

## Unilever CEO Paul Polman

# Captain Planet

PAUL POLMAN isn't afraid to shake things up. Since taking over as CEO of Unilever, in 2009, he has transformed the Anglo-Dutch multinational into one of the world's most innovative corporations. He did away with earnings guidance and quarterly reporting, and tells hedge funds they aren't welcome as investors. And last year he launched an ambitious plan to double revenue by 2020 while halving the company's environmental impact.

If he succeeds, he could be a model for other CEOs. But if Unilever falters, he knows, the critics will call for his head. In this edited interview with HBR editor in chief Adi Ignatius, Polman discusses the challenges of leading a socially driven mission while protecting his company's core.

**HBR:** What motivated you to launch such an aggressive long-term plan?

**Polman:** We thought about some of the megatrends in the world, like the shift east in terms of population growth and the growing demand for the world's resources. And we said, "Why don't we develop a business model aimed at contributing to society and the environment instead of taking from them?"

**How far up and down the supply chain are you willing to look?**

We look at the entire life cycle—from field consumption to disposal—and we have about 50 measurable goals throughout our supply chain. We want to reduce our overall environmental footprint, to source our agricultural resources sustainably, and to help 1 billion people get access to nutrition and achieve well-being.

PHOTOGRAPHY: JAMIE-JAMES MEDINA





**Is it really business's role to take on these issues?**

There are clear signs of stress around the world, coming from the "other 99%." A billion people still go to bed hungry. A child dies of starvation every six seconds. Our form of capitalism has brought us far, but it hasn't solved everything. We think that businesses that are responsible and actually make contributing to society a part of their business model will be successful.

**This is not some foo-foo dust. It's hard-wired, and you get what you measure. We think it's directly linked to the bottom line.**

**But aren't you putting your core business at risk by pursuing these commitments?**

They are audacious objectives. Nobody has ever made such a public commitment, and nobody has ever achieved anything like this. Otherwise the world wouldn't be facing these challenges. So, yes, they make us a bit uncomfortable. But we think we can get there, or close to it.

**Isn't this a big departure for Unilever?**

As a company, we have a long history of doing the right thing. When William Lever [later Lord Leverhulme] started the company, in the 19th century, Britain had big hygiene problems. So he invented bar soap—not to make more money, but because in Victorian England one out of two babies didn't make it past year one. That established the company's values, and we need to build on them. Before we launched our plan, only 10% of our materials were sourced sustainably. Now, after just one year with new stretch targets, we're sourcing 24% sustainably.

**This all sounds fine. But how do you make a concrete case that sustainability benefits business?**

I always turn that question around: How would you make the case that *not* doing this could help society and mankind? For proper long-term planning, you've got to take your externalities into account, in order to be closer to society. It's clear that if companies build this thinking into their business models and plan carefully, it will accelerate growth.

**How so? For Unilever, these still seem like costs rather than benefits.**

We disagree—because if what you do is properly planned and part of a business model, then it's not a cost. Think about climate change. For Unilever alone, the cost last year was well over 200 million euros—from the effects of droughts, floods, tsunamis, and earthquakes. Add to that the political crises that arise from inequitable, unsustainable growth where part of the population is being left behind. Some estimate that the total profits of the consumer goods industry could be wiped out in 30 years if no action is taken. Responsible business thinks about this.

**At a certain level, though, surely this is driven as much by moral beliefs as by the bottom line.**

When we first launched the plan, it was as much an act of faith as a careful thinking about all the angles. But we were willing to take the risks in a calculated way because it built on our values. We don't know what kinds of challenges we'll be facing in the future. All we can do is make sure that the organization is prepared. So we're creating a culture where it's OK to take risks and OK if some of them don't work out. But we have to be agile enough to change when we need to.

