

Building A Global EnterpriseA

Harish Manwani - 2016



Building A Global Enterprise

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BUILDING A GLOBAL ENTERPRISE

Introduction

We live in an era where the world's largest car travel company does not own a single car. A company that provides tourists lodgings across 34,000 cities in over 190 countries, does not own a single cubic area of space. A company with retail sales of over \$100 billion, does not own a single retail shop. Uber, Airbnb and Amazon are among a growing number of global companies that did not exist a couple of decades ago, but have rapidly grown and are thriving across diverse markets displacing some well entrenched players with their disruptive business models. They have done this by riding the megatrend of digitisation in an increasingly connected world.

The other megatrend is sustainability. More than ever, companies are recognising the need to develop a sustainable business through innovation and are winning with consumers. New age companies such as Tesla and more traditional companies like Unilever are embedding sustainability at the very heart of their operations.

There is also a third megatrend that is changing the world order. This is the rise of developing markets. Notwithstanding the recent slowdown, China, India and other emerging markets have led global growth in the last two decades and will continue to do so. Developing markets account for more than half of the world's consumption in purchasing power parity (PPP) terms.

China has already overtaken the US in 2014 to become the largest economy in PPP terms and India outpaced Japan to become the world's third largest economy in terms of PPP.

In the Fortune Global 500 companies list, over 150 companies are from Asia, a shift that is only going to accelerate. We have seen the phenomenal success of Indian IT companies globally, the incredible turnaround of the ailing Jaguar by Tata Motors and more recently the success of Royal Enfield from India taking the leadership in international markets from the iconic cruiser Harley Davidson. India is making an increasing business impact outside its boundaries across various industries spanning IT, telecom, pharmaceuticals and many others.

A defining moment

Each of these megatrends is creating a disruption in the way the world operates and is changing the paradigm of how business is conducted globally.

In a closely interconnected world, we have seen the democratisation of entrepreneurship, the assertion of developing countries in the global landscape and the emergence of businesses that did not even exist a couple of decades ago. The world has changed and is changing beyond recognition every day. The new normal, notes McKinsey, is a world in which China leads in holiday consumption, the United States has become the largest oil producer, a mobile

messaging app (WhatsApp) is worth \$19 billion, and India is a new leader in space exploration, sending out an orbiter to Mars at a cost less than what it took to make the Hollywood sci-fi hit Gravity!

India is set to grow faster as we race ahead to meet the aspirations of the 1.3 billion people. As the Forbes magazine noted in a 2015 column by its Editor-in-Chief, Steve Forbes, "There's no reason that India shouldn't achieve real double-digit annual growth rates for the next 20 years. After all, India can combine the best of two worlds: harvesting the immense expansion that comes from catching up with developed countries and enjoying the growth, particularly in exports, that comes from its high-tech prowess. Doing this would not only enormously improve India's living standards but also mean a more humane, democratic and richer world."

India stands at a defining moment in its journey to take its rightful place in the world economic order and the rapid expansion of Indian businesses in international markets will only help to accelerate this transformation.

Building a global enterprise

Indian businesses have built a formidable presence domestically and must now strengthen their footprint globally to build truly world-class enterprises that are capable of competing with the best. How does this become a reality?

While new-age companies like Google and Facebook have used the power of technology to rapidly build a global presence, there are many traditional companies that are also reinventing themselves to remain relevant in this fast-changing world. Unilever is one such company that has successfully done this for over 130 years of its existence.

With more than 400 brands focussed on making consumers look good, feel good and get more out of life, no other company touches so many people's lives in so many different ways. With its products sold in over 190 countries and two billion people using its products or services every day, Unilever stands out for its reach, relevance and resilience. More importantly, Unilever's unwavering commitment to 'doing well by doing good' is the catalytic reason for its longevity and success.

A close examination of the changing landscape in which we operate and the characteristics that help global organisations such as Unilever and others to thrive, presents important learnings on how to build global enterprises which are successful and relevant.

Globally leveraged locally relevant

Let us look at the striking paradox that defines this age of global connectedness. While trends are gaining global scale and significance, consumers are becoming more rooted in their local cultures and identities. For example, the digitally aware Indian consumers demand the best products and

services from across the world but at the same time, are more boldly rediscovering and celebrating local customs, tastes and festivals.

More than ever before, businesses need to combine global capabilities and Research & Development (R&D) expertise with local consumer insights. A good example is Unilever that has 13 big global brands, each with a turnover of over one billion Euro. Brands like Dove and Vaseline have a presence in over 80 countries across the globe and the 100-year-old Lipton brand is available in more than 100 countries. Consumers across the world, be it in the US, Europe, Asia or Africa, connect equally well with these brands. This is because Unilever understands the local needs and preferences, and subsequently leverages its global R&D expertise to customise solutions that best fit the local market. Knorr, for example, adapts its offerings to meet local tastes. Also, Unilever's biggest detergent brand Surf has taken its big brand idea of 'Dirt is Good' and successfully adapted it across 71 countries.

