

The XXth World Traders' Tacitus Lecture:

The Role of Business in Society

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by

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Introduction

Master, Wardens, Lord Mayor, Your Excellencies, my Lords, Aldermen,

Sheriffs, Chief Commoner, Ladies and Gentlemen,

It is a great honour for me to have been asked to speak to you today, and that is for several reasons.

First of all any speaker would be thrilled to address such a distinguished audience as the Worshipful Company of World Traders.

I am aware a heavy responsibility rests on my shoulders today as I know the Tacitus lecture is your “main annual contribution to the subject of education in world trade”. Can’t afford any mistakes then...

Secondly, the location could not be more splendid than this fabulous Hall. Guild Hall survived the Blitz and at an earlier stage the Great Fire of London, and is the only secular stone structure dating from before 1666 still standing in the City. Who would not feel privileged to speak at such a historic landmark.

The topic I want to address with you today is the role of business in society in the context of globalisation.

A very broad topic on which there is much to say, so I have to limit myself.

Multinational companies and the role they play are in the spotlights of the globalisation – or should I rather say anti-globalisation - debate that we have been witnessing for some years now.

Recently I was flabbergasted by a comment from a leading politician in my country. He was speaking on the globalization process and stated that in his view the development of Africa would never materialize as long as activities of multinationals were not eliminated in these countries.

For me two things are clear: first he is wrong, and second: business should fully engage in the debate on globalisation, and that is one of the reasons why I am here today.

In the past decade I have been travelling up to 200 days and visiting 15-20 countries a year. I have therefore been able to see both the huge benefits of economic growth in many parts of the world, as well as huge inequalities that still exist.

Just to mention the Kibera slum in Nairobi, where 900,000 people live in the space of a few soccer fields in absolute squalor separated a mile away down from gated villas with big gardens and guard dogs. That raises many questions and I would like to address some of them with you.

As I will use various examples from my own Unilever experience, I will first of all make some general remarks about my company and its mission.

Unilever and its Vitality mission

Predicting is difficult especially if it concerns the future.

That was certainly the case when I joined Unilever.

With the benefit of hindsight I can say I made the right choice at the time. The fact that Unilever has been my only employer is proof of that. I worked in various places including Indonesia, Germany and the UK, and have thus been able to experience these nations development leaps and setbacks at close range.

Unilever is not only an economic actor of considerable scale and scope but at the same time has traditionally had a particularly important social role as a result of its product portfolio. Why is that so?

In his magnum opus “The Wealth and Poverty of Nations” Professor David Landes from Harvard University identified three main reasons why life expectancy has increased dramatically in the recent century. These were because of improvements in (1) medicine, (2) hygiene and (3) nutrition. Unilever happens to be active in the latter two sectors.

In that light it may come as no surprise that a couple of years ago we have formally codified Unilever's Vitality mission.

Unilever "adds vitality to life" so that through our brands people can feel good, look good and get more out of life.

Unilever was formed in 1930. The company was the result of a merger of the Dutch Margarine Unie and the British Lever Bros, and as such an example of a successful Anglo-Dutch partnership.

Both companies were known for their innovation - in their brands and business methods, and for setting up projects to improve the life for their workers.

Just to mention a few of our brands: Knorr, Bertolli, Lipton, Flora and Magnum ice cream in the Foods category and Dove and Persil in Home and Personal care.

Some years ago we decided to scale down the amount of brands from 1600 brands to 400. The idea behind it: more focus and concentration of marketing resources, because in the global marketplace only VERY strong brands will survive. Already today we harvest fruit of this foresight.

Every day about 150 million customers worldwide buy one or more Unilever brands. All these customers are served by us through our 179.000 employees. Our worldwide turnover in 2006 amounted to about 40 Billion Euro.

We have operations in over 100 countries and we sell in over 150. So it is fair to say we operate on a global scale, and as such are an actor in the globalization process.

This I think is a good moment to take a closer look at this phenomenon of globalization

Economic Globalization: Defining its Meaning and Identifying the Drivers

There are many forms of globalisation, ranging from the globalisation of *culture* and the globalization of *terror*. As a businessman I will today – perhaps not surprisingly – focus on *economic* globalisation.

