

Interview

Paul Polman, AIB 2023 International Executive of the Year: Commentaries and an Interview

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Paul Polman, former CEO of Unilever, business leader, climate and equality campaigner, and co-author of *Net Positive: How Courageous Companies Thrive by Giving More than They Take* (2021), was selected as the 2023 AIB International Executive of the Year by the Fellows of the Academy of International Business (AIB). In this article, Witold Henisz and Peter Williamson provide commentaries on Polman's career and then engage in a question-and-answer session with Mr. Polman.

INTRODUCTION

Paul Polman, CEO of Unilever (2009-2019) and co-author of the book *Net Positive*, was selected as the 2023 AIB International Executive of the Year by the Fellows of the Academy of International Business (AIB). As CEO of Unilever, Mr. Polman propagated and practiced a management philosophy which emphasized the dual role of business – creating financial value and contributing to addressing societal problems. In his recent book *Net Positive: How Courageous Companies Thrive by Giving More than They Take* (2021), he and co-author Andrew Winston describe the practical ways in which companies can help address some of humanity's grand challenges like climate change and inequality, while building successful businesses. Today he works across a range of organisations to deliver the UN Sustainable Development Goals, which he helped develop.

In this article Witold Henisz, University of Pennsylvania, and Peter Williamson, University of Cambridge, provide commentaries on Mr. Polman's career and engage in a question-and-answer session with Mr. Polman.

Interviewers: Witold Henisz [WH], University of Pennsylvania, USA, and Peter Williamson [PW], University of Cambridge, UK

Interviewee: Paul Polman [PP], Imagine / Former CEO of Unilever

COMMENTARIES

WITOLD HENISZ

Let me start by thanking Paul Polman for joining us and for sharing his vision. When many of us are asked who is an example of a leader and a company that has risen to the challenge of sustainability, successfully transformed an organization, and sought system-level change, Paul's leadership at Unilever and subsequently is by far the most common an-

swer. His talk highlighted important elements of that leadership but also underweighted other elements that I want to draw attention to before closing with a question.

So why is Paul and his leadership at Unilever so broadly recognized? Clearly, an important element is a forcefully articulated vision of leadership that has a strong moral code or basis. Articulating that vision, sharing it with stakeholders so clearly is undoubtedly important. But honestly, there is no shortage of executives who see and articulate those challenges through a moral lens. However, when we speak to those executives and then look at what they have done, there is typically a powerful gap between their words and the deeds or between the walk and the talk. What is really remarkable about Paul's career, both at Unilever and subsequently, is that he has matched his words with deeds.

He assumed the leadership of an organization that was not known for putting sustainability at its core, in its strategy and in its brands. He led a tremendous organizational change effort. One that included substantial turnover of prior senior management. One in which Paul identified leaders that shared his vision. One in which Paul developed metrics that would over time help to build the business case for embedding sustainability within the core of Unilever's strategy, for launching new products and R&D programs. One in which every aspect of management, structure, incentives and organization would be challenged. It is that combination of a clearly articulated moral leadership and a successful and massive organizational change effort encompassing people, incentives, culture and organizational structure that stand out to me.

I think that we should not lose sight of both of these elements. It is not as exciting to talk about spreadsheets, about measuring impact and incentivizing workers based on those measures as well as holding managers accountable with those measures. Yet it strikes me that the reason that you, Paul, were able to realize your vision or moral leadership was often because of the micro-level systems and processes, the people you chose, but also the way you mea-

sured their performance, the incentives you put in place and the way you organized them.

That is important and personally relevant to me because when I come at this challenge of leadership on sustainability of ESG issues and try to define best practice, I find more vision than success. Vision is necessary but needs to be paired with systems, processes and tools. Success comes from stakeholder mapping, financial modeling, working one by one with stakeholders to build working trust, building and operating an adaptive system, managing an effective communications strategy that reinforces working trust and building. Only at the end do I come to the culture or the mindset of the organization and whether it gives primacy to long-term harmony in the stakeholder system or something else, often short-term shareholder value. Listening to you and seeing your experience at Unilever, I am really struck by your pairing of moral-based leadership and systems that reinforce and give tangible meaning to that leadership.

