needs to be much higher on companies' agenda. Yesterday, he was speaking at the Houses of Parliament about modern-day slavery and it is very difficult to get 10 companies to come to talk about this issue or get a CEO on the panel.

If we do not change the social contract, talk about corruption, fair pay and human rights in our value chains, what systems do we create? The social part of inequality and extreme poverty needs to be addressed by the business community as well. We were one of the first companies that issued a human rights report five years ago, where we also put in our challenges. We have now published our second update of that report, and still a lot of companies have not published a human rights report. We should operate on the simple principle that the world is too complex for people and that simple principle is what you find in every religion, from Hinduism to Buddhism, from Islam to Judaism, and then to Christianity. This is the golden rule. The golden rule simply says: "Do unto others as you would like to have done unto yourself". If we would make decisions in accordance with that rule, we would make decisions very differently. I do not want my children to be in slavery. I do not want them to be deprived of access to education. I certainly do not want them to go to bed hungry or die before the age of 5. If we then are in a position to do something about this, then because we are privileged enough to be in this position, it is our duty to do that.

Only 2% of the world's population today can do what they want. These people are educated, free, can work for companies, and do not have to worry about anything. If you have won the lottery ticket of life, you need to put yourself at the service of the other 98%. You do not run your business only to add value, but you drive it for value and values. He was the CEO of Nestle before he took the job at Unilever so he understands the financial drive. He was told "you should take this because you'll become quite rich". "Nobody will know. We'll pay you an extra 100 million because we will make far more money." He replied "that's great, but I will use all that money to fight you because that is blood money undermining the functioning of society that we are dealing with and no value created." You do not create value by just manipulating, and yet so many companies are doing this.

Last year, for the first time in history, there were more special dividends and share buybacks than retained earnings. This is because it is easier to pay the financial markets and make returns. That is one of the reasons why Unilever has done so well. We have pumped so much money into the global economy that the stock market has been good to us. We reward capital, we do not reward labour. We have to go back to a system that is sane, which is what we are trying to do, but it is not easy. You need to have the right culture of integrity to drive these long-term successes which need to be driven by a stakeholder model. Although this is difficult, there is a nice framework that has been developed, and this is the United Nations Sustainable Development Goals (UN SDGs).

In 2000, Kofi Annan started the Millennium Development Goals, which set out the objective to halve the number of people in poverty, which has been achieved. Why not use the next 30 years to leave no one behind? To irreversibly eradicate poverty and do it in a more sustainable and equitable way. We have the power to do this. We know how to build houses so why do we have homeless people on the streets? We know how to protect forests, so why are we cutting them down? We seem to be able to waste 30-40% of the food that we produce. Why can't we feed 800 million people with about 5% of what we waste? We have all these answers, but instead we go to Mars, which is certainly not needed. While we might want to look at carbon capture technology or battery storage capacity, solving the basic issues of feeding everybody with dignity and humanity can be achieved today.

We have to invest in leaders that have these high moral standards. The SDGs span 17 goals. He is very passionate about the SDGs because he worked on them, but more importantly because it is the only moral framework that we have when global governance does not work. We have created a governance system that dates from Bretton Woods in 1944, but not adjusted it. Many of these institutions are not set up to deal with the increasingly global issues that we have such as climate change and cyber security. We have a global UN system, we have the Sustainable Development Goals and we need to support them.

If you talk to an average CEO, he will remember how much money he makes, what business he is in and if you're lucky, the name of his wife, so 17 goals is a lot. We put a commission together to see if we could simplify the

SDGs to make them fit with business language. We wanted to reach 1000 CEOs this way. What we found was an opportunity to only look at four areas: cities, energy transition, food and values, and health and wellbeing. These only cover 60-70% of the total agenda that needs to be addressed, but the opportunity was 12 trillion dollars. We ended up reaching 1800 CEOs and now 60% of these companies say in their sustainable strategies or in their overall company strategies that they are integrating the Sustainable Development Goals.

