

Leadership in a VUCA World

Harish Manwani - 2013



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LEADERSHIP IN A VUCA WORLD

Section One: Introduction

We are living in a world where volatility and uncertainty have become the New Normal. The Arab Spring saw a change of government in countries like Tunisia, Egypt, Libya and Yemen. Once powerful countries in Europe are now fighting bankruptcy. We have taken growth in the developing part of the world for granted, but economic growth in China and India – growth engines for the world economy – has begun to slow.

Companies that were synonymous with their product categories just a few years ago are now no longer in existence. Kodak, the inventor of the digital camera had to wind up its operations. HMV, the British entertainment retailing company and Borders, once the second largest US bookstore, have shut down due to their inability to evolve their business models with the changing times.

Section Two: A VUCA World

What does this all mean for business and for a company like Unilever?

The dynamic and fast-changing nature of our world today is best described by VUCA, a term coined by the US Army War College. VUCA stands for Volatility, Uncertainty, Complexity and Ambiguity.

A few years ago the Lebanese American scholar Nicholas Taleb introduced the concept of black swans - events that are difficult to predict because they are low probability outliers so the past provides no reliable precedent. And yet these black swan events have a huge and profound impact. Think of the September 11 terrorist attacks or the rise of the Internet.

We live now in a VUCA world surrounded by black swans. This is the New Normal.

But even within this unpredictably changing world, there are a few important underlying megatrends that will shape our future.

Section Three: Megatrends

Digitisation

The first of these megatrends is digitisation.

It is worthwhile to step back and look at the recent history of human invention. The first telegraph machine was invented in 1838. Forty years later Alexander Graham Bell invented the telephone. It took over another forty years for us to invent the television and yet another forty to invent the silicon integrated circuit chip in the 1960s.

But it has taken less than forty years since the silicon chip to put all of those things – a telegraph, a telephone, a television, a computer chip, and much, much more – into one device that fits into the palm of our hand, the smart phone.

As a high school student in 1969, I remember listening on the radio (Yes, radio!) as Neil Armstrong took the first step on the moon. One small step for a man, a giant leap for mankind. I remember thinking to myself then, how amazing it was to be able to put a man on the moon! The height of human technological accomplishment.

But today, NASA's own website says, "Your cell phone has more computing power than the computers used during the Apollo era."

Today, there are almost as many mobile phones in the world as there are people. More than one-third of the world is online – a fivefold increase over the last decade. Facebook now has more than 1 billion active users; YouTube gets more than 100 hours of video content added every minute; and over 175 million tweets are added to Twitter timelines every single day. Interestingly enough, Facebook, YouTube and Twitter did not exist a decade ago!

We are increasingly living in an interconnected world and this has changed how we interact with each other, and with governments and companies. Supported by social media, our Dove Sketches campaign in 2013 became the most viewed video advertising of all time with more than 200 million views on YouTube in just one month. At a societal level, this connectivity has also brought dramatic changes. Wael Ghonim, the Egyptian Internet activist & Google ex-employee

described the Egyptian Revolution in 2011, saying: “We used Facebook to schedule the protests, Twitter to coordinate them and YouTube to show the world”.

Digitisation is now advancing even more rapidly and fundamentally changing the way business and society works. It presents both opportunities and challenges and the companies that adapt to this reality will succeed in the future.

Rise of the developing world

At the same time, there is another megatrend happening. The world order is changing as economic power shifts from West to East. According to a 2012 McKinsey study, it took Britain more than 100 years to double its economic output per person during its industrial revolution and the US later took more than 50 years to do the same. More than a century later, China and India have doubled their GDP per capita in 12 and 16 years respectively. Significantly, China and India accomplished this while having about 100 times the population base as the US and Britain did during their industrial revolutions. The report goes on to state that “the two leading emerging economies are experiencing roughly ten times the economic acceleration of the Industrial Revolution, on 100 times the scale – resulting in an economic force that is over 1,000 times as big.” And we are just at the beginning of this massive transformation.