An example that I often use in teaching to highlight this point is based on the experience of American Electric Services in the Republic of Georgia. They were first led by a leader, Michael Scholey, who was all heart but had yet to receive his MBA. He did not have the spreadsheets to prove it, but he knew that in order to win in Georgia, he had to convince people that his company was part of the solution, and that the government was part of the problem. Slowly, one person and one television appearance at a time, he made progress towards that goal. But he bled capital exceeding his forecasted spending for a decade within a year and, in a difficult financial climate, investors and the board lost confidence. He was replaced by a spreadsheet-first Venezuelan, Ignacio Iribarren. Ignacio focused exclusively on the bottom line. However, he did not understand the system that his company and his leadership were part of. His efforts to teach Georgians about capitalism through darkness (i.e., terminations of supply to nonpaying customers regardless of political status or power) elicited a backlash that culminated in the assassination of the CFO of the Georgian subsidiary of the world's largest publicly traded generator of power.

I often argue that executives need to match their words with deeds, match their leadership to systems. I think that was what was really remarkable about your leadership at Unilever and your ongoing efforts to achieve system-level change. I hope others who were inspired by your address investigate the systems, tools and processes you put in place to achieve that vision.

Now, I do want to disagree with one point. Should academics be advocates? Academics are an important component of any system-level effort and we can and should be partners in such efforts. However, I am not sure advocacy is our strength. We self-selected into a career where we spend 90% or 95% of our time alone in front of a computer conducting research. That is our comparative advantage. What we do best is build the research base that you cite so forcefully in your book and that can guide leaders who aim to achieve Net Positive. We build the pedagogy that trains executives. When we speak out, it has to be based on rigorous research. Academics engaging in advocacy will undermine

our one superpower: the sense from those that respect science, that we can offer an objective science-based contribution to inform the policy debate.

I've thought of this very carefully in the last year since I've stepped into the role of Vice Dean of the ESG Initiative at the Wharton School. If I am perceived as an advocate, I have lost the credibility that my affiliation with the Wharton School and with the Academy and Professional Societies brings. Academics have to maintain a scientific focus, grounded in research. We do also need that vision and, in fact, would be aided by more leadership from business executives.

PETER WILLIAMSON

Thank you, Paul, for inspiring us with your remarks and also for challenging us as academics. Three aspects of your comments particularly struck me. The first was the need for collective action by businesses. Often in our research, we take the company as the unit, and we do not think enough about the quality and the impact of the ecosystem around the company. That's an important lesson because, as you pointed out, today's global problems are not going to be solved by one business acting alone. This has implications for what we do as academics. Specifically, challenging us to really think about the tools and theories that can take us from the single company to the impact of the company on how it shapes its broader ecosystem. We have started to do that, but I think we need to do a lot more.

The second argument that struck me was your call for mobilizing private sector financing and the fact we should shift the burden of proof. We generally look at how we prove that companies following the sustainability principles you have laid out are actually profitable. We do not look at the fact that those who are doing the opposite are probably neither profitable nor sustainable in the long term. You gave the example of General Electric, which I think is a very powerful example. This challenges us to shift that burden of proof in our thinking and research, which I think is an important lesson.

The third argument that struck me concerned education and leadership as gaps. The kind of false sense of security you were talking about is an important reminder that getting the benefits of being academics, we have a responsibility to take up the challenge of having impact. It's very easy for one to sit in our own little world and congratulate oneself on the great thoughts we have. Instead, we need to have the courage to help make sustainability the core of what business does and also in our advice to business on strategy and other aspects of international business. Thank you again for challenging us and pointing us in the direction where we might make a contribution in this area.