There are many definitions around. So far I have not come across a more concise one than the definition by Martin Wolf – economics editor of the Financial Times who once described economic globalization as follows :

*Globalization is the integration of economies
through markets across frontiers*

In my view the key drivers behind globalisation are twofold:

First of all pro-market policies. The 1989 revolution in Eastern Europe culminating in the fall of the Berlin Wall was a watershed development and seen by many as the definitive victory of both democracy and the free market over authoritarianism and state-driven economies. The intensive debate on globalisation and the so-called “Washington consensus” shows however that the “end of history” cannot be declared. In contrast: the consensus is seriously in discussion, and that is surprising in view of its rewards. Nonetheless, reality is that we are currently engaged in a highly ideological debate on globalisation.

Secondly, there is the technology driver. I don't think this needs a lot of discussion here, apart from the fact that in this field unlike many other areas the world is truly becoming globalized. We all know technology has shrunk the planet.

Unilever and its Views on the links between Business & Society: General Remarks

Ladies and gentlemen, the societal aspect of doing business is going to be ever more important in the 21st century. In the consumer brands business it is already very important.

Sustaining trust with consumers requires understanding not only of their tastes and expectations about products, but also of taking into account their concerns about the state of the world.

It is not only about helping consumers look good, feel good and get more out of life, but also about how we conduct our business. The Unilever mission includes vitality in the community not without reason.

It is Unilever's longstanding operating experience that you cannot have a successful company in a failing society. Healthy business needs healthy societies and vice versa.

This in turn involves understanding *how* business can contribute to societal progress while at the same time understanding the boundaries of both

(a) What society will accept and

(b) What business can do.

This seemingly broader approach to doing business - that Unilever is engaged in - is no business philanthropy. It is core business activity. It is part of a journey many companies are on. It is all about understanding your customers and the world in which they live. Companies, like markets, are *part* of society, created *by* society, and not something separate from it.

The Role of Business: Corporate Sustainable Responsibility

For me the role of business in society can be summarized quite simply as doing business in a sustainable way.

My personal opinion is that CSR stands for Corporate Sustainable Responsibility.

This sustainable responsibility consists of two layers:

First, business has to be sustainable in economic terms. One of the fundamentals of business will always be to ensure profitability in the short and particularly in the long run. Only on that basis can business be economically sustainable and deliver benefits to both its shareholders and stakeholders. For those arguing against I would like to refer to the experiences of many businesses in the “new economy craze” of some years ago. The lessons were clear: business models may change but some fundamentals will always remain.

Second, business activities should be sustainable in a societal and environmental responsible way. I will return to that later.

In sum: *How* business handles its business, how *well*, and how *carefully*, are valid questions, but not *why*. Of course, this is precisely the angry question from many anti-business/ anti-globalisation activists. It is like asking a cow why it is producing milk. The answer of course is: this is what cows are for.

And as we all know, cows do deliver. So can business. In this context it is interesting to note that this is also acknowledged by some of globalisation’s most prominent critics.

In his latest book Nobel Prize laureate Joseph Stiglitz does concede the following:

“Yet corporations have been at the center of bringing the benefits of globalization to the developing countries, helping to raise standards of living Throughout much of the world They have enabled the goods of developing countries to reach the markets of the advanced industrial countries; modern corporations’ ability to let producers know almost instantly what international consumers want has been of enormous benefits to both. Corporations have been the agents for the transfer of technologies from advanced industrial countries to developing countries, helping to bridge the knowledge gap between the two. The almost \$ 200 billion they channel each year in foreign direct investment to developing countries has narrowed the resource gap. Corporations have brought jobs and economic growth to the developing nations, and inexpensive goods of increasingly high quality to the developed ones, lowering the costs of living and so contributing to an era of low inflation and low interest rates.

(Joseph Stiglitz, Making Globalization Work; the next steps to global justice, 2006, p.188)

Ladies and gentlemen: with such critics you don't even need friends!

But the other question – about *how business is doing business* – is hugely important, and it is right that business is expected to answer it. It touches upon the heart of corporate governance as well as social and environmental responsibility.

