

EVENT SUMMARY

NET POSITIVE: HOW COURAGEOUS COMPANIES THRIVE BY GIVING MORE THAN THEY TAKE

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SPEAKERS

Andrew Edgecliffe-Johnson, US Business Editor, Financial Times

Paul Polman, Co-founder and Chair, IMAGINE



In this FT Board Director forum, Andrew Edgecliffe-Johnson, the FT's US Business Editor, discussed sustainability challenges with Paul Polman, the chief executive of Unilever from 2009 to 2019 and co-author of *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*.

Polman is also a co-founder and chairman of Imagine, a foundation established to “galvanise industry leaders around the 2030 sustainable development goals”.

Here are the highlights of the event.

COMPANIES SHOULD STRIVE TO BECOME NET POSITIVE, NOT JUST NET ZERO

Many companies have signed up to become net zero by 2050 if not before. Polman said that companies should strive to become not just net zero but net positive. He said we had already passed World Overshoot Day, which this year was July 29. Every day since then the world had been “using more resources than it can replenish”, said Polman. In effect “we have been stealing from future generations”.

Polman said that committing to be socially responsible “isn't good enough anymore”. Elaborating on this point, he said: “If you are a murderer and you kill 10 people, and then you declare that you're a better murderer because you now only kill five people, I don't think you'd get away with that.”

If companies wanted to be net positive, they should be “restorative, regenerative and reparative”, he said. They should “derive profits from solving the world's problems, not creating them”.

To make sure they were on the right track, business leaders should ask: is the world better off because my company is in it?

A NET POSITIVE COMPANY IS ONE IN 2M

The authors of *Net Positive*, Polman and Andrew Winston, report that only 22 of the world's 48m companies are net positive. The list includes Unilever, Polman's former company, as well as Ikea, the Swedish furniture group.

THE LESSONS OF COVID-19

Polman said that the effect of the pandemic had made some things abundantly clear.

First, he said, “you can't have healthy people on an unhealthy planet”.

Second, he suggested that Covid had revealed “the enormous cost of our failures”. Already governments in the US and Europe had spent \$17tn “to save lives and livelihoods”. He said: “People are starting to realise that the cost of our failure to act is more than it would have cost us to prevent these issues in the first place.”

Third, he argued that there was a new willingness to participate in sustainability issues - and the big problem now is how to get to net positive. “When Covid-19 started, the overwhelming opinion of the cynics was that ESG was dead,” he said. But, as vice-chair of the UN Global Compact, he noticed its membership jump from 14,000 members (before the pandemic) to 17,000. Also, projections indicate that ESG investment funds will amount to \$50tn by 2050.

In other words, companies have never shown more interest in environmental, social and governance issues than now. The big challenge is how to get to net positive.

FIRST OF ALL, TACKLE THE ELEPHANTS IN THE ROOM

Polman said that companies needed to tackle some of the “elephants in the room”. One of the biggest is the tendency for businesses to take an inconsistent approach to sustainability.

He said this was a lesson he learnt early in his tenure as chief executive at Unilever when he abolished quarterly reporting guidance. He did this to try to reset the company’s focus to look at the long-term. A year later, however, he found that the Unilever pension fund, then valued at \$16bn, was undermining his plan by rewarding its fund managers for short-term performance. As a result, he said, “we were actually part of the problem”.

Such inconsistency is common across the corporate world. Polman suggested, for example, that some Fortune 500 companies “probably hire more tax lawyers than business builders” to avoid their fair share of tax. He also highlighted company memberships of trade associations that “advocate different things to what you stand for”.

He drew a distinction between “inconsistencies” and “trade-offs”. He said trade-offs were part and parcel of business life and that the best CEOs always find a way to deal with them. This is the reason why CEOs are paid more than other executives.

HOW BOARDS CAN MAKE A COMPANY NET POSITIVE

Polman said CEOs often complained of not getting the right support from their boards. So what do boards need to do?

He listed three items:

- ensure that directors have the right skills to address today’s challenges. Surveys have suggested that many board members are not “ESG competent”.
- ensure that every non-executive director is educated and re-educated on the latest challenges
- define and redefine how the board can contribute to value creation

CHALLENGES CALL FOR BOLD LEADERSHIP

Polman said that many companies “still play not to lose” but if they are to succeed, they must “play to win”. That meant setting big sustainability targets. He noted that “many companies still feel uncomfortable about setting bigger targets if they don’t know exactly how to achieve them”. What needs to happen? Polman suggested that leaders need to be bold. “It’s as much about courage and courageous leadership as it is about the transformation itself,” he said.