He also likes that the IBE has an important role to play in helping companies drive this forward. Things like a rookie framework on human rights, for example, goes to the core of why you have your organisation and have created it. Goal number 16 of peace and justice provides a good example. To implement all of the SDGs, to leave no one behind, would cost us about 5 trillion a year. It is a lot of money for him and a lot of money for you, but it is only about 5% of the global economy and we have that money. So let us invest in humanity and mankind. Let us invest in the future generations. Let us invest in our own existence. Interestingly, we have waited so long that even if you do not have a moral compass to do something, the economic case now becomes very convincing.

For every one of the SDGs, the cost of not acting is higher than the cost of implementing all the 17 goals. The IMF calculated that the costs that we currently incur, because of the devastating effects of climate change, is costing the global economy 5.3 trillion dollars. To implement the 17 goals would cost 5 trillion dollars.

Not every woman has the same access to land rights, financing and education. This is still the case for the bulk of the global economy. According to McKinsey, this is a trapped opportunity for the global economy of 26 trillion dollars. Goal number 16 is peace and justice, which deals with corruption, rule of law, and access to legal systems. 12 trillion dollars of the global economy is what we currently pay for conflict prevention and wars. We seem to be happy spending twice what it takes to avoid the issue in the first place. He does not think we earn ourselves the title of most intelligent species until we solve this.

One of the key features of goal number 16 is combatting corruption. Corruption avoids tax and brings criminality. The cost of corruption is in some places 5% of global GDP. This is nearly what it would cost to implement all of the SDGs. It is persuasive and pervasive, and it is actually going up in many places. As good businesses it is in your interest to have a level playing field. However, in the last 10 years, he has rarely visited a business event or talk where fighting corruption was a priority. Corrupt businesses, corrupt politicians and corrupt government officials will continue to divert billions of dollars into their own pockets. It causes climate change and leads to inequality and poverty.

As businesses in this new social contract, we need to focus on making our democratic existence function and fight for access to justice and legal systems for everyone. The UK should be complimented, because we are living in a period where everybody seems to enjoy criticising the UK for some stupid decision they have taken. However, the Bribery Act, the Modern Slavery Act and the National Anti-Corruption Strategy are some of the finest pieces of legislation that you will find anywhere in the world, and we need try to make these work in other places. Many of the global trade organisations that he belongs to, like the International Chamber of Commerce or the United Nations Global Compact have very fine material and principles on what organisations can do to put in place good governance and accountability, and these should be made good use of.

Having a set of clear boundaries of what is acceptable behaviour in your company is a good starting point, but we also need to figure out the appropriate incentive systems for compliance. Right now, companies have a very hard time being on these panels or coming forward sharing examples because there is a punitive environment out there. If he were to share examples of where compliance has failed, he would get approached by NGOs who want to make a living. We should actually create an environment where it is good to talk this, just like we did with LGBT or with gender, and which we are trying to do with mental health. We actually need to do the same with compliance.

Capacity-building and technical assistance is also crucial. The World Economic Forum, for example, has a coalition called Partnering against Corruption Initiative (PACI) which deals with awareness and education. The third thing is to make changes to laws that are dysfunctional. Many of the issues around Sustainable Development Goals is because you have the wrong incentive systems. We still have too many countries where it is difficult to see true ownership. You can only build trust with transparency, which is the basis for prosperity. It is the same

with rightful ownership of companies, and both the UK and the US have a long way to go. Just like we have our own identities that are public and social, we have a right to know who the rightful owners of corporations are.

The final thing is leveraging technology more. Technology like data analytics and e-government systems are being developed at a high speed. We should encourage the use of technology more, and where this is being done, we actually see less corruption. The SDGs are ambitious goals and for that reason goal number 17 is the most important one. Einstein said that the definition of insanity is doing the same thing over and over again, and expect different results. We therefore need to work in a different form of partnership.

Goal number 17 is not just a partnership where you supply me or you work for me or we work together, it is actually a partnership for the common good. It is a partnership that is multigenerational. It is a partnership where we put the interests of others ahead of our own knowing that by doing so we will be better off ourselves as well. It is a partnership for morality. It is a partnership for humanity. We need to force these partnerships, and when and where we do force these partnerships, we actually see enormous progress.

