



CSR: Rebuilding Trust in Business

A PERSPECTIVE ON CORPORATE SOCIAL RESPONSIBILITY IN THE 21ST CENTURY



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UNILEVER

Unilever has grown into one of the world's major consumer goods businesses by making and selling brands – such as *Dove, Omo, Lipton* and *Knorr* – that meet people's everyday needs. Each day, 150 million people choose Unilever products to feed their families and clean themselves and their homes.

We believe the very business of doing business in a responsible way has a positive social impact. We create and share wealth, invest in local economies, develop people's skills and spread expertise across borders.

For more information on our approach to corporate social responsibility, please visit the Environment & Society section of our website www.unilever.com

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I want to share with you a business challenge we recently faced and then ask a related question. First, the challenge.

In India our company Hindustan Lever generates around half its business from rural markets. Our brands are sold in around 100,000 villages with populations of 2,000 or more. Until recently we were very pleased with this level of distribution but regional price-cutting competition forced us to look further afield. Our challenge was how to reach the other 500,000 smaller villages in the more remote parts of India where there is no retail distribution network but hundreds of millions of potential consumers.

The solution my Indian colleagues came up with was to recruit women from these small villages to act as freelance direct sales operators. We would train them, facilitate their access to micro-credit to buy products, and deliver our brands direct to their doorstep to sell on to their neighbours. Hindustan Lever decided to run with this idea. This was a lot easier said than done. In these communities women are not normally breadwinners. Many were hesitant about borrowing money. Most were uneasy about making money by selling goods to their friends and neighbours at a profit.

This has had a significant impact on their lives. Their husbands are having to get used to their wives earning as much and in some cases more than they earn from working on the land. Their neighbours are getting used to

buying products they previously couldn't buy or thought they could not afford. And the women themselves are getting used to the responsibilities that go with managing credit and the liberating and empowering effect of earning their own income.

This is an example of the social impact of a business initiative. Clearly it is good news for Unilever because we are able to sell to consumers that previously we could not reach. The women think it is good news, as do their consumers. But it is also bringing about social change in their communities.

“there are often tensions between commercial opportunity and social impact”

So here's the question: did we make the right decision? Is it socially responsible that we should have introduced our products and direct selling methods to these communities? Or should we have found other ways to grow our market share in India? Should we, indeed, have decided not to interfere in traditional community life?

Whatever your view, this is a microcosm of the sort of challenges businesses face in trying to operate responsibly in today's complex business and social environment.

If all commercial decisions had an obvious and indisputable social benefit it would be easy. But the reality is there are often tensions between commercial opportunity and social impact and sometimes tough trade-offs have to be made.

These are difficult calls to make. Not because of any conflict of conscience but because they involve issues that are rarely clear cut or straightforward.

This is an area where usually there are no right or wrong answers. Where issues haven't been encountered before and there is no previous form or precedent to fall back on. Where decisions have to be based on judgement, rather than tried and tested formulae.

This is the reality of corporate social responsibility or 'CSR' as it is often referred to. CSR is a broad subject, from community relations to sustainable development. From issues that affect all companies, such as equal opportunities and diversity, to those that are specific to the business we are in, such as advertising to children, obesity and access to water. I cannot hope to cover even a subsection of all these topics here, so forgive me if I do not address your particular area of interest.

Context

To put some of what follows into context, let me say a bit about Unilever. We've been around a long time: we started out in the UK making and marketing soap and, in the Netherlands, margarine. We still make both, but today we produce over 400 everyday food, household and personal care brands.

We have operations in around 100 countries and sales in 50 more. 150 million times a day somebody chooses a Unilever brand. Our UK roots stretch back over 100 years to when William Hesketh Lever founded Lever Brothers, and our Dutch roots go back even further. Our founders had strong values and a clear commitment to corporate social responsibility. (It wasn't called that then, but that is what it was).

It was William Lever who famously built a 'garden village' for his workers at Port Sunlight near Liverpool. He introduced such pioneering initiatives as a fixed eight hour working day, sickness benefits, holiday pay and pensions. He felt so strongly about broadening the experience of his employees that he built them an art gallery and regularly took them all to London for the day to see exhibitions.

