

“From License to Operate to License to Lead”
Speech Paul Polman, CEO Unilever
on the occasion of the Ernst & Young Hofstad Lecture,
Grote of Sint Jacob’s Church,
The Hague, 6 March 2013

Introduction

Excellency, Ladies and Gentlemen,

It is a great honour to address such a distinguished audience in this wonderful setting. I want to thank Pieter Jongstra and Jan Peter Balkenende for the opportunity – and E&Y for sponsoring the Hofstad lecture.

This church has been a The Hague landmark for centuries, surviving a great fire in 1539 and various wars.

Charles V, the Holy Roman Emperor, visited this church after the fire and actually sponsored the restoration of some stained glass windows.

In net, an impressive church, with a great history and first-rate sponsors.

It is a particular privilege to find myself here today in this Church setting, since - as some of you might be aware - I once had the ambition to become a priest. But do not worry I have no intention to use this venue to deliver my first sermon!

In the end, my youthful ambition was not to be; instead I ended up in business, a career that may turn out to be less surprising than one would think at first sight.

At least that is what I took from a recent lead piece in the *Trouw* newspaper (12 January 2012), where the authors described sustainability as “the new religion”.

As you will understand, as a businessman I will try to avoid ending up in such doctrinal debate.

What I do know is that sustainability is enormously important, and today, I want to share some thoughts on its significance to the world in general and on the role that business can play in particular.

The context is a challenging one.

Global Challenges – a VUCA world

We are living in what some have termed a VUCA World: Volatile, Uncertain, Complex and Ambiguous.

Rapid globalisation and the resulting interdependence of financial markets, technology and economic systems have made this a more complex world to manage.

Never before have we seen such rapid explosions in the global population, shifts in economic power or resulting pressures on natural resources. The complexities created make it difficult to deal with. Enormous swings in currencies, raw material costs or climate have become the norm. The digital revolution will continue to change lives and businesses at an increasingly fast pace.

Many struggle with this 'new normal'. No wonder the average tenure of a CEO is now less than four years - and those of politicians even shorter.

Addressing the challenges

The way we address these challenges will be vital, not just to our future prosperity, but to our very survival.

This afternoon I want to focus on the unique role that business can – and must – play in finding solutions.

First, it is important to understand the major trends underpinning this debate. There are three in particular I want to highlight:

1. Political vacuum

First, we have to recognise that many governments around the world lack the ability – and some might say the will – to address today's global challenges. Increasingly politicians have a hard time internalising to their own constituency these global challenges. Global Institutions have not adjusted since Bretton Woods either. That's why we lack agreements on climate change, the Doha trade round, Syria or the Euro crisis.

A political vacuum has opened up. With the rapidly shifting global economic powerbase, the US is turning to its own territory and clearly India and China are not yet willing to fill the void. Hence the tragedy in Syria or slow progress on many of the burning global issues from food security to climate change.

The economic crisis does not help. Just as individuals cling to their families and those closest to them at times of economic hardship, so countries turn in on themselves, more concerned to protect what they have.

Look at Italy in the last week. Was the phrase, 'fiddling while Rome burns' ever more appropriately used?

The fact is multilateralism is in decline, just when the world needs it most.

International bodies like the UN and G20 do their best but seem powerless to effect any real or lasting change.

Driven by the pressures on them, our political leaders have become inward-looking and too short-term in their horizons.

Not surprisingly, peoples trust in the political system remains – in many parts of the world – in sharp decline.

According to the latest global survey, only 48% of people trust their governments to do the right thing, and less than 20% believe political leaders will actually tell the truth when confronted with a difficult issue...

....which brings me to the second key trend.

2. The empowered citizen

Individuals are stepping in to fill this political vacuum.

Frustrated by the lack of progress, distrustful of those who lead them, and armed with the tools of the digital revolution, people are no longer asking 'who's in charge' - they are taking action themselves.

We saw this most dramatically of course with the Arab Spring, but also with movements like Earth Day, Occupy Wall Street and the 99% Movement.

In today's increasingly open and transparent world there are no hiding places.

- No hiding place for bankers seeking to manipulate Libor bank rates or overexposing society to risk for personal gain.
- No hiding place for companies violating social standards, avoiding their tax obligations or undermining safety in their supply chain.
- No hiding place for governments that hang on to power or personal enrichment at the cost of their people.
- No hiding place for reporters either hacking into the phones of others or engaging in irresponsible reporting.

And so it goes on.

No wonder people have become disillusioned. Who can they trust?

And now digital technology is allowing them to create large communities of interest, share information fast and drive to action.

