

Can you make capitalism useful for society?

Capitalism can eradicate poverty and mitigate climate change within a generation if it evolves to embrace a longer term outlook, a stronger sense of purpose and more partnership. This prediction and challenge comes from global business leader Paul Polman, Chief Executive of Unilever, speaking at the first lecture in Murray Edwards' two year programme which explores *Capitalism on the Edge*.

Indeed, the key to future success for capitalism, says Polman, is to infuse morality into the system; for all businesses to make a positive contribution to addressing global issues and inequalities. The question is: are we willing to put the interests of the common good ahead of our own?

The case for change

Arguing that capitalism has served society well during many periods in history, Polman says it does so best when it evolves, citing Roosevelt's New Deal in the US. In the persistent wake of the 2007/8 financial crisis, more and more cracks have appeared in the current system: it is time to evolve, again.

More a crisis of morality than of a lack of legal frameworks and regulation, Polman points out that the banking industry has already paid out \$265 billion in fines, and adds: "Interestingly, they keep paying them out of quarterly profits as if it's a cost of doing business."

The picture is not all gloom. One billion people have been lifted out of poverty in less than two decades; a positive result of globalisation. Polman calls the current Sustainable Development Goals - which include the eradication of poverty and urgent action on climate change - "the only opportunity we have to get a moral framework for the world." The first test, he says, is the upcoming UN conference on climate change in Paris (COP21).

The VUCA world

Certainly, it's a tough challenge in times of unprecedented change. The term VUCA world has been coined to describe the volatility, uncertainty, complexity and ambiguity of our times. Few business leaders are prepared — or able — to deal with geopolitical conflict and the effects of climate change. The average tenure of a Fortune 500 CEO is less than 4 years.

Polman identifies big trends that affect us all, notably the shifting centre of economic gravity to the emerging markets in the east (and south), and growing difficulties for global governance.

From the business perspective

From a business perspective, Polman highlights key challenges that emerge from these trends: Firstly, world population is projected to rise from 7 billion to 9 billion by 2050, with 70% living in cities (up from 50% today). That equates to a city the size of Sao Paulo emerging every couple of months - and most of this new urbanisation is happening in the emerging markets.

Secondly, the consumer is in charge. Increasingly in the emerging markets, people are discovering that, with technology, they can access information, connect and demand change.

Thirdly, the era of abundance is over. "We are seeing the limits of our planetary boundaries" says Polman. "The first proof of this is climate change."

In this severely stressed world, capitalism, as is, is floundering. Polman's reply for those who say 'let market forces prevail' is unequivocal: "We have been at this for quite some time and the world is not functioning for everybody."

The evidence is writ large in the 860 million people who go to bed hungry, the 1 billion people who have no choice but open defecation, the 2.5 billion without access to safe drinking water, and the 6 million children who don't reach the age of five.

"Any system where too many people feel they are not fully participating — or even are excluded — will result in rebellion." says Polman.

As an integral part of the system, businesses need to step up to the plate. "Business cannot be a bystander in a system that gives it life in the first place. Indeed, business is the first one to feel the effects of climate change and political conflicts."

In emerging markets, business accounts for about 60% of the GDP, 80% of financial flow and 90% of job creation. It is clear that most of the financing for today's rapid urbanisation — to build the cities and lift people out of poverty — has to come from businesses.

How then, should business be more active in the evolution of capitalism? Polman advocates addressing three issues:

Taking a long term view

CEOs are running businesses for the short term and the financial markets are putting huge pressures on them and on boards to meet quarterly targets. "How can you solve major problems like food security, like climate change on a 90 day calendar? It is totally impossible." says Polman.

Being better stewards of nature

That means putting a price on externalities (where production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged). "Redefining value to a broader concept than just making more stuff is very important."

Increasing inclusion.

We have 200 million unemployed. 1.5 billion in marginal jobs, and 1 billion excluded from the total economic process, and that is before 2 billion more people come into this world (projected population rise by 2050). "If we don't find a way which is the minimum right or minimum dignity to find a job, and don't get the economic systems to recognise that or incentivise that, we are in deep trouble."

A question of responsibility

Recent ideas that have claimed to reform capitalism — such as cause-related marketing, Corporate Social Responsibility (CSR) and Corporate Shared Value (CSV) — simply don't address the inherent problems of our times, says Polman.

Doing business today implies broader responsibility than ever. What this means, says Polman, is that if you are in the food business, you have to be co-responsible for deforestation. Why? Because one half of deforestation is driven by demand for food. You also have to care about food waste, about malnutrition in young children, and about obesity.

In Polman's proposed new era for capitalism, every company participates in society. "If you can't show via your business models in the next 15/20 years that you make a positive contribution, either by solving the issue of hunger or of climate change any of the issues I have talked about, I think you will be voted out of office."

Drivers of change

Today's young people will be the drivers of such change, says Polman. "They are very clear about where they put their money and they are purpose-driven." The success of brands like Uber, Spotify

and Airbnb show that the sharing economy is quite normal to the young. "The Millennials have a definite definition of consumption."

Transparency, too, is a powerful tool, and a pre-requisite for building trust that is currently so low. Another driver is economic reality: the cost of doing nothing is becoming greater than the cost of acting. The impact of climate change alone has cost Unilever \$300-400 million. "Nearly every month I have to deal with flooding in some part of the world, or a hurricane or a drought." says Polman.

The nature of leadership

Leaders in the new era of capitalism need skills which include long term-ism, systemic thinking, a higher level sense of purpose, and working in partnership. Women, says Polman, are well placed to lead the evolution, because they score highly on these skills. Seeing women at the head of the world's leading humanitarian efforts is cause for optimism, he says.