William Lever was living at a time when the fabric of society and the forces in society were very different from today. When the Church and Christian values played a dominant role in people's lives, when there was little or no

state-funded social provision and when businesses operated in often appalling conditions. He had clear moral views and believed he had a moral responsibility to help, both through business and his personal actions.

His vision for his company was itself an expression of his values: "To make cleanliness commonplace; to lessen work for women; to foster health and contribute to personal attractiveness, that life may be more enjoyable and rewarding for the people who use our products."

Quite a contribution for a bar of soap! But then the availability of good quality, low-cost, branded soap did much to improve general levels of hygiene in Victorian Britain.

Today society is very different. The role of the state as the primary provider of social services is well established, at least in the developed world, while the institutions that used to underpin the morals of society no longer hold sway. This has led to a less certain world, where what constitutes ethical behaviour is less clear and where there is diminishing trust in institutions to do the right thing. But it is undoubtedly true that the social context in which business operates at the opening of the twenty-first century is uncertain, complex and dynamic.

Which is why I want to explore some of the challenges businesses face in striving to be good corporate citizens. In particular, I would like to consider three questions: What is the relationship of business to society? How do you ensure a company behaves responsibly and earns and keeps the trust of society? And what role can multinational companies like Unilever play in helping to address major global issues in society today?

How business relates to society

Before discussing the relationship between business and society, it is useful to set out the purpose for which a company, by which I mean a limited liability company, was created. While the creation of profit is an important result of a company's existence, it was not for the creation of profits that companies were primarily designed. Incorporation with limited liability was a concept created by society as a means of enabling people to exploit opportunities, manage risks and accomplish something together

profitably that they could not achieve separately. So if companies did not exist and you wanted a means for delivering innovation, you would have to create them.

Companies are, therefore, a product of the societies in which they operate, which is why, when people ask me what is the relationship between business and society, I am always surprised, because the question implies that business and society are somehow distinct and separate from each other. At Unilever we see no separation. Business is part of society, not outside it.

“CSR is inherent in everything we do”

At Unilever we believe our business has a responsibility not just to make profits for our shareholders, but to innovate, to create a long-term sustainable business for our stakeholders. This may not be true for all businesses. Different companies have different purposes, motives, and values and, as with all sections of society, business has its fair share of bad and ugly companies, as well as good ones. When we talk about corporate social responsibility, we don't see it as something we 'do' to society. It is inherent in everything we do. Not just voluntary philanthropy or community investment, important though that is, but the impact of our operations and products as well as the interactions we have with the societies we serve.

The very business of doing business has a huge impact on society. Three-quarters of our sales revenue goes straight out again to pay for goods and services from suppliers. And of the wealth we create each year by adding value to those goods and services, around 70% of it is channelled back into society through employee wages, shareholder dividends, government taxes and community investment.

We generate employment. For every job we create in Unilever we indirectly create several more in our supply chains and distribution channels. And businesses create less tangible social and economic benefits such as training and the transfer of skills, technology and know-how.

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At the most basic level, my company produces products that raise the quality of life. Our products enable people to feed themselves and live clean and hygienic lives. You and I might take that for granted, but for many in the poorest parts of the world, washing hands literally saves lives by counteracting the spread of disease. Decent nutrition underpins health.

So I believe the very business of doing business responsibly can have a positive impact and contribution to make to society. But how do you ensure a business behaves responsibly?

Responsible behaviour – living our values

Let me explain how we approach this at Unilever, through the governance of our operations, our approach to transparency and through increasing the diversity among Unilever people. To put what I have to say into context, it will be helpful to understand a little more about our operations.

Unlike many other international companies, Unilever is not a single global business system. We do market some brands – *Dove, Lux, Lipton, Knorr* – in all of the world’s major markets, but most of our brands are made in the country or region in which they are sold, tailored to ensure they meet the different needs, tastes and pockets of local consumers.

We are a decentralised business and our managers have a lot of autonomy to take decisions that are right for their local markets and right for the local cultures and societies in which they operate. In other words, we are a multi-local multinational and, if we ever forget that, we forget what makes us successful. And, of course, all our consumers are local too; they are citizens who live in local communities.