**What's the biggest challenge in committing the company to such a broad initiative?**

The biggest challenge, to be honest, is surviving the transition. You have to be sure the incentive systems are well designed. Plus the complexity of the issues—water, food, energy—is such that it's always going to be tempting to just give up and walk away. But if you're willing to persist, there are opportunities out there.

**Can you be more specific about the opportunities?**

Consider sustainable sourcing. That can give you a higher yield per acre, which means over time your cost comes down. That's true with palm oil; it's true with tea. And if you work with local communities on soil management, you create livelihoods for people who then buy your products.

**How do you focus all of this at the level of your individual brands?**

Our brands all have a social, an economic, and a product mission. We build all that into our R&D program. We spend a tremendous amount of time measuring the total impact of our activities across

## The Unilever Sustainable Living Plan

“Our Plan is ambitious,” says Unilever, “because it looks at many of the impacts our products have on the world around us, and sets targets that go far beyond our own operations.” Here’s how the company describes its targets (the Unilever website presents further details on measurement):

### Health & Hygiene

By 2020 we will help more than a billion people improve their hygiene habits and bring safe drinking water to 500 million people.

### Nutrition

By 2020 we will double the proportion of our portfolio that meets the highest nutritional standards, helping hundreds of millions of people achieve a healthier diet.

### Greenhouse Gases

By 2020 we aim to halve the greenhouse gas impact of our products across the lifecycle—from the sourcing of raw materials, through to consumer use and disposal.

### Water

We aim to halve the water associated with the consumer use of our products by 2020. We will focus our efforts in countries that are populous and water-scarce—countries where much of Unilever’s growth is expected to happen.

### Waste

We aim to halve the waste associated with the disposal of our products by 2020.

### Sustainable Sourcing

Today we source 10% of our agricultural raw materials sustainably. By 2012 we will source 30%; by 2015 50%; and by 2020 100%.

### Better Livelihoods

By 2020 we will link more than 500,000 smallholder farmers and small-scale distributors into our supply chain, so they can benefit from working with Unilever.

the whole supply chain—from the sourcing side to our factories to the consumer side. We’re very data-driven, and we hold people accountable as we go through the journey.

**Can you really measure everything you’re trying to achieve? Some of this seems quite intangible.**

This is not some foo-foo dust. It’s hard-wired, and you get what you measure. We think that anything we accomplish here is directly linked to the bottom line.

**But it may take time to see the payoff. What do you say to shareholders who argue that you’re wasting, or least gambling, their money?**

There are always skeptics and critics. So we need to deliver. We’ve created an environment where our business can be more focused on the long term. We abolished quarterly reporting. We no longer give earnings guidance. We changed our compensation system so that it’s more focused on the long term. But you can’t just sit here and say everything will be fine in 10 years’ time. You need to deliver.

**Why did you do away with quarterly reporting?**

In his book about capitalism at risk, Roger Martin, of the Rotman School, talks about the problems with trying to manage expectations. He uses GE as an example—how it achieved, to the penny, its projected earnings each quarter. And all of a sudden, when Jack Welch left as CEO, the thing fell off the cliff. That’s a situation we want to avoid.

**Would you recommend that every company get rid of quarterly reporting?**

Oh, definitely. I did it the day I started this job, because I figured I couldn’t be fired on my first day. Since then we’ve seen many companies follow suit and go to biannual reporting. It has saved us work, and I don’t have to constantly explain to the market how the weather was slightly worse than we expected, or Easter fell a little early, or the dates of Ramadan changed. It has allowed us to focus instead on a mature discussion with the market about our long-term strategy.

**Are shareholders on board?**

We spend a disproportionate amount of time with them explaining what we’re doing and discussing our longer-term strategy, which has become easier because we don’t do the quarterly reports.

**What's your view on the proper role of shareholders in a modern corporation?**

First of all, you have to accept that our job isn't just about creating shareholder wealth. A myopic view of driving shareholder wealth at the expense of everything else will not create a company that's built to last. Second, you need to attract a shareholder base that supports your strategy—not the other way around. So we actively seek one that is aligned with our longer-term strategy.