This was very visible with the Arab Spring, where the regime in Egypt fell in just 17 days. As one of those behind the protests said: We organize on Facebook, communicate on Twitter and show the world what we do on Youtube.

Already, today, there are more than a billion people on Facebook and by 2015 the number of connected devices around the world is expected to reach 50 billion!

Let's be in no doubt, today the citizen and the consumer are increasingly in charge.

3. Planetary boundaries

Let me turn now to the third key trend.

Every day, the challenges around the sustainability of our planet grow deeper.

Much of it driven by the Food, Water, Energy nexus.

We are already pushing the limits of our 'planetary boundaries'. Explosive population growth and rapid economic development is driving this. And all this before another 2 billion consumers enters this world and many more aspire to higher standards of living.

The prospect of what scientists' term an 'abrupt and irreversible environmental change' is now very real.

Nearly every month, Unilever is exposed to another natural disaster, from floods in Greece and Turkey to droughts in the Midwest or Hurricane Sandy. The cost to our business can be over €300 million a year and one report estimates that the entire profits of the consumer goods industry could be wiped out in 20 years if no decisive action is taken.

The role of business

Faced with these enormous challenges, business has a choice.

We can accept the current state of affairs for what it is, bury our heads in the sand and hope that the storms will pass. With the short tenure of many CEO's, I recognize that for many this is an attractive option.

Or we can look reality in the eye. Be courageous and face the challenges. Not only face, but be part of the solution.

We can no longer be mere bystanders in a system that gives us life in the first place. We have to step up and fill the void.

But it does mean doing things very differently.

This is not an exercise in corporate social responsibility.

It is about reconnecting with the individuals and communities we serve and fundamentally changing the way we operate – moving if you like from a 'licence to operate' to a 'licence to lead'.

Any system where too many people are left behind or feel they are not participating fully will ultimately be rejected.

Capitalism has lifted many people out of poverty, but we have not yet figured out how to do this without incurring enormous levels of public and private debt, over-consumerism and leaving too many behind.

We need to develop a more equitable and sustainable form of capitalism in which:

- business sees itself as part of society not separate from it;
- the focus is on the long term, not on quarterly earnings;
- the needs of citizens and communities carry the same weight as shareholders.

It is an approach we are pioneering with the Unilever Sustainable Living Plan, or USLP.

The Unilever Sustainable Living Plan

Under the USLP, we have set out an ambitious vision to double the size of the business while at the same time improving in absolute our environmental and social footprint.

The first thing we needed to do was to create the space in which to take the best long-term decisions for the company.

So, we abandoned guidance. We changed our compensation system. We moved away from quarterly profit reporting – a major contributor to the financial crisis – and we invested in the long-term drivers for growth. Things like R&D, quality and brands, new factories and training and development of our people.

Having aligned all our employees, we launched the USLP in 2010.

At its core are three overarching goals:

- To help a billion people take action to improve their health and well-being.
- To halve the environmental impact of our products.
- And to source 100% of our agricultural raw materials sustainably, protecting the livelihoods of more than 500,000 smallholder farmers in the process.

These are underpinned by 50 specific, time-bound targets.

The USLP encompasses all of our categories and countries. It relies on a total value chain approach. It internalises and takes co-responsibility for some of the world's major challenges and as such is an accelerator for growth. After all, the companies that provide real solutions are the ones most likely to be embraced by citizens across the world.

It starts by ensuring our own house is in order. Not just by cutting emissions, or restricting waste or making our factories and offices more efficient – all of which cut costs, risks, as well as CO2 – but also by ensuring we have a social compliance culture that stretches right up and down the supply chain. Not easy, and certainly not done yet, but we are on to it.

The plan also entails reaching up the value chain to those on whom we rely, like our 500,000 smallholder farmers. We are working closely with them on everything from improving agricultural practices to helping them to become more competitive and self-sufficient.

It's still early days, but we are making progress. In short, we are:

- lowering costs by cutting the use of resources;
- lowering risks by internalising challenges like climate change;
- creating stable supply by working directly with small hold farmers;
- motivating our employees; and.
- leveraging our brands as a force for good.

And it is in this last area down the value chain - making our brands movements for social change - that we are making the greatest impact.

Examples include:

- Dove, driving female self esteem through its Campaign for Real Beauty;
- Domestos, improving health and sanitation through its Toilet Academies and commitment to build 500,000 toilets.
- Pure-it providing clean drinking water to millions around the world;
- Knorr driving sustainable agriculture through its Sustainability Partnerships.

We see the power of this particularly on an issue like hygiene.

It cannot be right that around 7 million children die before their fifth birthday, including two million a year from diseases like diarrhea. That's the equivalent of a jumbo jet of children crashing every hour, every day.