Business Climate Creation: the Crucial Role of Government:

At the same time, governments play the more important role in society in enabling or disabling integration of economies through markets across frontiers.

Governments make the decisions on domestic market reform and public funding of infrastructure, and decide on trade and investment rules and barriers.

As in all areas of life we can differentiate between the good, the bad and the ugly. This is true for businesses as it is valid in the context of governments.

There are good governments, incompetent ones, and worse.

The importance of good governance cannot be stressed enough. It is the infrastructural backbone for business success.

The capability of a government to install and maintain a solid legal and fiscal infrastructure - and in particular a fair and transparent system of property rights and tax collection - is an example of a nation's ability to attract investment, create jobs and develop in a sustainable way.

The present accelerated phase of globalisation owes much to the domestic and international market opening initiatives in the 1980s by political leaders such as Ronald Reagan, Margaret Thatcher, Helmut Kohl, Jacques Delors, Mikhail Gorbachev and Deng Xiaoping.

Between them, they led several decisive contributions to our era of economic integration

- Domestic reform here in the UK (“the Big Bang”)
- The opening of China's internal market followed by its opening to the world
- The launch of the Uruguay Round trade talks
- The events leading up to the reunification of Germany and the end of the Warsaw Pact economic system
- And the Single European Act leading to the Euro

The role of business was of course influential in at least a few of these decisions – but business was not monolithic on market-opening then, just as it isn't today.

Calls for protection were not and are not limited to textiles and steel, as those of you from the financial sector know well. Some companies advocated for, and embraced market opening, some others resisted it but adapted, still others resisted change for too long and disappeared.

But the overall model is clear – governments set the parameters, terms and pace of market opening, while business serves and explores markets as they emerge. Business can not be asked to take on the role of governments in the end, but a responsible business does look where it can contribute to improve society, for example through public-private partnerships.

As a contrast let me remind how Ronald Reagan characterised the role of government on the economy: “If it moves, tax it, if it keeps moving, regulate it. If it stops subsidise it.”

Economic Globalization and its Results

The overall results of the past 25 years of increasing economic integration are also fairly clear:

Since the mid-1980s, when the latest long-term efforts to open and integrate markets across frontiers began in earnest, the world economy has grown by over 3 percent a year. Furthermore, the emerging economies that have joined this process have grown twice as fast as the overall average.

Thirty years ago, China and India, where almost two-fifths of the world's population live, were among the world's poorest countries. Since 1990, India's real GDP per head has more than doubled, and in China it has quadrupled. Meanwhile, Korea and Taiwan have joined the ranks of the advanced economies within two generations.

The impact of growth on extreme poverty is also telling:

- In 1950, around 50 percent of the world's population lived in extreme poverty (less than \$1 a day in real terms). By 2000, it was just under 24 percent.
- In sub-Saharan Africa it remains over 40 percent, while in China it fell from 33 percent in 1990 to under 18 percent in just one decade (1990-2000).
- In the rest of East Asia it fell from 25 percent to 10 percent in the same period.

- In the same time-frames, very dramatic falls in child mortality and increases in adult literacy have also occurred in the developing economies with the fastest growth.

That is not to say that there are no winners and losers. There have always been and there will always be. The question is: are we better off as a whole with or without globalization. I think the figures mentioned say it all. History has shown that allocation of resources is managed most efficiently through market policies. In a competitive market that does mean cutthroat competition.

As my father used to say:

“Success” comes before “work” only in the dictionary

And it is exactly that which is sometimes misunderstood in the developed world. Success and high standards of living are almost taken for granted, and that is a serious misconception. Statesmen should educate their people on important developments, and globalisation certainly ranks among those. In contrast, we see many protectionist reflexes.

Let us instead emphasize the positive side of things exemplified by the figures just mentioned. China and India - through hard work - are regaining their traditional position at the world stage. Is this not what we always aspired to?

That these countries are not dependent on development aid but take their destiny in their own hands. I think that is incredibly good news.

Of course we do need a level playing field in the process and fair competition, which was certainly not the case in the story of the cock that went into the hen-house with the egg of an ostrich and then stated:

Look ladies: this is what your colleagues in other countries are producing

While the absolute numbers of people still living in extreme poverty is an affront to our humanity, the *trend* is clear – market-based growth within the right and effective regulatory frameworks can dramatically reduce extreme poverty.