For the last century, the developing world produced for the developed world to consume. But by 2020, emerging Asia will

become the world’s largest consuming block, overtaking North America. This changing balance of power is redefining the world of business. China is poised to be the world’s largest market for luxury cars and luxury goods. At the same time, Asian multinational companies, including several from India, are expanding outside of their traditional markets and bringing innovations for bottom-of-the-pyramid consumers from the developing world to consumers in the developed world.

Narayana Hrudayalaya Hospital right here in India is a great example of these trends. It is the largest heart surgery hospital in the world, doing 6,000 operations a year. Its efficiency and innovations allow it to perform world-class heart surgeries for \$2,000 - a fraction of what it would cost in the US, yet at the same levels of safety. Now it is looking to export its expertise and business model to serve American patients by opening a hospital in the Cayman Islands – a one hour flight from Miami.

This megatrend also presents both opportunities and risks to business. Companies reorganizing their resources and leadership development towards the new economic centre of gravity will benefit. Others will fall behind.

Sustainability

The third megatrend is the changing relationship between humanity and the planet we inhabit. Scientific evidence has proven beyond any doubt that today we are living beyond our means. Living beyond our means not just in a financial sense

(which has already led to the 2008 financial crisis), but also in an environmental sense. You can see the impact already in the loss of bio-diversity, unpredictable weather patterns and natural disasters.

Today, according to the World Wildlife Fund, we are consuming the resources of 1.5 planets. The human population took more than 250,000 years to reach the 1 billion mark in the 1800s. It took a century more to reach 2 billion in 1927. It then took us only 32 years to reach 3 billion around 1960 and only 50 years since then to add another 4 billion to reach 7 billion in 2011. By 2050, there will be another 2.3 billion more people on earth sharing the same space we have today. Almost all of them will be in the developing world.

If the developing world consumed in the future at the rate the developed world consumes today, we would need somewhere between 3-5 planets. Obviously, that is not sustainable.

Section Four: Role of Business in Society

Fundamentally, the confluence of these megatrends raises the bigger question of the rightful role of business in society. Even as over two billion more people become more connected and economically active consuming the scarce resources of our planet, we still have one billion people going to bed hungry every night, 2.8 billion people short of water and 2.3 billion people living without access to basic sanitation.

These are huge challenges that can only be addressed by rewriting the social contract between business and society so that we align business growth with socio-economic progress in a sustainable way. The path forward is a new paradigm for growth called responsible growth.

Businesses have traditionally focused on shareholder value and delivering the 3Gs of growth: consistent, competitive and profitable growth. By adding this fourth G of responsible growth, the new business model looks beyond shareholder value towards creating shared value.

Michael Porter talks about creating shared value as different from sharing created value. Creating shared value is “creating economic value in a way that also creates value for society by addressing its needs and challenges”.

For Unilever and Hindustan Unilever Limited (HUL), this is the key differentiating factor.

To be clear, business still needs to deliver the 3Gs of growth – consistent, competitive and profitable growth. The 3Gs are important because without these, a business cannot create any value. But in this New Normal, these alone are not sufficient. The fourth G recognizes that it is the role of business to not just create economic value but also social value, and to do this in a sustainable way.

Section Five: Winning in a VUCA World

Putting the four dimensions of growth together is the key to unlocking not just how business can win in a VUCA world, but also to rediscovering its true role in society. To do this, businesses need to first put in place the right hardware.

Foresight and agility

Winning in a VUCA world requires the ability to simultaneously manage both the short-term and the long-term goals of a business. In turbulent and fast-changing times, businesses need to be anchored in a long-term destination while also dynamically managing the short-term.

The role of leadership is to have a clear point of view about the future and build an organisation that can navigate towards that destination through good times, and importantly, also in bad times.

Consumer centricity

As the world changes, consumers are also changing. There is an emerging poor in the developed world and an emerging affluent in the developing world. The way people shop and consume is also changing. More than ever, businesses must have an insight into the changing needs and aspirations of their consumers to be successful.