COMPANIES NEED THE HELPING HAND OF GOVERNMENT

A new partnership is needed between business and government. Polman said: “We are not making it easier for companies to live up to their commitments”. He pointed to those companies that want to become sustainable but which are based in countries that still build coal-fired power stations: “If governments in your country continue to push coal as a justifiable source for energy, it’s very difficult.”

COMPANIES SHOULD WORK TOGETHER TO GET THINGS DONE

One challenge that faces every company is that if it moves first – to invest in costly initiatives that will benefit the world in the long term – it will be undercut by rivals that still focus on the short-term. Polman said that Imagine, his foundation, was helping companies that operate in the same sectors to build alliances. If they work together to solve problems, he said, then they will be less likely to undercut each other.

Already, Imagine has created an alliance of 80 fashion companies which, together, are buying green energy, setting biodiversity targets, seeking regenerative cotton and finding ways to stop the prevalence of single-use plastics. Imagine has also built an alliance of 30 food companies that is moving towards regenerative agriculture.

QUESTIONS FROM THE ONLINE AUDIENCE

What is at stake if CEOs fail to address their inconsistent behaviour?

“It depends on what type of behaviour it is”, Polman said. Some will undermine trust but that won’t immediately impact the company’s bottom lines; other behaviour will have an immediate impact. He said that a company’s commitment to be net zero would be regarded as hot air if it was not accompanied by a plan to honour the commitment. Also, companies that failed to publish data on how they address issues such as human rights would lose credibility over time, and this would “affect the brand”.

Won’t there always be inconsistencies for CEOs trying to serve shareholders on the one hand and wider stakeholders on the other?

Polman said that to serve shareholders and stakeholders was not an either/or. He said net positive companies “try to optimise the return of all stakeholders ... and can show that, by doing so, the shareholder is better off”. He said the current narrow focus on shareholders did not work, so companies have no alternative but to change. He said the lifetime of a publicly-traded company had dropped from 67 years when he was a CEO to 17 years today. Also, the average tenure of a CEO had fallen to below five years, half the time he served as chief of Unilever.

There was growing evidence that a sustainable approach to business worked, he said. He pointed to research which showed that during the Covid-19 pandemic, companies in the Russell 1000 that followed a long-term, multi-stakeholder approach “outperformed their peers by about 30 per cent”.

What do you think the balance between government and private cooperation should be?

Polman said “the global population is getting impatient” with the slow pace of change. Partly he blamed politicians and the polarised nature of politics: “We are picking nationalist-populist Sinophobics to run some of these countries.”

With politics so polarised and politicians “paralysed”, Polman said it was incumbent on business “to step up”. Leaders needed to engage with politicians to drive change. He noted that while 70 per cent to 80 per cent of companies had committed to reduce their carbon emissions, less than 20 per cent had engaged with government.

How should CEOs work with their shareholders in a multi-stakeholder approach?

The number one task of a CEO was to “work with the right shareholders, not all shareholders”, said Polman. He said that when he ran Unilever, more than one million people owned shares in the company. If he had listened to them all “I would have run Unilever into the ground”. Instead he opted “to find the right shareholders and nurture them”.

The right shareholders were often the index funds that have “longer term obligations for retirement”. The problem was that these might not be actively engaged, with the result that disruptive activist minority shareholders become louder, “and that’s not really very helpful” for CEOs.

How should CEOs of net positive companies be rewarded? What incentives are needed to change executive behaviour?

Polman said the way that CEOs were rewarded today was excessive. In 1990, the average salary of the CEO of a US company was 61 times the average salary of the company. By 2019, this had risen to 320 times the average salary. Also, in the past 15 years some 85 per cent of the value created by companies had been siphoned into the pockets of the CEO and shareholders. He observed that “CEOs and the board have become very skilled at actually increasing compensation even when the performance isn’t there”.

Polman said his father had worked in a factory. He himself had never aspired to be a CEO but took the job “for the challenge” rather than the chance to become rich. He said he received the same salary throughout his 10 years at Unilever and only benefited when the share price grew – “and I think that’s how it should be”.

He was dismissive of CEOs and boards that say they have to raise executive compensation to attract the best people. “It is probably fair to say that if you run a company like Unilever or any other, you are financially independent before you become a CEO. This argument that we need to be incentivised, and everything needs to be linked to money and these numbers need to be so high ... I have a difficulty understanding that.”