Despite this progress – or perhaps because of it - there is great anxiety and even opposition to economic globalisation, as we for instance witnessed during the “Battle of Seattle”.

Global Concerns

The critics often point out that many important global issues remain unresolved.

Most starkly, *2.7 billion people still live on less than \$2 a day while another 2 billion are able to meet basic daily needs and perhaps 1 billion are enjoying unprecedented affluence.*

This is clearly one of the key sources of anxiety and concern. A few more facts:

- 20% of the world's population – 1.2 billion people – lives without adequate food, clean water, sanitation, healthcare or basic education.
- 1 woman dies every minute in childbirth.
- 25% of all the people on earth die of AIDS, TB, malaria and infections related to dirty water – principally cholera and diarrhoea.
- 10 million children die every year of completely preventable childhood diseases.
- Global warming is leading to climate change.

I fully share these concerns. And I can add many more. Let me mention one.

A couple of years ago I was closely involved in a huge worldwide study under the auspices of the United Nations.

This Millennium Ecosystems Assessment Board (MEAB) study was carried out by 1300 scientists and took over 4 years to complete. It contained some genuinely alarming conclusions: almost two-thirds of the world's ecosystems, i.e. the services provided by nature to mankind are found to be in decline or are already seriously endangered.

To make matters worse we know that in particular the world's poorest depend on the services which these ecosystems provide.

What to do?

As regards the way forward, I fully share the line of thought of Kofi Annan that in order to tackle these problems, we need more, not less globalisation.

..... and Unilever Practice

So in this context - what is the role and responsibility of business?

It has limits but that does *not* mean it is limited. Business, along with all actors in society, has to face up to the scale of the challenges and need for faster and more effective action.

It requires us as a business to identify and focus on core competencies and what we are about – the things we already do best in reaching people via *commercial transactions*.

Last December Professor Michael Porter together with Mark Kramer wrote an interesting article on “Strategy and Society; The link between competitive advantage and corporate social responsibility” in the Harvard Business Review.

They concluded the following:

*The more closely tied a social issue is to the company's business,
the greater opportunity to leverage the firm's resources and capabilities,
and benefit society.*

The same line of thought guided our strategy when we identified our sustainability initiatives in the areas of fisheries, agriculture and water.

At the same time we have looked at ways to deploy our skills in partnerships with NGOs and governments – the people whose *raison d'être* it is to reach people via non-commercial transactions. Let me stress that the skills we bring to the partnership are the basic skills which we use when pursuing our routine business interests.

Let me give you some examples to illustrate what I mean.

1. Understanding the links between international business and poverty reduction

Ladies and Gentlemen, we have always believed that businesses such as ours can make a significant contribution to local economies and wealth creation.

However, it wasn't something we had ever actually measured.

So in 2003 we teamed up with Oxfam and its Dutch arm, Novib. *The Financial Times* described us as 'strange bedfellows'. We decided to collaborate on an in-depth study on the socio-economic impact of our business in Indonesia - a country where more than half the population lives on less than \$2 dollars a day.

Our purpose was to discover whether our operations/activities there were helping or harming the nation's poor. And we committed to publishing the results. We gave Oxfam access to our internal documents, figures and forecasts. And we let them interview our employees.

Not surprisingly, this involved a steep learning curve and a degree of discomfort on both sides. But the experience of working together and the findings of the report were valuable for both partners.

Most important, perhaps, the study showed that while Unilever in Indonesia employs about five thousand people, our business creates the equivalent of 300,000 full-time jobs – around a third in the supply chain and more than half in the distribution and retail chain

The report also showed that a significant majority of the total cash value generated by Unilever Indonesia remains in Indonesia. This is in the form of government taxes, payments to primary producers and suppliers, and in incomes generated for distributors and retailers.

Of pre-tax profits, two-thirds remain in Indonesia as corporation tax, local dividends and investments.

The exercise highlighted the extent to which business can indeed have a major positive economic as well as social impact in developing countries.

However, it also brought home to us our limitations in helping to lift people out of poverty.