Unilever has long embedded a culture of putting consumers at the heart of our business. Employees across the business are

encouraged to constantly engage with consumers and customers to understand their needs and preferences. This consumer centricity has allowed us to build new markets and categories. The success of HUL in serving low-income consumers and leading market development has come from a simple consumer insight of making our brands accessible through low unit-priced formats and a business model of reverse engineering our costs to support the price that consumers are willing to pay. This helped us pioneer the shift from laundry bars to powders in the Detergents category and from soaps to shampoos in the Hair-care category through single dose low-priced sachets.

A similar approach of consumer centricity is allowing us to lead the development of categories of tomorrow like hair conditioners, deodorants and packaged foods.

Think local and act global

To consistently succeed in the VUCA world, one also needs to be globally leveraged and locally relevant. A very common phrase used by multinationals is 'Think Global, Act Local'. At Unilever, we believe the reality is the reverse because there is no such thing as a global consumer. Our mantra is to think local but act global. At Unilever, we begin by understanding what local consumers and customers need or want. Then we leverage our global understanding, technology and knowledge to provide the best solutions to meet these local needs. Our strength is our

ability to combine global scale with locally tailored solutions. The success of our global brands like Dove, TRESemmé and Knorr are just a few examples of this approach. Organisations of tomorrow need to be neither hopelessly local nor mindlessly global.

Attracting great talent

The ability to attract, develop and retain the best talent is what makes businesses successful in the long-term. Increasingly, young men and women want to work for a company that reflects their own values. If they believe in a common vision and the larger corporate purpose, they are motivated to deliver great performance. It is no longer enough to be working for a business that is doing well if it is not also doing good.

Many talented young people join us for this reason. In Unilever, we have always believed that we do not just sell soap and soup. Instead, we are committed to helping our consumers enhance their standard of living through our brands and improving the livelihoods of millions of people engaged across our value chain.

An example is Lifebuoy. Lifebuoy is more than a bar of soap. It has a profound impact on raising the hygiene standards of millions of people and helps save lives. Similarly, our food brands provide nutrition and fortification to millions across the world. That is how we make a difference in the lives of more than 2 billion people every day across more than 190 countries. Equally, our value chain provides a huge opportunity for uplifting

lives by bringing indirect benefits, including to hundreds of thousands of smallholder farmers, suppliers and small retailers. For example, an independent NGO study in Indonesia showed that beyond the 5,000 people directly employed in the business, our value chain indirectly provides the equivalent of full-time employment to 300,000 others.

This is the reason why we attract some of the finest talent from around the world. Unilever is among the Top 3 Employer Brands in 37 countries. We are now the No.1 Employer in 21 countries, and this figure continues to increase. For us, building an Employer Brand is as important a driver of business as any of the financial measures. Successful global leaders of tomorrow must build commitment from their employees rather than just demand blind loyalty. This is only possible if businesses take a long-term and holistic view of our role in society.

Section Six: Leadership in a VUCA World

However, winning in a VUCA world is not just about the hardware. It is also about having new software – a new kind of leadership that is values-led and purpose-driven and leaders who can redefine the role of business in society.

To be values-led is more than simply putting your values down on a piece of paper. It is about living and breathing those values every day.

As a business leader, it is about having a true north – an internal compass with non-negotiables. It is also about being clear what those non-negotiables are, and most importantly, it is about sticking to them in good times and in adversity.

More than 100 years ago, William Hesketh Lever captured the essence of what it means to be values-led and it continues to define how we at Unilever do business today. He said: “I believe that nothing can be greater than a business, however small it may be, that is governed by conscience; and that nothing can be meaner or more petty than a business, however large, governed without honesty and without brotherhood.”

Today at Unilever, we are anchored in this VUCA world by much the same values that he espoused - values of integrity, responsibility, respect and a pioneering spirit. These are non-negotiables in Unilever.

Being values-led is about the foundation that underpins the Company. Being purpose-driven is about the common objective we work towards that is larger than the Company itself.

At Unilever, we are unified by a shared belief in the purpose of our business. Our purpose is very simple – “To make sustainable living commonplace. We work to create a better future every day, with brands and services that help people to feel good, look good and get more out of life.”