**Are you open to hedge fund investors?**

We tell hedge funds and short-term speculators, "You don't belong in this company. The sheer fact that you buy a few shares doesn't give you the right to mess up our strategy." We don't condemn them, but they can go somewhere else.

**Actually, you were quoted as saying that hedge fund managers would sell their own grandmothers if they could make money.**

That's been quoted a few times because, unfortunately, I made the comment at Davos. But there are many people who make their decisions on the basis of short-term interests, versus the interests of society at large.

**Do you worry that sentiment will turn against you if things go badly?**

You're always susceptible to criticism when the numbers don't support what you're trying to do. So far, our share price has outperformed the industry's, and we've been able to move forward without a lot of criticism. But I do worry that if, in any six-month period, our results are not good, the cynics and critics will come out. We need to be strong enough to work our way through that if it happens.

**Why don't more CEOs follow your lead?**

Most CEOs expect to serve in their jobs for three to five years. In this tough economic environment, it probably seems like the best option is simply to hunker down.

**Do you ever worry that you're too far ahead of the pack?**

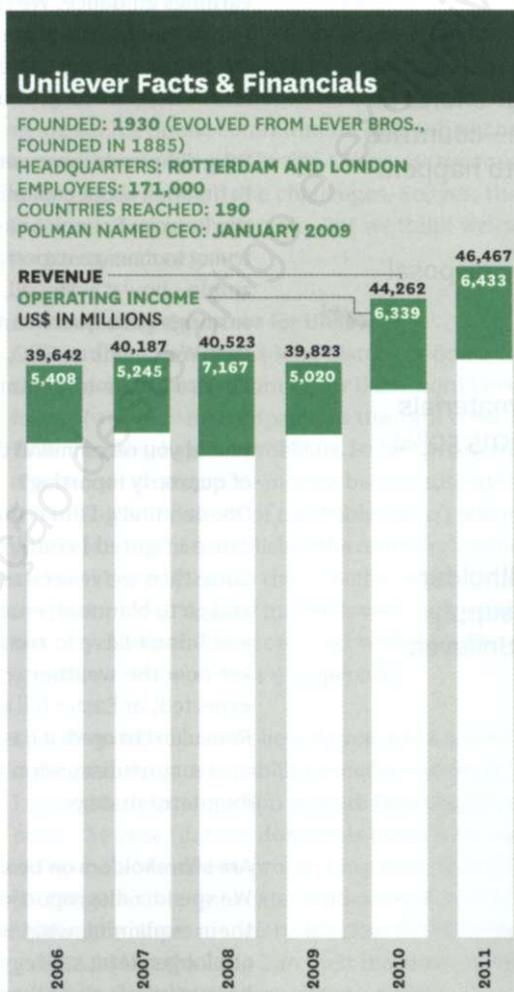
Yeah, you can't run too far ahead. A leader who looks over his shoulder and doesn't see anybody behind him is not very comfortable.

**What did you learn from the 2008-2009 financial crisis?**

I call it "the crisis of ethics," and it has made a lot of people think differently about how society needs to function. Not in the sense of questioning capitalism per se—I'm a capitalist at heart—but in the sense of how to achieve it. We need to fine-tune the system, and one way to do that is through socially responsible investment. I'm encouraged by the progress I see, and more companies are willing to be a bit more daring; they're starting to create a critical mass.

**Plenty of people out there, on Wall Street and Main Street, don't really think the system is broken and are just waiting for the economy to recover so that we can stop obsessively trying to reinvent everything.**

Unfortunately, there are still people in the comfort zone who think the problem isn't there. They don't



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know that they are part of the problem. The fact is, it's unsustainable to have 15% of the world's population using 50% of the resources. Companies that don't want to participate in finding a solution risk being isolated by society. You've seen that happening with some banks to a certain extent. So people can be in denial and say that the normal Milton Friedman-type of thinking about the laws of economics will prevail. But frankly, that thinking has brought us to where we are, which requires an accelerated evolution of the way we do business.