Our Lifebuoy brand's handwashing campaign has the potential to save 600,000 lives a year from diarrhea, while at the same time increasing soap consumption.

The brand's mission is to reach millions of people across Asia, Africa and Latin America with its educational programmes. More than 200 million were involved in over 100 countries in the last Global Handwashing Day. Over 3 million have made a specific pledge on Facebook.

Increasingly to those who use it, Lifebuoy is no longer just soap it is a movement to improve and save lives.

Partnerships

Unilever therefore can make a real difference. Every day we touch the lives of more than two billion people.

But the scale of the challenges is too big for any one company or organization alone.

Think about it:

- One billion people go to bed hungry every night, uncertain if they will wake up the next morning;
- 2.8 billion people go short of water and 2.3 billion lack access to basic sanitation;
- 200 million don't have a job.

We have to act together and to scale up our efforts if we are to reverse this growing tide of misery and suffering. Partnerships are key.

This is central to our approach at Unilever.

That is why we have teamed up with five global agencies – Oxfam, Save the Children, PSI, World Food Programme and UNICEF – to leverage our presence in areas where we bring real expertise to bear.

We are also involved in initiatives like the New Vision for Agriculture, and we have taken the lead within the Consumer Goods Forum in putting an end to illegal deforestation – one of the biggest contributors to global warming. We are also partnering with the US Government and others on the Tropical Forest Alliance.

But this afternoon I want to highlight one particular collaborative project – the Dutch Sustainable Growth Coalition.

Dutch Sustainable Growth Coalition (DSGC)

First, let me tell about the idea behind it.

In one of our conversations on sustainability, Jan Peter Balkenende and I shared the view that the link between sustainability and the Netherlands was not always automatically made in the international arena.

Let me illustrate this by telling you that during the World Economic Forum every IT-related topic automatically includes a mention of Silicon Valley.

The same is not necessarily true with the Netherlands and sustainability.

We think this can change.

Branding the Netherlands “*Sustainability Valley*” would be justified in view of the many Dutch companies that are sustainability leaders in their industry, for instance in the Dow Jones Sustainability Index. Unilever itself was named sector leader last year for the 18th consecutive year.

The Dutch Sustainable Growth Coalition (DSGC) wants to make that more explicit. It brings together the CEOs of 8 Dutch multinationals that are pioneering sustainable growth business models: AkzoNobel, FrieslandCampina, Heineken, KLM Royal Dutch Airlines, DSM, Philips, Shell and Unilever.

The Coalition has the full support of Bernard Wientjes, President of the Dutch Confederation of Netherlands Industry and Employers (VNO-NCW).

I was very pleased that Jan Peter, with his experience as a former Prime Minister and his impressive international network, has accepted the role of Chairing the Dutch Sustainable Growth Coalition.

In essence it has three goals to (a) shape (b) share and (c) stimulate.

SHAPE: meaning further optimizing sustainable business models including learning from each other;

SHARE: i.e. sharing DSGC best-practices with other interested companies, both nationally and internationally;

Earlier this afternoon for example we reached out to a group of CEO's of Dutch multinationals in order to inspire action in the wider Dutch business community on sustainable growth models.

We also have set ourselves the goal of spreading the news globally, and put the 'Dutch Sustainability Valley' firmly on the international map.

That is also why we actively contributed to a WEF session on the "circular economy" during the World Economic Forum in Davos in January.

STIMULATE: i.e. giving advice to the Dutch Government and others to help build the right framework conditions

I believe the Netherlands can contribute a lot to development on a global scale.

It therefore makes a lot of sense for the Dutch Top sectors to form an integral part of Dutch Foreign and Development Co-operation policies, and for Dutch businesses to become more involved.

For example, Unilever has taken a lead role in SUN (Scaling up Nutrition) which encourages countries to accelerate reductions in global hunger and under-nutrition.

And Unilever gladly participates in several programmes of IDH, the successful Dutch Sustainable Trade Initiative.

I am pleased to see that Trade and Aid – both crucial pillars of development policy - have now been integrated in a holistic way in the newly created position of the Dutch Minister for Foreign Trade and Development Cooperation.

Needless to say that I am extremely honored that Minister Ploumen, who carries this heavy responsibility, is with us today.

During the talks on the formation of the new Dutch Government - following the General Elections last September - a letter on behalf of the Dutch Sustainable Growth Coalition was sent to the formateur, and was also published in Het Financieele Dagblad.

The letter hopefully played a small part in making “sustainable economic growth” one of the three key pillars on which Dutch Government policy is now based.

Needless to say I was energized by this, and sincerely hope we can shortly welcome the current VVD-PvdA coalition as “the second Dutch Sustainable Growth Coalition”.