However, regulation often holds us back. We need to work together, for example, to move to sustainable palm oil, but by talking about this in a room together all of a sudden you become a buying cartel. In the UK, you put 5p on a plastic bag, which is a good thing. It has saved you 15 billion plastic bags and the Government is thinking of raising it to 10p. It was probably one of the best decisions to not clog the oceans more than we are already doing. We are on the trajectory that by 2050 there will be more plastic in the ocean than fish, but the law took much longer to implement because regulators said that retailers could not sit together because that would be collusion. So we need to change these regulatory frameworks and you need to take a much more proactive role in doing that to make this development agenda come alive.

There is reason for optimism in all of this. We are moving in the right direction. Most people now know what needs to be done. He personally believes in the goodness of humanity. Many companies are transitioning, be it to the circular economy, to decarbonise their models, to sign up to different standards of human rights, or to actively push for regulatory actions. We would not have had the Paris Agreement without it. The financial community is waking up and Environmental, Social and Governance (ESG) investment is taking off. 82 trillion dollars have been signed up to the principle of responsible investing and the list goes on. Consumers are waking up. Many driven by the young, who are far more purpose-driven. They are asking for different products, healthier products, fair trade products, organic products and bio-products. They are looking not only at buying a product to serve their needs, but they increasingly buy products for what these products stand for.

A good example of this is Ben & Jerry's. They make great ice creams, but are also an activist brand. In an effort to combat climate change, we created an ice cream called "Save our Swirled", and it did very well. We also created an ice cream with the combination of mint and peach, that was launched in the US, called "Impeachmint". It did very well amongst a certain group of the population. Especially young people have an incredible sense of purpose. 34 trillion dollars is in the next 10-15 years being transferred from the baby boomers to the millennials, and we spend a lot of time with those people because they want to spend that money differently. More and more people are demanding that their investments have a greater impact, but the products are not there yet to service the demands. This will, however, happen very quickly.

He is positive because data is becoming more transparent. It is much easier to see misbehaviour now and positive because the cost of inaction is becoming higher than the cost of action. And he is positive because of the millennial generation, who are not the only ones, but certainly one of the most important groups of people that we need to leverage. When we created the SDGs, we put up a website called "My World" and in a period of a couple of weeks, more than one million people wrote about what type of world they would like to live in. Most of these were young people, disproportionately from Africa. If we could put networks like One Young World and Young Global Leaders together more and aggregate them to create a bigger force, we could create movements that would be faster at pushing for change. He is confident that if he works with these young people, as he does quite often now, he has no doubt that we will have the right future leaders at the ready. It is no longer a question for them just to ask for a seat at the table. For him it is absolutely important that they are given the table.

To sum up, there is a growing movement of activism, a growing movement of people that understand what needs to happen, and the IBE deserve a lot of credit because you have created those people and you have provided an environment for them to come together. There is an enormous opportunity still to capitalise on restoring business trust and coalition-building, promoting higher standards and best practices. This is the core of the IBE's remit and he is grateful for that. At the end of the day, the IBE brings people together in forums like this throughout the year and you have discovered that bringing the right, like-minded people together is not a case of  $1+1=3$ , but very quickly becomes  $1+1=11$ , and we need that now more than ever. So thank you to the IBE for what you are doing. Keep going in your businesses and keep setting the standards that the Institute are preaching. This world is short on action and proving people wrong is desperately needed.

## Q&A

The presentation was followed by questions from the audience. Among the issues raised were:

- What do you see as the impact of Artificial Intelligence (AI) on the retail sector from your experience at Unilever?
- Unilever owns Hindustan Unilever which has been known to treat people of lower castes badly by, for example, not giving them citizenship. How do you work with this organisation?
- The CEO of BP, when I interviewed him last year, said that he did not endorse the goals of the Paris Agreement because he did not think they would be implemented. How can we change such attitudes?
- With corruption growing, how do you strengthen both the legal and the moral side of society?
- How can you ensure that you are influencing business management in a positive way?
- In regards to your own journey, how did you ensure that nay-sayers in Unilever were convinced by your ideas?
- Given the very demanding new social role of business, what qualities should we look for in new CEOs?
- How do we catalyse a new stream of investors to invest responsibly?

## Closing

Philippa Foster Back CBE closed the event by thanking Paul Polman for his engaging presentation and the audience for their interesting questions. The IBE tries to be a movement for good by doing what we can to start making changes. We will all, no doubt, be richer for the courage in leadership shown by Paul Polman over the years.