



**Speech by
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***Beyond Corporate Responsibility:
Social innovation and sustainable development
as drivers of business growth***

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I am delighted to be here. I consider it a great honour to be invited to address the INDEVOR Alumni Forum.

It is a long time since I graduated from INSEAD. I return older but, I hope, a little wiser.

Of course when I was here in the early seventies, the subjects I will talk about today - corporate responsibility and sustainable development - barely existed. The green movement that was emerging at that time was the province of politics and protest not business.

The idea that companies had responsibilities to society beyond making a few charitable donations did not really start to take shape until a decade later.

A lot has changed since then – and I'm not just talking about my appearance!

This agenda is no longer about protest and philanthropy, although both still have their place. And businesses and NGOs are no longer automatic adversaries. In many areas, they are partners working together to achieve common goals.

Today social responsibility and environmental sustainability are core business competencies, not fringe activities. We have come a long way since the early eighties when the godfather of free market economics Milton Friedman proudly proclaimed that the only obligation which business had to society was "to make a profit and pay its taxes".

This change has come about for a variety of reasons. Certainly the political context has altered. The laissez faire economics which characterised the Reagan/Thatcher era have been superseded by a more realistic assessment of what the invisible hand of the market can achieve acting alone.

Today there is a growing recognition that the social and environmental challenges facing us in the 21st century are so complex and so multi-dimensional that they can only be solved if government, NGOs and industry work together effectively.

It is difficult, for example, to imagine a problem like climate change being addressed without the active participation of Shell, BP and Toyota. Likewise it is hard to see an issue like poor nutrition being effectively tackled without the involvement of the world's major food companies.

Slowly but surely both governments and NGOs are accepting that business has a role to play in the development agenda and that we can be trusted.

But perhaps the biggest catalyst for change has been the increasing awareness within business itself that many of the big social and environmental challenges of our age, once seen as obstacles to progress, have become opportunities for innovation and business development.

I believe that we have come to a point now where this agenda of sustainability and corporate responsibility is not only central to business strategy but will increasingly become a critical driver of business growth. I would go further: I believe that how well and how quickly businesses respond to this agenda will determine which companies succeed and which will fail in the next few decades.

I realise that is a bold assertion but it is based on three key premises that I will explore today:

Firstly, economic development. Developing and emerging markets will be the main source of growth for many multinational companies in the years to come. Those that make a positive contribution to economic development and poverty reduction in these countries will be better placed to grow than those that do not. I will use the example of Unilever's businesses in Indonesia, Africa and India to illustrate my arguments.

Secondly, social innovation. I will look at how heightened consumer concerns about social justice, poverty and climate change are raising expectations that companies should do more to tackle such issues. The brands that see these challenges as **opportunities** for innovation, rather than **risks** to be mitigated will be the successful brands of the future. The examples I will use here are two of our global brands – *Dove* and *Ben & Jerry's*

Thirdly, sustainability. As globalisation accelerates, and as the limits of the planet's resources are reached, large companies and brands will increasingly be held to account on the sustainability of their business practices. The companies that succeed will be those that reduce their environmental impacts and increase the sustainability of their supply chains **now**, rather than wait until either legislation or public outcry forces them to do so.

First some background about Unilever.

Unilever is one of the world's leading consumer goods companies:

- We have operations in around 100 countries and sales in over 150.
- Our products are present in half the households on the planet.
- 160 million times a day, someone somewhere will buy a Unilever brand.
- Our €40 billion turnover is spread across 400 Foods and Home & Personal Care brands.

Corporate responsibility is deeply coded into Unilever's DNA. You can trace its origins to our British and Dutch founders - William Hesketh Lever, Anton Jurgens and Simon van den Bergh - all of whom had an innate sense of social responsibility towards their employees and consumers.

It is from them that we have inherited two enduring principles which have guided our approach to doing business.

The first is that the health and prosperity of our business is directly linked to the health and prosperity of the communities we serve. Lever gave substance to this belief by building a garden village for his workforce at Port Sunlight and by his determination to tackle the appalling standards of hygiene and sanitation in late Victorian Britain. He did this by the simple mechanism of making available to millions of people good quality, low cost soap.