INTERVIEW

[WH]: In your book, you say that if you are quiet, you are complicit. You spoke out as well about the importance of business leaders advocating and speaking out on these issues. You further spoke forcefully on sus-

tainability, on inclusion, and several other important threats we face as a society. However, one of the main threats to progress on sustainability is the anti-ESG movement in the United States. One of the major threats that you cite and talk about was the threat of democratic backsliding in the United States and, I would argue, the risk of election violence in 2024 on a scale that makes January 6, 2021, look minor. Why are we not seeing CEOs speaking out against the anti-ESG movement, against democratic backsliding, including here in Poland where a free European Poland is very much at risk? Why can business leaders not give academics and society more support in terms of providing a moral argument for research on these topics? I think such support is critical because otherwise academics do not have the power, the standing, the stature, the status, the moral authority that will be heard. We are doing some research, but our stakeholders do not see it as important. We need to have the voice of the C-Suite and of Boards to back us up. I would love to hear from you how we could get more members of the Embankment Project, of the Coalition for Inclusive Capitalism, signatories of UN-PRME, and other system-level change agents to engage in this political moment with courage. Where are the voices advocating not just sustainability, but engagement with the political threats that undermine our progress towards sustainable capitalism?

[PP]: In fact, we agree. As human beings, irrespective of what positions we hold in society, we have a responsibility to speak up when things are wrong, and we are in a position to do something about it. It does not matter if you are a businessperson or an academic. Now, you might say, I lose my objectivity. No, it depends how you speak up. A business leader can also say, I lose my objectivity, or, that's not my role to be an advocate for society. I am only there to provide products or services. In the same way an academic might say such advocacy is not their role. That they are only there to provide research. So that argument does not quite hold if it is too narrow. Especially because academics are science-based, you offer an ethical advocacy, which is much needed. And perhaps the definition of advocacy needs to be discussed. Academics have that trust and that science. If their advocacy is not based on science, then absolutely you do not want to do it.

I was in a conference on regenerative agriculture and found one professor who got paid by a company. This guy had ideas that were out of the pan. That is not what you want to represent your profession. You have the same in business. But, the majority of scientists are highly trusted. Academics have to speak out even more powerfully than business. It does not have to be individual. You can do that collectively. But, for some reason, that does not happen at the scale that it needs to. I do not think that you will expose yourself. In fact, you will get credit. For a long time, the climate scientists were giving reports that were so technical. It was the best knowledge that the world had. But they refused to point out the urgency of the situation. We probably lost 15 or 20 years in the process. Now you have people like

Johan Rockstrom of the Potsdam Institute for Climate Impact Research formerly at the Stockholm Resilience Centre, who are great communicators. It is not that scientists are just locked up in their offices with sandals and beers. That image is long gone. So, you have to use that force. I will get the CEOs and you get the academics.

Humanity can only function if we defend the basic universal values of dignity, equity, compassion, and respect for everybody. In all the countries I have traveled to, these values are universal. When I was running Unilever, I spent more time on getting the right people and getting the right values because I knew that I would never be an expert on any of the real challenges. That there would always be people that were better equipped to deal with them. But, having the right people and the right values means that you have built a company that can do so.

I agree with you that it has to be a very tough balance between performance and driving these more responsible business models. It cannot be just doing good by feeling good. That is where a lot of companies are. That is actually also where the easiest critique is from the anti-woke people. Their criticisms have a certain level of validity because many CEOs make noise and do not deliver, or engage in greenwashing. That feeds these opponents. It honestly does not help the case. Your office does not give you the right to opine about everything. Some politicians want to see some lines being drawn there.

When it comes to LGBTQ or abortion or voting laws, I find it regretful that people like us have to rally groups of CEOs from outside the US to get US leaders to speak up. I find it very regretful that US leaders say this previous President should never be president before the elections. And, yet, as soon as he is elected, he is going to be the best President because he will cut taxes. It is amazing to me how US leaders flip around the statements of the Business Roundtable. How hollow their statements are in comparison to what they really do. America is not a bad country. It has a lot of great things going for it. But there is still a big gap between how we see the role of Wall Street and how Americans companies react to the role of Wall Street. To me, it is disappointing to see Larry Fink, who runs BlackRock, now say that he is ashamed to have used the word ESG. He knows why we should use it. He knows we should just defend what it is and what it should be. I have seen a lot of CEOs say that they will continue to do ESG but we are not going to speak up anymore because we're getting hammered. My response is that we need more courageous leaders because there are not enough. There are few in the US like Satya Nadella or Mark Benioff. But can I get a group of 15 or 20 US companies that are actually willing to speak up? You have to put them together and have a united voice to have an impact.