We believe the only way a company can be guided in its corporate behaviour is – paying due regard to society’s norms and expectations – by articulating its own values and standards.

Governance – values and standards

At Unilever we are guided in what we do by a statement of Corporate Purpose and a Code of Business Principles, which set out our aspirations and our operating standards. We describe our purpose as “meeting the everyday needs of people everywhere” and applying “the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live”.

We make explicit, in our Code of Business Principles, what those standards of behaviour are and the values that are to be applied by all our employees in our activities in every corner of the world. We make the rationale behind our principles clear when people join the company, through our management and through training programmes. Because in daily life it is up to the insight of our local managers to implement the principles in their countries in ways that meet our values and accord with local custom and practice.

How are we sure our managers interpret them correctly? Even with all our training and internal controls, we can never be 100% sure, but our managers are a community that has grown and developed through

working together over many years. We trust our managers to do the right thing and to take responsibility for their own actions. And if they don't, or things go wrong, we act decisively. We have an annual 'positive assurance' process, supported by an independent internal audit function, that acts as a 'check and balance' system to help us all keep on track.

The Board of Unilever also undertakes not to criticise local management for any loss of business resulting from adherence to our Code and employees know that they will not suffer any repercussions from reporting any breach of the Principles. In essence, though, our commitment to responsible corporate behaviour is based on conviction rather than compliance. It wouldn't work any other way because ours is neither a centralised nor a compliance-driven culture.

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Stating what our values are and asking our employees and suppliers to adhere to them is the first step. What is more difficult is the challenge of living out our values and abiding by our principles in a way that is both internationally acceptable and locally appropriate. Let me give two examples.

Although bribes are common practice in some countries in which we operate, we, as a company, do not offer or accept bribes, even if it means putting ourselves at a commercial disadvantage or having to pull out of a country altogether, as we have done in the past. In some countries local tax or customs inspectors demand “pre-payments” for goods before they will allow shipment. Rather than give in to their demands, we will halt

operations while we take it up with the local authorities. This procedure works, though often at a cost to ourselves. But in the long-term, we believe both we and society benefit.

Another of our principles is a commitment to equal opportunities. In Saudi Arabia, society discourages women from working outside the home on cultural grounds. However, in order to uphold our values and respect local customs, our local managers have secured permission from the authorities to employ women in our business. It was our Saudi managers who drove this initiative. In fact they have also introduced an award scheme for high performing female high school graduates, and done this within the scope of respecting the local culture.

These are not easy decisions, which is why you have to trust in the judgement of your managers on the ground to make the right decisions within a framework of common principles that are relevant everywhere we operate.

This approach means that sometimes we get it wrong. When we do, we are prepared to act to put things right. In 2001, following receipt of information from local NGOs, including Greenpeace India, our Indian company, Hindustan Lever, found that there had been breaches of procedures for the disposal of scrap glass at our mercury thermometer factory at Kodaikanal. We immediately closed the plant and, on the basis of independent advice from the world's leading environmental specialists, we worked with the local pollution control board and Greenpeace to define a plan for remediation. As soon as we receive regulatory approval we will restore the site to the most stringent residential standards.

Ensuring that a business behaves responsibly is a never-ending commitment and one that is constantly evolving. We feel strongly that the right approach is for companies to set out their own values and standards of behaviour, apply them in a way that is consistent with their culture, and be prepared to explain why they take the actions they have and answer for them accordingly. Trust is built by being consistent in how you apply your values. Lack of trust comes when you say one thing but do another. You can outlaw wrongdoing but you cannot mandate honesty.

Transparency and trust

In recent years the whole issue of corporate governance has gained in prominence and momentum because of a series of corporate scandals and the erosion of trust in business and business leaders. A public opinion poll conducted in June 2003 for the *Financial Times* by research firm MORI showed just how serious this had become, with eight out of ten people saying they didn't trust business leaders to tell the truth.

Corporate governance is, of course, a much bigger subject than corporate social responsibility, and governance, of itself, is never going to eliminate dishonesty. But a clear framework and clear responsibilities for directors and shareholders, linked to a code of business principles operating throughout the business, provide a sound basis on which to demonstrate the greater transparency and accountability that is needed.