### **What's the value in all of this for consumers? In the end, don't consumers respond mainly to old-fashioned things like price?**

We understand that. But if you satisfy the basic conditions of price and quality and then provide more on top, you will be in a significantly better position. With Lipton, we have moved to sustainable tea sourcing. Sure, the tea needs to taste good and the price needs to be competitive. But if we also do sustainable sourcing, it gives us a lift and consumers think it's even better.

### **You've said in the past that consumers are now in charge. How so?**

We have more than 2 billion consumers using our brands every day. And increasingly they are connected, which gives us opportunities to involve them and communicate with them. Part of our model is to turn our company over to them to some extent. In the past, consumers might have been tempted to say, "I have my little sustainable Lipton tea bag, but what difference does it make? Especially when my neighbor doesn't and drives a big SUV to boot." But now we're able to show consumers that it does make a difference. Two billion of you are drinking tea. So ask for sustainably sourced tea, because you can become a force for good. If 2 billion want something, companies will change.

### **Why are you so certain that consumer thinking has evolved?**

The research that we and others have done shows that consumer apathy is increasingly a myth. Look at how quickly the Occupy Wall Street movement

spread. It shows that people are thinking about things, that they feel excluded from a system that isn't working for them. An Indian farmer might not talk about climate change, but he will tell you that his water level has gone down one meter. People are looking for solutions, and if governments don't provide them, they'll find businesses that do.

### **What's an example of when consumer sentiment led one of your brands to alter what it was doing?**

Ben & Jerry's is a wonderful example. It is now supporting gay marriage in the UK, because the consumer base is asking for that. This is a brand, by the way, that doesn't advertise. It just uses social media. This is a brand that totally represents its user base.

### **To achieve your goals, how important is it to work with other institutions?**

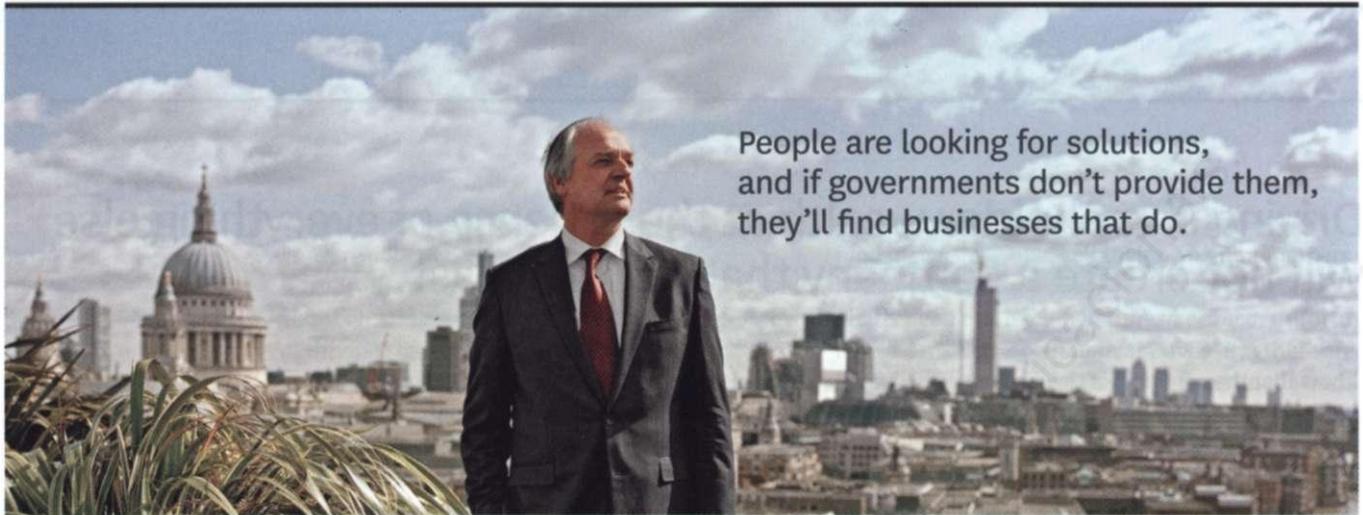
A lot of the challenges we face require forming coalitions with NGOs, governments, and industry partners. When we went public with Unilever's sustainable living plan and audacious targets, people worried that we would attract criticism. Actually the opposite has happened, because we went out there with a human face and made it clear that we don't have all the answers. We made it clear that if others felt these things were important, they could help us and join us and be part of the solution.