Where the CEOs actually can have a bigger impact is in terms of what I call in my book, the elephants in the room. We still see a lot of CEOs saying one thing, but then their trade associations are advocating in Washington for another. That hypocrisy is pretty obvious. We still see CEOs directly financing politics. Many CEOs said after January 6th that their companies would not sponsor politicians who

denied the integrity of the 2020 US Presidential elections. It only took six months for most of them to go back and finance them under different excuses. That needs to be called out.

Where the change will come from is actually from the employees. We go to the CEOs and say, explain it to people. Because, if you do not explain it, that is not leadership. So, explain what you do, but if you are not willing to explain it, we are going to explain it to your employees and draw attention to that. Not surprisingly, in the US, given the walk-outs, the strikes, the inability to hire and retain good people in a tight labor market, this has become a much bigger issue. I think we need to sensitize these CEOs a little bit more to that higher moral ground.

I watch where CEOs go after they retire. I also know how they behave when they are CEOs. It is probably true that 95% go to Florida because the state does not have any state tax and they have earned so much money that they do not feel that there is any need to do more after they retire. If those are the people that run these companies, you have to ask yourself what drove them and if we are selecting the right leaders. Also, I do not understand the compensation of CEOs. When I came to Unilever, I kept my compensation the same for ten years. I did not see any need to earn more because I was earning more than I ever thought possible. I was hoping that everybody would come down. But the rat race has come up. You now have over 10 CEOs that earn a hundred million dollars or more in the US. You have some that earn a billion dollars. We think that is normal. We have created a group of people and an incentive system that is actually our worst enemy. It is a system issue more than anything else.

This is where you come in to help us attract new CEOs. Andy Hoffman at the University of Michigan wrote a paper on the role of a CEO being a vocation. It is not a vocation for many CEOs. It is a grab all I can as long as I am in the job because I am there for 3-5 years. We really have a leadership issue that we need to collectively address. What we find is that when we bring them together once more, you can actually get that collective courage up. I understand, in the US's charged environment right now, why it has become more difficult for individuals to speak up.

Let me end by highlighting that what is really happening in the US is an orchestrated, 100 percent traceable campaign financed by oil for short-term political gain. It actually is not an electoral issue. Most Americans do not know what this whole woke thing is about. Some of these politicians are just talking to themselves and to these donors. What you saw in this shareholder season was that the proposals of the woke attackers only got 2.6% approval. Not one major law got passed, only two or three minor laws. Even the people who claim that we cannot invest in ESG do not have any elected authority to actually make that decision. The real people who run these state pension funds are opposed to these restrictions. Larry Fink lost about \$2 billion of investments, which is stupid because those pensioners are now at greater risk with lower returns and higher fees. On the other hand, he attracted that same year, \$300-400 billion more into his funds. We have to put this

anti-ESG movement in its proper perspective. We should not give it the weight that some others would. However, I do not think that belittling them or attacking them is a good strategy either. We should be respectful.

[PW]: Your comments also raised a number of questions in my mind. I am going to start with just one. But I was trained as an economist, so the one question has three parts. You were the chief executive of a multinational company with a very diverse shareholder base. You told them that you were offering a longer-term vision of sustainability, based on the idea of a “net positive” impact of the business on all its stakeholders (although you probably did not put it quite that way at the time). Some liked that and some did not and some certainly did not like it when you abandoned quarterly results reporting. In international business research we used to talk about “clientele effects” among shareholders and the idea of a company attracting shareholders that bought into its long-term vision. In recent years, we have not really talked much about that, as if you do not have any control over who are your shareholders. In fact, when we look at the figures on the period shareholders hold shares on the New York Stock Exchange, last year it came down to five and a half months. I’m not sure what the implication of that is if you are working towards shareholders as the owners and the key drivers of the company? That leads to a question in three parts.