This common purpose has remained largely the same since the 1890s and it unites all our employees across the Company so

that no matter which part of the world we work in, we are working towards a common goal. From the worker on the assembly line making Lifebuoy soap or Pureit water purifiers, to our marketers and brand managers, from our newest recruits to our most experienced business leaders, this is the invisible glue that holds the Company together.

We continue to invest in leadership development and building a pipeline of values-led and purpose-driven leaders to help us navigate through the VUCA world. In June 2013, we opened Four Acres in Singapore, our first-ever global leadership development centre outside the UK. This investment represents Unilever’s commitment to leadership development and building the next generation of leaders from the developing and emerging markets. It will double our capacity to train our pipeline of talent and bring our global curriculum to this part of the world. We are similarly investing here in India where we built a new state-of-the-art Learning Centre at the HUL campus in Andheri last year.

Section Seven: Unilever Sustainable Living Plan

The two ideas I’ve touched on – to be values-led and to be purpose-driven, are vital ingredients for leadership in this new world. They are the anchor that grounds us and the compass that helps us navigate the VUCA world.

In late 2010, we launched the Unilever Sustainable Living Plan which embodies our values and purpose and underscores our

commitment to grow our business responsibly. We have committed to doubling the size of our business while reducing our environmental footprint and increasing our positive social impact. Specifically, by 2020, we have committed to halving the environmental impact of our products across the value chain, to sourcing 100% of our agricultural raw materials sustainably and to helping more than 1 billion people take action to improve their health and well-being. We are proud that two years in, we have made significant progress towards achieving our targets.

Let me give just a few concrete examples.

Our progress in sustainable sourcing has been strong. We are concentrating first on our top ten agricultural raw material groups, which account for two-thirds of our volumes, and we are on track on these. By the end of 2012, 36% of agricultural raw materials across Unilever were sustainably sourced while HUL sourced more than 69% of agricultural raw materials sustainably. In palm oil for instance, 100% of our palm oil across Unilever is now from sustainable sources, which is three years ahead of schedule.

We have also tied up with partners across our value chain, including smallholder farmers, entrepreneurs and governments to ensure sustainable production and responsible growth. By the end of 2012, through our supply partnerships, we have helped train 450,000 tea farmers in sustainable practices globally. In India, we have also expanded our network of Shakti

ammass to 48,000 entrepreneurs covering 3.3 million households in over 135,000 Indian villages. This is the embodiment of our philosophy of doing well by doing good.

Ultimately, our brands have to be agents at the forefront of social change. Diarrhoea alone claims the lives of 3,000 children below the age of five every day. Clinical trials show this is preventable. If we can persuade people to wash their hands with soap at key moments, we can make a big difference to reducing diarrhoeal disease and thus save lives. That is exactly what Lifebuoy soap aims to do. The Lifebuoy hand-washing education programme has already reached more than 119 million people in India and other developing countries. In addition, we have provided safe drinking water for 45 million people in India and globally through Pureit. India accounted for the largest part of the additional 10 million people that we provided safe drinking water to in 2012. Together, we aim to help more than a billion people to improve their hygiene habits and bring safe drinking water to 500 million people by 2020.

Section Eight: Conclusion

We are clearly living in a new reality characterised by Volatility, Uncertainty, Complexity and Ambiguity, and this new world is here to stay. For businesses to succeed in the future, leaders need to redefine the rightful role of business in society by pursuing responsible growth.

At Unilever and at Hindustan Unilever Limited, we have a clear point of view about where we need to go and how to get there. We are building leaders who combine strategic foresight with agility; leaders who put consumers at the heart of the business; leaders with the ability to think local and act global; leaders who invest in building commitment in the organisation and developing others. Most important of all, we are building leaders who are guided by a shared set of values and sense of purpose. With these leaders in place, I am confident that we can overcome the challenges and seize the opportunities to win in this VUCA world. Together, we can fulfill our responsibility in society and in the words of Mahatma Gandhi, “be the change you wish to see in the world”.

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