### **Would you like to see governments become more involved in sustainability, perhaps by establishing tougher industry standards?**

Unfortunately, politicians have become too short term in their thinking. Most lack any courage and just want to get reelected. In the U.S., in particular, politicians seem to have a limited understanding of, or interest in, how the world functions.

### **So companies have to fill that vacuum?**

I think that for the next several years, the U.S. will be more internally focused, while China and India won't be willing yet to step up and assume the responsibility that comes with size. This creates a tremendous opportunity for responsible companies to step up, to be a force for good.



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**One of the issues that upset the 99% is executive compensation. In your view, what's the best formula for paying CEOs?**

Compensation that isn't linked to performance one way or another is difficult for people to understand. Yet any system where a few people get enormous benefits but the costs or risks have to be borne by society is unacceptable. The answer is transparency. Think about professional sports: People don't object to the salaries that players get, because they're transparent. It's the lack of transparency—especially in the financial sector—between performance, long-term performance, and compensation that bothers people.

**How do you handle this at Unilever?**

We link payouts to long-term performance. My salary has been frozen since the day I came to the company, because we think there is no need to increase it. We had a very good year last year, but our bonus payouts were based on less than a 100% rating because we set our targets high.

**Your total compensation in 2010 was 2.87 million euros. Are you worth that?**

That's not for me to judge. I'm very fortunate. My father worked two jobs to be able to send his kids to school and university. I'm very grateful for that. It's more important to worry about the responsibilities you have than the compensation.

**What have you learned from your years as a CEO?**

Well, I'm just starting to learn, because this is my first CEO job and I'm only in year four. But I think it's important to operate with a high degree of integrity and to spend a lot of time enhancing your company's values. The biggest challenge is to keep your humility. The moment a CEO starts to justify how good he is and talk about all the things he's achieved, it's probably time to go.

**This can't be an easy era to be an effective CEO.**

That's true. In previous decades the world was growing and everything was going up. Value was created, and share prices rose. That's not the case now. So the people who lead companies need to be able to deal with far more volatility, far more transparency. They have to be able to work more closely with other organizations to achieve their goals. There is so much ambiguity and change—you have to be agile. And you have to make sure your company is a learning organization.

**Have you endured any instructive failures since you became CEO?**

One big challenge has been figuring out the spacing and sequential implementation of everything we're doing. To use an analogy, we're basically changing the engine while we keep the car running. There are things I wish we'd done sooner. I wish I'd spent more time on diversity of the workforce. We're nowhere near where we need to be for tomorrow's world.

**You worked for many years at Procter & Gamble and then at Nestle. How did you get into the consumer goods business?**

I had studied in my home country, the Netherlands. Originally I wanted to be a priest, but I gave that up and studied economics. Then I went to the University of Cincinnati. I was taking night classes and met a lot of P&G people there. I didn't have any money, so I took a job as a maintenance man in what turned out to be a P&G building. That's how I ended up there!

**And now you're a global CEO.**

Life is serendipity. I was talking to my son recently, and he asked, "What should I do?" I always say you should create opportunities and then select one and go for it. Don't look back. ♥