First, did you try to attract a certain shareholder clientele who bought into your vision? Second, how did you deal with activist investors who did not buy into that vision? And third, what would be your advice to investors who are now facing pushback on environmental, social, and governance policies? Today in the United States, for example, some state government legislators will say fund managers cannot take these factors into account when they make investments because of their fiduciary responsibility to maximize shareholder value. Could you comment on those three aspects of relationships with shareholders in the context of pursuing sustainability?

[PP]: I studied economics, and when I graduated my father gave me a little plaque. He did not have any money. He worked in a factory. He was a victim of World War II when he was in high school and was taken away from it. Anytime I looked at that plaque it was more in his honor because I certainly was too immature then to understand it. But it said, “an economist is someone who does not know it either”. His message there was very simple: stay humble and be open. I have a lot of respect for economists and your statistic on five and a half months average holding period for shares is true, but there is a lot of day trading. The core of your investors are actually loyal, long-term institutional investors. And increasingly, there are two things happening. First, they understand that it is not only getting a good return so that you can retire, but they also understand being sure that there is a world in which you can retire. The second thing is that these institutional investors such as

Black Rock, State Street, the Japanese investment funds, or the Norridge Investment Fund, have so much money under management that shifting shares does not actually do anything for them anymore. Their main goal is to be sure that wealth is productively put to work, so this is now the focus. It's quite different than what it used to be.

The problem is that most of them have become index funds, and there is a distance from the situation where you had active shareholders. Now 80% of your shareholders have become passive and so you do not hear from them unless you really goof it up. But it is the 20% of shareholders that have different incentive systems that rock the boat. Yesterday I gave an interview to the *Financial Times*, and it was all: "yeah this sustainability, but this person says this and that". I said, do you put weight behind these comments? You give the impression like these people represent 50 percent of investors. I do not want to get political here, but it is like the UK with Brexit, you had to give 50% of your time to pro and 50% of your time to those against. So, we created a 50:50 issue when that was not there in the first place. So do not get the wrong impression on shareholders. But unfortunately, the short-term shareholders are able to disrupt the markets too much. So, when I was appointed chief executive of Unilever, because I came in from the outside, the share price went up 8%, which already shows you how ridiculous the system is. Then I thought, that does not make any sense, so I announced that I was not going to do quarterly reporting anymore. The share price went down 8%. I was very happy because it brought me back to earth.

The reason that it went down was that there was no confidence because the company had not delivered for 10 years. But it was assumed that this was what most new chief executives do: they reset the base. People were thinking, okay, this guy comes in, he wants to get paid a lot, so he puts the base very low. Actually, I never changed the base of my predecessors, but that they did not know. So it was that lack of confidence that brought that share price down. Now I was naïve, I said, "I do not want some of these short-term investors because there were some speculators in the shares that would even sell their grandmothers to make their bonuses. I do not think they are very conducive to the success of our company." But I discovered that it is easier to get rid of shareholders than to gain shareholders.

There is something that Stephen Covey, in his book *Seven Habits*, talks about: "You cannot talk yourself out of things you have behaved yourself into." So, I knew that we had to deliver, and then the numbers would show it. So that is what we set out to do. I actually had more work to do with my board to get buy-in to that than anybody else. I had some shareholders that said, when we abandoned quarterly reporting, you work for me and now I cannot hold you accountable. But surprisingly, when we did not report quarterly, instead reporting twice a year, our conversations became different. All of a sudden, it was not about a bad month for ice cream or the impact of Ramadan that moves every year. Instead, the discussions became about the business, and we started to get rid of these short-term speculators and attract people that were more interested in the longer term. After that I began to really seek out these

long-term shareholders. It took about five years. First of all, there is not one shareholder. There are a hundred thousand different shareholders with different strategies. If you listened to all of them, it is a guaranteed way to drive your business to bankruptcy. So, what did we do in Unilever? After about six, seven years, our top 10 shareholders had twice their holdings, and the 90 next shareholders had half the rotation. So, you can have a proactive strategy to align with shareholders, but you need to be very good as a chief executive in learning to explain how these sustainable business models are drivers of value creation. And especially in my time, there was no data. Now there is enough data to do that to a certain extent, but many CEOs still have a hard time doing it, and you have to actively pursue some of these shareholders, which not everybody did.