The second principle that has been handed down is the simple notion that a successful business is a responsible business. Or if you prefer **“doing well and doing good”**. Central to this is the idea that we can create social benefits through our brands and through the impact which our business activities have on society and, very importantly, still make a good return for our shareholders.

Our commitment to address social and environmental issues has been strengthened over the years by our deep roots in developing and emerging countries. Over 40% of Unilever’s business is now in these markets. That makes them bigger for us than Europe and sales there are growing much faster. By 2012 more of our business will come from Asia, Africa and Latin America than from the developed markets of Europe and the USA.

Doing business responsibly has served Unilever well. If you look at our share price over the past 25 years and compare it with the S&P 500 you can see that “doing good” and “doing well” are not mutually exclusive.

1. The role of business in economic development and poverty reduction.

Multinational companies can, and do, play a significant role in the development agenda. They stimulate economic growth through international trade and facilitate social progress through the development of human capital.

But the positive role of business is rarely talked about in the media. If brands are mentioned at all, it tends to be the ones that have **not** behaved responsibly, rather than those who have.

Part of the problem is that companies do not normally measure their social, economic and environmental footprint in the markets in which they operate and, as we all know, communication without facts is tough.

So Unilever has been trying to find out what impacts its operations have in the developing world.

In 2003 we joined forces with Oxfam – an unlikely bedfellow – to research the question.

Together we embarked on a project to analyse the impacts of our business in one of our largest markets. The country we chose was Indonesia – a country where I have seen the damaging effects of poverty at first hand.

The report we jointly produced highlighted a number of interesting things.

Firstly, it demonstrated that most of the cash value Unilever creates in Indonesia stays in the local economy. This challenges head on the perception which some NGOs have that multinationals are mere extractors of wealth, who make large profits locally that are then immediately remitted to shareholders in London and New York, without benefiting the local economy.

Secondly, the report looked at the impact of our upstream supply chain. It found that some 84% of our raw and packaging materials were sourced from local suppliers thereby creating not just jobs but technology transfer from other Unilever factories around the world.

Finally, our report revealed the extent to which our operations in Indonesia have a major “multiplier effect” on job creation. While Unilever Indonesia itself employs only 5,000 employees, the business supports the full time equivalent of 300,000 jobs, more than half of them in the distribution and retail chain.

Impressive though these figures are, the exercise did also reveal the very limited impact which our operations had in helping the farmers and shopkeepers at the furthest ends of the value chain to lift themselves out of poverty.

Nevertheless, the evidence from Indonesia is that a global company like Unilever with embedded local operations – what we call a multi-local multinational - can have a very positive effect on developing economies.

Encouraged by the Indonesian exercise we have initiated a second study; this time in Africa.

Working with Ethan Kapstein - Professor of Sustainable Development here at INSEAD - we are investigating the social, economic and environmental impacts of Unilever’s operations in South Africa.

Professor Kapstein’s report, which will be published later this year, will take the work that we did in Indonesia to a higher level. He will not only measure our footprint in quantitative terms but he will also seek to capture and analyse our “soft” impacts. By soft I mean such intangibles as:

- training and skills transfer;
- support for government capacity building;
- black empowerment initiatives; and
- environmental standard setting.

In a very real sense Ethan is getting a measure of the contribution which Unilever is making to develop a healthy and prosperous South Africa.

Let me give you some examples of how Unilever’s presence in the emerging economies of Asia and Africa is contributing to the development agenda. I shall do this under three headings:

- capacity building;
- new business models to generate economic activity at the base of the pyramid; and
- product innovation which addresses specific social needs.

Capacity building

Capacity building is the jargon that economists use to describe the creation of the skills, physical infrastructure, public health and administrative frameworks that are so necessary for developing countries to prosper.

Capacity can be built at both the **macro** level of the state and at the **micro** level of individual companies and communities. In Africa, Unilever engages at both levels.

A good example of an intervention at the macro level is the work that Unilever is doing to facilitate cross-border trade on the continent.

We were one of the founder members of the Investment Climate Facility, a new public-private partnership that aims to address some of the structural bottlenecks holding back investment in Africa. We have committed €1m to getting this going and are concentrating our efforts on working with African governments to rethink their approach to customs and border controls.