Often, the most vulnerable are those at the furthest ends of the value chain; for instance, small farmers and shopkeepers. The study showed the importance of other social institutions and resources to be in place, if value chains are to work for poor people. For example: credit and saving schemes, involvement of other relevant players such as local governments and NGO's, and diversification of income streams.

2. To learn how to grow our fish business in an ecologically sustainable way,

A decade ago we began working with the international conservation organisation WWF on tackling the depletion of the world's fish stocks. This more or less started with a conversation I had with WWF's then Director-General Claude Martin, in which we basically said – we each have quite some knowledge and interest in this issue, so let's put our heads together and see what we can achieve.

For Unilever of course, there was real business self-interest, because as we say :

“No fish, no fish fingers”.

Together we helped to establish a certification programme for sustainable fisheries – known as the Marine Stewardship Council (MSC) in 1996.

Today, more than 200 products made by different companies worldwide carry the MSC logo. The logo provides the assurance that the fish comes from sustainable fisheries, independently certified to the MSC Standard.

Back in 1996, we made a long-term commitment to buy all our fish from sustainable sources. We set a milestone to achieve this by 2005. This proved more difficult than expected; by the end of 2005, we were buying 56% of our fish used in Europe (where we processed the largest volumes) from sustainable sources. This includes fish from fisheries certified to the MSC standard and stocks that pass our own assessment.

Today – after a 10 year battle – the MSC is revolutionising the fishing industry.

3. Innovation at the base of the economic pyramid

To quote the wise words of Professor C.K. Prahalad from his book, ‘The Fortune at the Bottom of the Pyramid’:

“The aspiring poor present a prodigious opportunity for the world’s wealthiest companies. But it requires a radical new approach to business strategy.”

He is talking about the four billion people in the world with spending power of less than fifteen hundred dollars a year. Doing business at the base of the pyramid also offers significant scope for positive social impact.

In fact, these consumers have even greater need of quality products precisely because they have so little money to spend. And of course, access to certain types of products can be literally life-saving – think of the impact of anti-bacterial soap or vitamin-fortified food.

A little bit more about soap. You surely look like a very clean audience. But hygiene is not widespread everywhere. The life saving qualities of soap can not be stressed enough.

Hand washing campaigns for frequent use of anti-bacterial soap can prevent diarrhoeal diseases, and can potentially save one and a half million lives a year.

However, as Professor's Prahalad's comment suggests, conventional business wisdom gained in developed markets does not apply in these low income income markets. It can even be counter-productive.

Instead, success will depend on the ability to capitalise on the strengths of the existing environment rather than trying to overcome its weaknesses. To put it at its simplest, we will not change these markets. So we must let them change us. This might mean different price points, redesigned packaging, new types of partners, custom-built solutions, building local capacity. It will certainly mean a fresh approach to consumer affordability.

Instead of the traditional method of determining price by way of "cost plus margin", you have to begin from a different starting point. What can consumers afford? Then you must find a cost base that supports your margin. Thinking like this has led Unilever to single-use sachets of shampoo, mini deodorant sticks, individual bouillon cubes and single-use tea bags, all of them highly successful social innovations, and good business for us.

But that's not all: one of the main challenges of operating in many developing areas is to actually reach the consumer with your products. We are talking about "deep distribution" here; the need for near-home delivery.

In Indonesia for example – an archipelago of over 16.000 islands with an infrastructure that is not always exactly state-of-the-art, you can imagine that effective distribution can give rise to a headache.

But for over 70 years we have been able to put in place a distribution-network covering the whole of this beautiful country through which we serve about 600.000 small entrepreneurs on a weekly basis - both in the cities and in rural areas.

In similar fashion, in India we sell our brands through 6.3 million shops in 638.000 villages and 5,545 towns.

At the bottom of the pyramid consumers do not have cars to drive to Superstores 20 miles down the road. You virtually have to deliver the brands at the doorstep of those who belong to the bottom of the pyramid.

4. Empowering women as micro-entrepreneurs

In India, Hindustan Lever's Shakti project (Shakti means 'strength' in Sanskrit) shows what can be done at the point where social responsibility, sustainability and business strategy all meet.