Non-financial as well as financial reporting is also fundamental to achieving this but, to have credibility, social and environmental reporting needs to be relevant. The issues we have to address as a consumer goods company are, in many instances, very different from the issues that affect a bank or an oil company. Simply putting information out to meet a prescriptive, pro-forma approach to company reporting, without reference to the business context, will, in practice, lead to less, not more, transparency.

Good corporate governance will be one of the main ways companies can rebuild trust in business and will be crucial for business leaders of the future. Another way is to reflect the diversity of society in the management of their business.

Diversity

Diversity for us is a hard-edged business issue, not a soft, nice-to-do add-on. If we can draw into our company the full richness that is available to us in a diverse workforce we will increase our potential for sustained competitive business advantage. The more our leadership is a reflection of the consumers we serve and the society in which we live, the more we will be able to identify with their needs. The more we are trusted, the greater the opportunity to prosper. For us diversity means gender, colour,

creed, age and style. We are working hard on this but are not yet where we would wish to be.

Our eight executive directors are drawn from six nationalities. Our top 200 leaders represent over 40 nationalities. 29% of our managers worldwide are women, 50% of our graduate trainees are women and we now have women on the boards of Unilever companies in the developed world and in countries such as Brazil, China, Ghana, Indonesia, Nigeria and Pakistan. But it's not enough. Not if we are to reach the levels of sustained growth we want to achieve in the future. We need a more diverse workforce not only to help us understand our consumers' needs and desires better and give us a greater creative and competitive advantage, but also to make us more resilient and more responsive and adaptive to change.

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Diversity is also about leadership and engagement. When we talk of diversity in Unilever we talk about inclusion. About creating an environment where an individual can bring his or her whole self to work. It's about embracing and valuing the differences between people so that we can bring out the best in them. It's about respecting different cultures and drawing on the richness that can come from working in a multicultural environment. And it's about understanding and being understood by our stakeholders outside the company.

While diversity is much more than gender, women leaders will be critical to achieving this more inclusive approach. Women have different ways of achieving results. They have an approach to leadership that, though not exclusive to women, is crucial to managing a more diverse workforce. It is about being intuitive. About being good at multi-tasking and sensitive to people's needs and emotions. About being comfortable with ambiguity, adaptable and responsive to change. About having a flexible approach to leadership, that is responsive to the needs of the individual being led. In fact, the very qualities that are needed to transform today's organisations into the more flexible, matrix-managed organisations which they must become.

So for us diversity is not only about social responsibility and building trust. It is crucially interconnected with our ability to lead and manage a successful, multinational, multicultural, consumer goods business in the twenty-first century.

Role of business globally

And so to my final question: what role can multinational companies like Unilever play in helping to address major global issues in society today?

Let me start by defining what globalisation means to us at Unilever. We think of globalisation as a dynamic process. The principal drivers of this process are the rapid, although globally uneven, uptake of broader, deeper and faster information, communication and transport technologies, and the much greater movement of investment capital, people, products and services that this enables and facilitates.

The leading edge of this process is increasing global economic integration and highly visible economic activity, in which companies, in particular multinational companies, play an important but not exclusive part. In our experience the globalisation process is an engine for growth and prosperity that provides increased freedom of choice and the opportunity to tackle problems of poverty and environmental degradation. As UN Secretary General Kofi Annan has said, the poor are not poor because of too much globalisation, but because of too little.

Countries that have been open to trade have prospered. Take the example of Korea. In 1970, one generation ago, the average income in North and South Korea was roughly the same. Today the average South Korean is more than 19 times better off. Same people, resources, culture and history. Only difference: one opened up and embraced the world; the other stayed closed and rejected the world.

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Despite significant progress over the last 50 years, a great deal remains to be done. Globalisation is regarded by many of its critics as only a negative force. The very changes it heralds are seen as threatening, and the opportunities for progress it creates are denied. These challenges – to optimise the best and ameliorate the worst – lie at the heart of the globalisation debate.