This is something they have traditionally approached with a revenue mindset rather than a trade mindset.

If Africa is to develop as an economic region there need to be fewer restrictions on cross-border trade. These not only discourage foreign direct investment but also stifle intra-regional trade - an important driver of economic growth. In ASEAN, for example, 60% of trade is between neighbours. In Africa it's more like 10-15%.

An example of capacity building at the micro or community level in Africa is *Business Action against Chronic Hunger* – an initiative we helped to launch last year.

This is a programme orchestrated by the World Economic Forum and involving The Millennium Villages Project - a UN initiative pioneered by Professor Jeffrey Sachs. Our shared aim is to help communities lift themselves out of poverty through sustainable income generation.

The pilot programme is in Western Kenya. Agriculture is the primary livelihood there but the land available for farming is less than half a hectare per household – insufficient to produce enough food for the average family. As a result 60 to 70% of the population live below the poverty line.

Agronomists from Unilever's Kenyan tea plantations are helping farmers to convert their smallholdings from commodities like maize to higher value crops - specifically sunflowers and herbs and spices. The land was prepared in January and February. The seeds – which we provided – were planted in March. And in September, they will be harvested.

We have guaranteed to buy their crop at market prices. The sunflower oil will be used in *Blue Band* margarine and the herbs in *Royco* - a local brand of bouillon stock cubes.

Our aim is for the farmers to make enough money in the first year to be able to feed themselves and to make a surplus for next year. In return for help with training and start-up costs, the farmers have agreed to put 10% of the value of any surplus they make in future years into community projects.

We are in the embryonic phase of this project but plan to scale it up from 30 farmers to 4000 – benefiting some 20,000 people. Again our objectives are clear. We want to work with others to make Kenya a healthy, prosperous society in which businesses like ours can flourish.

New business models

Capacity building of this kind is critical for long-term economic development.

Of more immediate impact, however, is the ability of the private sector to create new business models. Some of these are designed to reach down towards what CK Prahalad has described as “the fortune at the bottom of the pyramid”.

An excellent example of this is our Shakti initiative in India.

At the end of the 1990’s Hindustan Unilever realised that if they were to maintain their growth trajectory then they would need to find a way of selling their products to the rural poor.

One in eight people on the planet lives in an Indian village. There are some 650,000 of them. All very isolated. Very few of them served by a retail distribution network.

The solution that we came up with to reach these consumers was to tap into existing networks of women’s self-help groups which had grown up on the back of micro-credit schemes. From these groups we recruited and trained our *Shakti* entrepreneurs who became our local sales representatives. Their role was to go door to door selling our products.

Of course it was not our standard range. We had to re-engineer our products in such a way that they were affordable to people on desperately low incomes. More often than not this implied small pack formats – mainly sachets – which could be sold at prices as low as one or two rupees.

Let’s meet one of the Shakti women. (Film)

Shakti is at the intersection between social responsibility and business strategy.

The social benefits of the scheme are obvious. It creates economic activity at the very bottom of the pyramid. It gives poor people access to products that address their basic needs for hygiene and nutrition. It gives dignity and a sense of empowerment to a large number of rural women.

At the same time the business benefits are huge. Today we have 30,000 Shakti entrepreneurs operating in 100,000 villages serving nearly 100 million consumers. The revenues generated are now close to \$100 million per annum and the margins are very similar to those we achieve through our mainstream distribution channels.

Make no mistake. Shakti is not a philanthropic activity. It is a serious and profitable business proposition.

Routes to market like Shakti enable Unilever to serve the needs of first time consumers. In turn this gives us the opportunity to address some of the nutrition and hygiene needs of some of the poorest people on the planet.

Products that meet the social needs in the D&E world

Two examples to illustrate this – one from India and one from Africa. The Indian example is *Lifebuoy* soap.

Every ten seconds a child dies from diarrhoea somewhere in the world. One third of these deaths are in India. Most are children under five. Yet according to the World Bank, something as mundane and simple as washing hands with soap can reduce diarrhoeal diseases by half.