As for his own leadership, Polman wasted no time at Unilever, scrapping quarterly reporting on his first day as CEO (in 2009). He then introduced a new economic model; the Unilever Sustainable Living Plan. "We said we would double the business, which we are on track to doing, but totally decouple this from our environmental footprint. And then, at the same time increase overall social impact."

Running factories at zero waste and using green energy are the baseline for what Polman calls "earning a seat at the table". Then, says Polman, you need to work with your brands. "Every brand can have a social cause. Some people think we have funny targets, but they are incredibly powerful." Unilever brand targets include building 25,000 toilets (Domestos), raising self-esteem in women of all ages (Dove), and helping more children to reach the age of five (Lifebuoy).

Be part of change

Change, Polman insists, is in our hands, but it depends on putting ourselves on a higher level of morality. He ended with a simple request:

"You are here tonight because you are independent; you don't have to work behind a machine and you are not locked up in a factory that might be collapsing. You are not any of those who didn't make it past the age of five and you are certainly not going to bed hungry. I'm sure that you all have toilets at home..."

If you are that lucky and you belong to the 2% that can do what they want, then it is simply your duty to put yourself in the service of humanity."

Ends

Questions:

1. Have you done anything at Unilever that you felt was making you uncompetitive? Did you care?

There are clearly defined areas where you do have to compete, and this is beneficial to the economic progress.

However, there are broad areas where we should not compete because they are in the area of common good. Consider all the world's ice cream cabinets, which account for 4% of global warming. No company alone can convert them all to natural refrigerants - so you work together, you find the common goods and you change the market. No government can do that.

The companies that are moving forward are the ones that are finding these common areas and are willing to invest time in it.

Increasingly, what Unilever does - along with companies like Tesla and Toyota - is make patents available to the whole industry. We define a broader common playing field than perhaps ever in history.

2. The more we hear stories like that of VW (the recent emissions scandal), the more graduates are put off trusting business and wanting to join the private sector? How can we combat this quickly?

The answer is by what we are trying to do. Unilever gets 1.8 million applicants a year. We are the 3rd most looked-up company after Google and Apple on Linked In. In most countries where we operate, we are the preferred employers, including the UK. So there is something happening. If we look at the people who come in, they come in because they want to make a difference.

Businesses that have a stronger sense of purpose will do better over time.

3. Consumers might be raising their voice in terms of morality, but they don't have a voice over how their pension funds are held by the financial community. How does Unilever deal with shareholder relations in order to progress as it is?

Yes, individuals - and companies - need more awareness of what they can do themselves, particularly as institutional investors account for 75% of all investors in financial markets. Major movements in the world are trying to build awareness, for example, the principles of responsible investment (PRI) that the UN Compact is running.

Specifically, Unilever invests its pension fund by PRI principles, and also demands the same from all suppliers in our value chain. We leverage our size and skills: as the first company in the UK to issue green bonds, we set criteria for big banks that wanted to participate, including no financing in their supply chain of deforestation, respecting land rights etc.

Unilever has helped to set up two coalitions, whose members represent \$ 30 trillion in investment, aimed at promoting more inclusive and longer term capitalism. One outcome is that investor giant Black Rock is moving away from quarterly incentives for portfolio managers and asking for more disclosure and more active governance.

These issues need to be worked at CEO level, at board level (a key source of pressure for short term results), at institutional investor level and at government level. I would be happy if there were different tax scales for people who hold shares for more than a year or two years, or different voting rights to differentiate true shareholders from speculators.

4. What did Unilever learn about ethical value chains when it acquired Ben and Jerry's in 2001? How do you introduce your ethics model in the value chain when you acquire other companies now?

Small, activist brands like Ben and Jerry's can act as a great pusher. If you have big volumes like Unilever does, the big brands have to transform markets. You need both. Now, we have our own ethical model, and in many ways we can help Ben and Jerry's. For example, by buying a wind farm — something Ben and Jerry's could never do if it was a stand-alone business.

When we do due diligence before buying a company, we look at culture and values to see if they fit with us. An important motivation to buy the skin-care company Dermalogica was to be part of a programme promoting financial independence for women, founded by the company's CEO.

We have gone so far as to run a company at break even. Unilever just bought a water purification business in China to provide safe drinking water for over 100 million people. In the emerging markets, we want to get to a billion.

5. Do you see a role for sugar tax? Do we need governments to help level the playing field for companies wanting to sell healthy food products?

Different views about the impact of a sugar tax exist. We don't see the results we might expect. A lot of responsibility for obesity has to lie with the food industry, and most of the biggest players do now have aggressive programmes to reduce salts, sugars and trans-fatty acids. The challenge is that the big players only represent 15% of the market: most food is produced by many small companies. To solve obesity we need an integral solution that includes the industry and more from government.

6. You said the linear economy is unsustainable. As one of the global partners with the Ellen McArthur Foundation, how do you plan to implement the circular economy model and to what extent you think this model represents an evolution of capitalism?

The circular economy is deciding that anybody's waste can become somebody else's input, and that's a big idea.

We have redesigned quite a lot of our packaging that was recyclable but the systems were not set up to recycle. We are thinking about it differently; to reduce and re-use. Designing systems for zero use is when you get to the circular economy.

We can achieve zero waste at our factories because we *design* them for zero waste. That means if we have waste in ice cream factories, we use it for biofuel to cool the factories. In fact, we are close to having ice cream on a carbon neutral model. If I can show the world that ice cream can be carbon neutral, then everything can be carbon neutral!