We did get an attack from Kraft Heinz with a strategy of pure financial manipulation. I could not think of two different models that were so opposed to each other. One model, trying to improve the lives of billions of people. The other one is trying to make a few billionaires, even more billions. This one had moral values that were totally the opposite of what we were aspiring to. So, we rejected that. Even strategically, it did not make any sense leveraging up the company seven times, but it gave us an opportunity to test our shareholders. And it also gave us an opportunity to test the politicians on what corporate governance did they want? What are corporate codes and takeover codes? Theresa May at that time in the United Kingdom, the French, the Dutch, they all changed their governance codes as a result of what we were pointing out was grossly wrong in terms of how you stimulate constructive behavior. Frankly, the financial markets have moved faster than the speed the legislation has adapted. This was a wonderful opportunity that happened after eight years being in the job so I was a little bit more relaxed about re-balancing things and confident that it can be done.

On the question of shareholders, I give you my final statistic from here in Poland. Over 4,000 or 5,000 big companies left Russia. I personally think they made the right decision. These companies gave up short term profit; they gave up business that for most companies was a profitable market. But it has been shown over and over again that, as a collective group, those companies have seen higher share appreciation and higher value creation than the companies that stayed behind. That is a good indicator that the financial market actually appreciates even short-term sacrifice for longer-term gain.

My final comment recalls the work that George Shan is doing at Harvard Business School, which is called "the weighted impact accounts", where he looks at 3,500 companies and ranks them industry by industry. The results are not black and white, but what he finds consistently is that companies that more aggressively try to reduce negative externalities achieve a higher value in the market. So, what people say are intangibles are actually, for the smart people in our financial market, very tangible. Now you see the European reporting standards bodies getting to it in a more structural way, but the smart people in the financial market are already factoring it in.

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ABOUT THE AUTHORS

Paul Polman is a Dutch businessperson and author. He was the chief executive officer (CEO) of Unilever from 2009 to 2019. Polman is also the author of *Net Positive: How Courageous Companies Thrive by Giving More Than They Take*. While he was CEO of Unilever, Polman set out a vision to fully decouple business growth from Unilever's overall environmental footprint and increase the company's positive social impact through the Unilever Sustainable Living Plan. During Polman's tenure, he provided a return vastly superior to rivals and more than double that of the FTSE index. In 2018, the Financial Times called Polman "a stand-out CEO of the past decade." Today he works across a range of organisations to deliver the UN Sustainable Development Goals, which he helped develop. As a result of his work, Polman has become a prominent global figure in the push for more responsible business.

Witold J. Henisz is the Vice Dean and Faculty Director of the ESG Initiative and the Deloitte & Touche Professor of Management in Honor of Russell E. Palmer, former Managing Partner at The Wharton School, The University of

Pennsylvania. His research examines the impact of political hazards and ESG factors on the valuation and strategy of multinational firms including efforts by multinational corporations to engage in corporate diplomacy to win the hearts and minds of external stakeholders. His research has been published in top-ranked journals in international business, management, international studies and sociology. He served as a Departmental Editor at the *Journal of International Business Studies* and as an Associate Editor at *Strategic Management Journal*. He is a Fellow of the Academy of International Business. Witold is currently a principal in the political risk management consultancy PRIMA LLC. He previously worked for the International Monetary Fund.

Peter J. Williamson is Professor of International Management at the University of Cambridge, Judge Business School and Fellow and Director of Studies at Jesus College Cambridge. He earned his PhD in Business Economics from Harvard University in 1984 and has held professorships at London Business School, Harvard Business School and INSEAD (in Fontainebleau and Singapore). His more than 70 articles have included publications in *Academy of Management Journal*, *Strategic Management Journal*, *Journal of International Business Studies*, *Review of Economics and Statistics*, *Journal of Industrial Economics*, *Harvard Business Review* and *MIT-Sloan Management Review*. He is the recipient of a Sloan-PwC Award honoring those articles that have contributed to the enhancement of management practice. Formerly with Merrill Lynch and the Boston Consulting Group, Peter has served for over 20 years as non-executive director or chair of companies spanning renewable energy, textiles, hedge funds, whisky and software in Europe, USA, and China.



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