Lifebuoy has been India's leading soap brand for decades. In the late 1990's it launched the largest rural health and hygiene education programme ever undertaken in India. It is called Swasthya Chetna – which means "Health Awakening" in Sanskrit.

Piggy backing on the infrastructure created by Shakti, *Lifebuoy* health education teams visit thousands of schools and communities to teach children about the existence of germs and the importance of washing hands with soap.

Marketing activity of this kind is a classic "win-win". The education programme has a measurable impact on public health. The benefits for *Lifebuoy* come through in an expanding market for soap which allows strong sales growth – nearly 10% in 2006.

The second example, this time from Africa and from the foods side of our business, is the fortification of basic foodstuffs with micro-nutrients.

One of the biggest nutritional challenges in Africa is the absence of certain nutrients in the diet. Iodine deficiency is a case in point. It affects millions of people and can cause mental retardation and brain damage.

In Ghana, for example, simply adding iodine to our *Annapurna* salt brand helped to nearly double iodine consumption to over half the population. Here our impact was amplified by partnering with UNICEF to create and implement a programme of social marketing.

Again this was a win-win. UNICEF and the Ghanaian Ministry of Health achieved their public health goals of increasing iodine consumption. Unilever Ghana was able to open up a new market.

Let me conclude this section by summarising the role which business can play in economic development and poverty alleviation.

Unilever's experience is that business can:

- help build human and institutional capacity through activities such as the customs project in West Africa and training subsistence farmers in Kenya;
- develop new business models such as Shakti which allow the creation of profitable economic activity at the very bottom of the pyramid;
- use its R&D and marketing skills to tackle public health problems in areas like nutrition (fortified salt in Ghana) and hygiene (hand wash education in India).

What does business get in return? If it is smart it gets:

- access to new markets;
- new opportunities for innovation and growth;
- new partners;
- and over the long term, it earns the trust and confidence of the community – something without which sustainable growth is impossible.

2. Social innovation

By social innovation I mean finding new products and services that meet **not only** the **functional needs** of consumers for tasty food or clean clothes **but also** their wider **aspirations as citizens**.

To some degree both *Lifebuoy* soap in India and *Annapurna* salt in Ghana are examples of social innovation.

But in the developed markets of Europe and the United States the opportunities are just as broad. Here we are observing new patterns of consumption. They are being driven by the emergence of what has become known as the “conscience consumer”. These are consumers who are worried about social and environmental issues and realise they can influence change through the brands they choose to either buy or boycott.

For Unilever this trend fits neatly with our Vitality mission, which is about feeling good, looking good and getting more out of life.

Our market research is telling us that consumers want the benefits of “vitality” products – but not at any price. A growing number, when making their purchasing decision, want to be reassured that the brands they buy will benefit society and the planet, not harm them. In other words, they want brands that not only make them feel good and look good but that also **do** good.

This movement is gathering momentum. In fact we believe this trend has all the hallmarks of ushering in a new age of marketing and branding.

40 years ago brands were all about **functional** benefits – whether, for example, *Persil* washed whiter than *Ariel*.

Then advertising agencies, influenced by the social sciences like psychology and anthropology started building in **emotional** benefits – wash with *Lux*, the soap the stars prefer, and some of Hollywood’s glamour will rub off on you.

Now there’s a new dimension – brands with **social** benefits that appeal to consumers as **citizens**.

Three films that illustrate this evolution: a *Persil* advertisement from the 1950’s, a *Lux* soap commercial from the 1970s and a film produced by *Dove* last year.

I should explain, for those of you who may not be aware, that *Dove* is a brand whose social mission is to change people’s stereotypical views of female beauty. Research shows that 90% of women are not happy with the way they look. Much of the problem lies with the unrealistic way women are portrayed in advertising, fashion and the media.

Through the *Dove Self-Esteem Fund*, *Dove* is helping women, and young women in particular, to see through the artifice that permeates the world of fashion and, in doing so, build their self-esteem and become more confident about the way they look.

(Film)

Incidentally it was neither pressure from the NGO world nor legislation that drove the *Dove* team towards the Campaign for Real Beauty. It was consumer insight. Intelligent interpretation of market research highlighted that this issue resonated strongly with women of all ages around the world.