It is great to see the Netherlands leading by example.

Partnerships of this kind are necessary, but they are not sufficient.

We also need proper frameworks within which people can operate on a global basis.

One of the most successful I would argue has been the Millennium Development Goals.

They may not have achieved all of their aspirations, but there is no doubt that the MDGs have played a critical role in galvanizing international action. The results speak for themselves – the number of people living in extreme poverty is set to half.

It was for this reason that I was deeply honoured to be asked by the UN Secretary General, Ban Ki Moon, to serve on the High Level Panel on the Post-2015 Development Agenda.

High Level Panel on the MDG Post 2015 Agenda

Despite the progress that has been made there is much still to do. I would challenge all of us to raise our ambitions beyond 2015.

The last meeting of the High Level Panel was held in Monrovia, Liberia. I saw for myself the scale of the challenge facing President Ellen Johnson Sirleaf, with more than half of Liberians still living on less than US\$1 a day. Only 18% have access to basic sanitation. Children still die from entirely preventable diseases like diarrhea.

The Post-2015 Agenda will not end these forms of extreme poverty unless business plays a role, especially at a time when governments are more likely to see their spending reduced.

Companies like Unilever have extraordinary reach. We are present in more than half of the households on the planet. This gives us the opportunity to intervene and improve the lives of millions by offering them the fundamentals of a decent life - clean drinking water, basic hygiene and good nutrition.

It also fosters innovation and drives growth.

That being said, a new global development agenda should not only be about people in poverty. Progress on each and every Millennium Development Goal will be reversed unless we take action on sustainability.

It is not a matter of people versus planet. We need both.

Extreme poverty can only be eradicated if we respect the earth's planetary boundaries. Food and water shortages, energy scarcity and climate change hit the poorest first, and hardest.

That is why I will strongly advocate one integrated Post-2015 agenda that includes sustainability as the most important contribution that business can make in securing a sustainable, equitable future for all.

It is important to mention that business only became actively involved in the MDGs discussion at a late stage. We must not repeat the same mistake again.

I am pleased to say that things are changing. All over the world, businesses are rising to the challenge of addressing sustainability and poverty. Business now wants to be at the forefront of change in recognition of the need to earn a "license to lead".

Yesterday, we had a very fruitful discussion with Her Royal Highness Princess Maxima, Minister Ploumen and other representatives of Dutch government, businesses and civil society at the Dutch Ministry of Foreign Affairs in order to collect input for the High Level Panel's work.

The will to address these issues is definitely there and, again, there is an opportunity for the Netherlands to make a decisive contribution.

Concluding Remarks:

Excellency, Ladies and Gentlemen,

In conclusion, let me try to sum up:

There is no end in sight to the VUCA world. It is becoming the 'new normal'.

The challenges we face grow deeper by the day.

Governments and international agencies are struggling to keep pace, and their attention has been diverted by the financial and economic crisis, which is driving a more insular approach.

Meanwhile, citizens are demanding change, and the digital revolution is providing them with the tools to take action. What we have seen so far is only the tip of the iceberg. In tomorrow's totally transparent world, our every action, our every motive will be scrutinised.

We have to be willing to look this reality in the eye.

Businesses prepared to grow in line with the needs of society and environment will face enormous opportunities. Just as consumers have shown themselves willing to punish companies whose standards fall short, so they will reward those who become part of the solution to today's challenges.

It won't be easy. And it can't be done on the basis of 'business as usual'.

Instead, it needs a radical reappraisal of the way in which we run and operate our businesses.

The Unilever Sustainable Living Plan represents such a new model and a new way of doing business. And it is already driving Unilever's performance.

Transformational change will only come, however, when we have critical mass. That means governments, international agencies, business, NGOs all working together in genuinely collaborative partnerships.

Initiatives like the Dutch Sustainable Growth Coalition are the way to do. It can become a beacon for others to follow.

Setting our efforts within a clear moral and strategic framework will also be key, which is why I am such a firm believer in the potential of the Millennium Development Agenda.

So, there is much to do, and time is not on our side.

Let me put this in perspective.

1789 was the year of the French Revolution.

In 1989 - 200 years after the event - Zhou Enlai, the leader of the Chinese Communist Party at the time, was asked about the legacy of that French Revolution.

Allegedly his response was: "Too soon to tell".

Ladies and Gentleman, I can assure you: we will not have two centuries to evaluate whether the sustainability revolution has been successful.

Failure will endanger the future of the whole planet long before.

We therefore need to act; we need to do so in partnership and the time is now.

As Benjamin Franklin said "You may delay but time will not, and lost time will never be found again".

Thank you for your attention.

- - - - -