I believe passionately that maintaining the global status quo is not an option. It is simply unacceptable that 16% of the world enjoys 80% of its wealth while a fifth of humanity survives on less than one dollar a day. Not only is it unacceptable, it is not practical. Even if your only concern is to defend your own prosperity, then you must become part of the attack on poverty – poverty of resource, hope, and opportunity.

The best way multinational companies can help to spread the benefits of globalisation and raise the quality of life and standards of living in some of

the poorest parts of the world is by doing business in these countries in a responsible and sustainable way. When companies invest for the long term in the productive capacity of an economy, they fuel a virtuous circle of economic activity.

Foreign direct investment by companies not only creates jobs, it also creates a ripple effect of employment, skills and knowledge transfer, education and training throughout the supply chain and in the communities in which they operate. How the positive benefits of these activities are then spread further, to the advantage of broader social development, lies outside the direct responsibility of business, and with the actions of government.

Role of governments

At the domestic level, priorities such as an end to armed conflicts, the embedding of the rule of law and good governance, the development of key infrastructure sectors such as telecommunications, energy and transport, and the expansion of educational opportunities, are essential.

At the international level, the need for a common vision of integrated economic development for the benefit of all has never been greater. The failure of governments to reach any substantive agreement at Cancun's World Trade Organisation (WTO) meeting was a bitter disappointment. It is outrageous that rich countries' farm subsidies are greater than Africa's gross domestic product and indefensible that the EU and the US government should continue to defend such trade distorting practices.

But we must not allow this failure to fuel pessimism – or even defeatism – about global multilateral processes. The WTO, for all its faults, continues to be the only means to achieve practical and principled trade development outcomes on a global basis. The challenge now is for the WTO to set out a new framework and for governments to re-commit to the successful completion of a multilateral Doha Development Round. We cannot allow the failure at Cancun to derail the best opportunity we have had in years to increase trade and boost growth in the developed and, most importantly, the developing world, to lift an estimated 140 million people out of poverty by 2015.

Governments must do more to create a more enabling environment and both government and business must do more to show that increasing international trade and investment is about spreading prosperity, extending opportunity, increasing consumer choice and raising standards of living.

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Business must also make more effort to demonstrate that it is socially responsible, culturally sensitive, committed to diversity and honest in its governance. Not only is it in our commercial interest to do so, it is crucial for the sake of those in developing countries who are not yet sharing in the benefits of globalisation. It is vital if we are to achieve our shared social and environmental goals.

Conclusion

So, to summarise. Corporate social responsibility is not a soft issue. There are times when tensions between commercial opportunity and social impact involve issues that are not clear cut or straightforward, requiring tough trade-offs. CSR is a hard-edged business issue.

Companies must become more transparent and inclusive and corporate governance, reporting and diversity are key to this. Diversity is a business imperative. We need a wider 'gene pool' from which to choose our future leaders to manage the multinational, multicultural companies of the future, as a trusted corporate citizen.

The globalisation of trade, for all its imperfections, is helping to raise standards of living in both the developed and developing world. Governments have a responsibility to find ways of cutting subsidies and removing trade barriers to increase the integration of the international economy and get the WTO Doha Development Round back on track. Business must do more to help win the globalisation debate and reconnect it to the aspirations of ordinary people around the world.

When I was setting out on my career, CSR did not exist as a management discipline and issues such as corporate governance and diversity were not even on the radar screen. The last few decades have seen tremendous change and new challenges. CSR has moved from the periphery of business to centre stage.

For the business leaders of the future, there is only one thing that is certain and that is that business will change ever faster, issues will become more complex and CSR will continue to be one of the most challenging aspects of business he or she will encounter.

In closing, let me return to the point where I started, to the impact our business is having in rural India. Here too life is changing. For Rojamma, a single mother earning a small income from selling our soaps and shampoos in the village of Kurumuthy, change has brought economic empowerment and a place in society. She can now afford to send her daughters to school.

Ultimately, this is what corporate social responsibility is all about. The desire for a better life and to do the best for your children are universal aspirations and if, through the very business of doing business in a socially responsible way, businesses like mine can help people like Rojamma raise their standard of living and quality of life, then count me in as a vocal advocate for CSR. ■

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