The team realised that by championing the cause they would not only be doing something worthwhile but at the same time strengthening the loyalty of their consumers to the brand. Today we are reaping the benefits of this in rapid rates of growth for *Dove* all around the world.

Another Unilever brand with strong campaigning credentials is *Ben & Jerry's*. We acquired the business in 2000 but the values of their eponymous founders, Ben Cohen and Jerry Greenfield, remain the values of the company today.

One of *Ben & Jerry's* key concerns is the environment and, in particular, the devastating effect global warming is having on the earth's polar ice-caps. As Ben Cohen and Jerry Greenfield like to say: "*Listen to two old ice cream guys - if it's melted, it's ruined*".

Their Lick Global Warming campaign and the Climate Change College, which they set up in partnership with WWF, are outstanding examples of how you can make a complex subject accessible to people and relevant to their everyday lives.

Last week *Ben & Jerry's* announced their intention to become a "climate neutral brand" – the first big European food brand to do so.

The examples of *Ben and Jerry's* with climate change and *Dove* with its Campaign for Real Beauty are good illustrations of brands picking up issues of concern to millions of people and starting to take meaningful action to raise awareness and change behaviour.

Both brands have the credibility to make a difference at a societal level. Both brands, by championing these causes, will cement the loyalty of their consumers. Both are classic examples of brands that are "doing well by doing good".

3. Sustainability

For Unilever, sustainability covers not just environmental but also social and economic considerations. This is an area we have been addressing with systematic rigour since the early 1990s, with programmes to improve the sustainability of our operations and our supply chain.

With over two-thirds of our raw materials coming from agriculture we have had an active programme of sustainable agriculture for more than a decade. Teams of agronomists have been beavering away to learn how to grow crops like tomatoes, tea, palm, peas and spinach without using too much water and with minimal use of pesticide and fertiliser.

But until recently this valuable work never aroused the interest of our brand teams. Now they are beginning to understand that this is an area where there is a convergence between our longstanding expertise in sustainability and consumers' concerns as citizens.

Let me give you an example. Many consumers are increasingly worried about the welfare of the people in developing countries who grow and harvest the food and drink they enjoy. This is behind the phenomenal growth of the fair trade movement.

Until now this has largely been the preserve of niche operators. A couple of large companies like Starbucks and Nestle have dipped a toe in the water. Both have introduced Fairtrade versions of their coffees. But these represent just a small fraction of the total volumes they buy.

Coffee companies are not the only ones trying to capitalise on consumer concerns in this area. Countless brands are jumping on the eco-ethical bandwagon.

This is an agenda where you are judged by your actions, not by your press releases. Consumers are quick to spot the difference between those brands that are authentic and those that aren't. Companies that try to promote themselves as being ethical in one aspect of their business but who tolerate bad practice in another will come unstuck.

At Unilever we believe this agenda offers huge potential for innovation and brand development. But we believe it will only work for us if it is fully integrated into our way of doing business. To help us do this, we have developed a diagnostic tool called Brand Imprint. It helps our brands take a 360° look at their impacts on society and the environment and gain deep insights into the external forces shaping this agenda.

A number of our global brands have started to use this tool and the first fruits of their work are starting to come through.

In fact I can today announce that Unilever has decided to commit to purchasing all its tea from sustainable sources and has asked the Rainforest Alliance, the international NGO, to start auditing the estates from which we buy our tea, including our own in Kenya.

Unilever is the world's largest tea company and *Lipton* is the world's favourite tea brand. We aim to have **all** *Lipton Yellow Label* and *PG Tips* tea bags sold in Western Europe certified as sustainable by 2010 and all Lipton tea bags sold globally certified by 2015.

It is the first time a major tea company has committed to introducing sustainably produced tea on such a large scale and the first time the Rainforest Alliance, better known for coffee certification, will audit tea farms.

I have no doubt this decision will transform the global tea industry, which has been suffering for many years from over capacity and falling prices.

The decision has the potential to improve the crops, incomes and livelihoods of nearly 1 million tea growers and pluckers in Africa. Eventually, up to 2 million people around the world could benefit - nearly all of them in developing countries, and many of them living on or below the poverty line.