In the more remote parts of India, there are millions of potential consumers but no retail distribution networks, no advertising coverage and poor roads and transport.

Our company provides women from self-help groups with training in selling, commercial knowledge and bookkeeping, teaching them to become micro-entrepreneurs.

The women who are trained can then choose to set up their own business or to become *Project Shakti* distributors – or *Shakti Ammas* ('mothers') as they have become known.

Each woman who becomes a distributor invests 10,000 – 15,000 rupees (US\$220-330) in stock at the outset – usually borrowing from self-help groups or micro-finance banks facilitated by Hindustan Lever.

Each Shakti woman aims to have around 500 customers, mainly drawn from her village's self-help groups and from nearby smaller villages. The women typically double their income through sales of around 10,000-12,000 rupees a month, netting a monthly profit of 700-1,000 rupees (US\$15-22). This is typically the equivalent income to a male agricultural worker.

Today, just four years after the first pilots commenced, there were already over 30,000 Shakti entrepreneurs. By 2008, *Project Shakti's* goal is to recruit 100,000 *Shakti* entrepreneurs covering 400,000 villages and 400 million consumers, and to keep multiplying from there.

More than 300 partners have joined the project, including NGOs, banks and both state and local government departments, helping to ensure its sustainability.

Project Shakti does however raise some important questions. As a result of running a Unilever business, these Shakti-women in India are empowered.

I am sure that all of us gathered here today think that is great, but in a country with different cultural values this may not always land well. Where are the boundaries? How far can, and how far should you go as a business in this respect? Remember: the role of business is not the same as that of government.

This touches upon important questions regarding the cultural dimension of globalisation. The topic certainly deserves a speech in its own right.

WTO

Ladies and Gentlemen, I am aware that - being here amidst the Company of World Traders - I am obliged to say some words about the current WTO negotiations.

For your information: I am not tailoring this message according to the occasion, as I virtually always take the opportunity to discuss and emphasize the importance of a successful conclusion of the Doha Development Round.

The name of the Round could not have been chosen more strikingly. This WTO Round is about development.

The OECD has calculated that

- the gains of full tariff liberalization for industrial and agricultural goods could amount to nearly 100 billion US dollars in terms of increased economic activity and thus prosperity
- benefits of liberalizing trade in services could even reach 500 billion US dollars

- A Doha agreement on trade facilitation could contribute another 100 billion US dollars

Projections are that the developing countries would be the beneficiaries of 2/3 of these gains. At the same time that means that they have the most to lose.

Main Conclusions:

Ladies and Gentlemen, to sum up:

1. The evidence that globalisation has lifted hundreds of millions of people out of poverty is irrefutable. However, globalisation has also lifted the awareness of the plight of the billion people who live on less than \$1 a day.
2. The world faces a number of issues such as climate change, poverty alleviation, hunger, etc. which are global in nature and require integrated global solutions.

3. Business has become a global force. Its prime purpose is to provide a return for its shareholders and protect the interest of its stakeholders.
Business is an integrated force in society and uniquely designed to get the job done. For this, business has created a powerful toolbox in order to create value efficiently.
4. To achieve the Millennium Development Goals, which aim to overcome a number of global issues such as hunger and poverty, the toolbox of business (i.e. skill sets which the company already has acquired in pursuit of its normal commercial goals) can play a decisive role.
5. This requires governments or global institutions to design a multi-stakeholder approach which fosters partnerships between governments, NGOs, academia, business etc.
6. To rely on taxation and regulation only to coerce business into certain behaviour would be an act of folly.

7. And finally: business thrives best in a light touch regulatory environment, a predictable and fair tax regime and a reliable judiciary. Only then will business have the space to deploy its full set of competencies to alleviate the global issues of our time – but always in partnership with other members of society.

I hope Tacitus would agree.

Ladies and Gentlemen, with these remarks I would like to draw your Tacitus Lecture to a close. But not without telling you a story about President Ford who recently passed away. After holding a lecture President Ford was approached by an old lady and she remarked “Mr. President, I just heard you speak”, to which the President modestly said “Ahh, it was nothing”, to which the old lady remarked “That’s exactly how I understood it as well”.