Again this is a win-win. Our consumers will have the reassurance that the tea they enjoy is both sustainably grown and traded fairly. Subsistence farmers will get a better price. Tea pluckers will be better off. The environment will be better protected. And we expect to sell more tea.

This is the way forward for business and brands. At one level it is very simple. It's about:

- brands continuing to provide consumers the functional benefits they seek;
- while at the same time maximising the social benefits and minimising the environmental impacts.

In reality, finding the sweet spot between meeting the needs of society, the needs of the planet, and the needs of consumers as citizens is complex. But it will be a real differentiator for those who do it well and do it with integrity.

So, to summarise, there have been six key themes to my presentation.

- Business can play an effective role in development and poverty reduction, as demonstrated by our subsidiaries in South Africa, Indonesia and Kenya.
- New business models such as Shakti can reach the poorest of the poor and at the same time produce rapid rates of growth at good levels of profitability.
- Brands can be agents of positive social change. Look at *Annapurna*, *Lifebuoy* and *Dove*. Each in its separate way is tackling a social issue - malnutrition, diarrhoeal disease and women's self-esteem.
- "The conscience consumer" is here to stay. It is a movement that is gathering momentum and will change the face of business and brands. Companies that grasp the opportunity this agenda presents in a genuine and sustainable way will be the ones that succeed in the 21st century.
- Business has to become genuinely sustainable. This is a win-win opportunity. Our decision to buy tea from sustainable sources is good news for farmers, good news for consumers, good news for the environment and makes good business sense.
- Finally and most importantly there is no dichotomy between business doing good and doing well. In fact the two go hand in hand. All of the brands I have talked about are growing rapidly. All are profitable. If they weren't their social and environmental initiatives would not be sustainable.

Both parties – business and society – need to benefit.

Conclusion

I started this presentation by saying that social responsibility and sustainable development are no longer fringe activities but are central to our business.

And, just as this agenda has become core to business, so it should also become core to management education. It must be moved to the heart of the curriculum.

Business schools generally need to give much more prominence to this subject than they have historically. Some are beginning to do so. But many are being slow to integrate this agenda.

Doing business in the 21st century is a much more subtle and complex process than some MBA courses would lead one to believe. Of course there is a place for the financial modelling, the DCF calculations and yield curves. But in the end the big decisions in business are about culture and consumers.

It is clear that many business schools are waking up to this. A survey conducted in 2005¹ found that 54% of schools required one or more courses in corporate social responsibility, sustainability, or business and society, up from 34% four years earlier.

This is progress, but not yet enough. The same survey, conducted for the Aspen Institute, found that while students in the top 30 schools covered social and environmental issues in roughly 25% of their coursework, the figure for students in the remaining schools was a disappointing 8%.

It is good to see INSEAD appear in the top 30, though I suspect 24th equal is hardly where the School aspires to be.

Of course I am delighted that this particular forum - INDEVOR - gives such prominence to corporate responsibility and the role of business in society - and has done for a number of years.

And now, with the planned Centre for Social Innovation under the leadership of Professor Luk van Wassenhove, INSEAD has the opportunity to become a leader in the field.

This exciting development will bring the subject much closer to the MBA and EMBA curricula and I offer my congratulations to all those responsible.

From a Unilever perspective, we are already giving increased attention to this in our recruitment policy – and we will continue to do so. Those who come to us with a deep understanding of the area will be at a significant advantage.

So let me finish by offering members of this forum the following advice:

For those of you now studying for your MBA, I would say this: get to know this agenda. Understand how it can be a driver of business growth. Build it into your professional skill set. The business world will very soon be divided into those that recognised its potential early on and those who woke up to it too late. Make sure you are an early adopter.

For those of you with MBAs who, like me, didn't cover this subject as part of your course, I am sure that you are already grappling with these issues in your various industry sectors. I hope this talk will have stimulated your thinking a little.

As was once famously said: "a company that makes only money is a poor company".

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The films accompanying this speech can be viewed at www.unilever.com

¹ [Beyond Grey Pinstripes 2005: Preparing MBAs for Social and Environmental Stewardship](http://www.beyondgreypinstripes.org/index.cfm)
<http://www.beyondgreypinstripes.org/index.cfm>