Several global brands like Apple are fast learning the need to adapt their products to suit local demands. India is now the fastest growing market for the Apple iPhone. The company recognised the need to adapt the brand's signature features without over-engineering the product and thereby improving its relevance and value for the Indian consumer.

Often companies can become mindlessly global or hopelessly local. While managing multi-country operations, it is important

to strike the right balance between seeking international leverage in terms of innovation and R&D with local relevance for meeting consumer needs and aspirations. Creating the right organisation and mindset is critical to achieving this balance.

Organising to win

In an increasingly connected world and volatile environment, speed is the currency. To win, organisations need to be both stable (resilient, reliable and efficient) and agile (fast, nimble and adaptive). McKinsey's Organisational Health Index of 2015 showed that companies with both speed and stability have a 70 per cent chance of being ranked in the top quartile by organisational health, which is itself a predictor of business success.

As businesses go more global, the benefit of scale brings with it the challenge of speed. The balance between centralisation of processes and the local empowerment for decision-making is not an easy one to achieve. While consistency of processes will enable stability, remaining locally relevant by focussing on customers and consumers will ensure agility.

To build an international enterprise, companies need to empower local markets to focus on consumers and customers while driving product innovation and functional excellence globally. Unilever empowers the geographies to deliver the 'P&L' locally with the support of a global product organisation that delivers world-class innovation by leveraging the

company's expertise and R&D capabilities. This is further supported by global functions that ensure consistency and best practices across all markets. Different parts of the organisation are glued together by a common growth agenda and interlocking goals. Most of the global and regional resources are co-located with the operating company to enable agile decision-making closer to the market. This builds an interdependent culture of teamwork and enables freedom within a framework.

Take for example R&D, which is organised globally but supported by regional innovation centres that are closer to the markets. This structure enables rapid rollout of several breakthrough global innovations adapted through local insights. An example of this is Pureit, which was first launched in India and has now been successfully adapted and rolled out in several other countries across the world. Dove is another great example of a brand that has succeeded in over 80 countries with its truly global brand architecture and offering.

If R&D drives the global innovation pipeline, supply chain keeps the operational wheels moving. With globalisation, supply chains become increasingly complex. As a multi-country organisation, the right balance between global, regional and local can build enormous competitive advantage. In Unilever, the 'Source, Make, Deliver' supply chain model ensures that many of the raw materials are sourced globally to take advantage of scale, manufacturing is local or regional as

relevant and the last mile delivery to customers has a sharp local focus. This provides the optimal balance of low costs and uncompromising customer service.

Everyday great execution (EDGE)

As businesses expand to multiple countries, it is important that they make strategic choices on portfolio and markets. However, it is the ability to rapidly convert strategy into action and plans into 'P&L' across each of the markets that makes enterprises successful globally.

While there are global organisations, there are no global consumers. All consumers are local and trade structures differ from market to market. Multi-country enterprises use the might of their global capabilities and scale, and combine that with the most effective 'route-to-market' to meet the needs of local consumers. This requires a sharp focus on 'everyday great execution' in every single market.

Take Hindustan Unilever Limited (HUL) for example. The company draws on the best technology, global capabilities and innovation to create brands that people love and combines it with a unique distribution model that makes these brands available to hundreds of millions of consumers across the length and breadth of India. Today, nine out of ten Indian households use HUL products. HUL's unparalleled distribution reach ensures that its products are available everywhere, every day in big and small outlets across all urban and even the

remotest rural markets. This model of combining global product capabilities with a relentless focus on execution has made HUL one of the most successful companies in India.

Global leverage often starts with local successes; this applies equally to best practices in executional excellence as well as in product development. On the basis of the learnings in India, Unilever has created a global distributor management system called LEVEREDGE that has now been rolled out across markets in South East Asia and Africa. This is allowing Unilever to raise the bar on customer service consistently across multiple developing markets.

Serving digital age consumers

Digitisation is changing dramatically what consumers watch and where consumers buy. For instance, in India, we have more than a billion mobile phone subscribers and e-tailing is now the fastest growing channel. Technology is creating a level playing field between developed and developing markets. This creates an opportunity for global companies to build digital capabilities and rapidly roll out technology-based business models.

Social media is increasingly becoming an important communication vehicle for reaching out to consumers in every part of the world. Take for example, 'Sketches', a digital campaign for Dove that propagates 'Real Beauty' and inspires self-esteem in women. This campaign was created first for the developed world but was successfully launched across all

markets including India. On the other hand, the Lifebuoy 'Help A Child Reach 5' campaign developed in India was successfully extended to the rest of the world.

Technology is also changing the retail landscape and e-commerce is one of the fastest growing channels internationally – with growth rates of 15% in the US, 60% in China and 80% in India over the last three years. Unilever has been investing in building world-class organisational capabilities to ensure that its brand portfolio enjoys a fair share in this emerging channel. A global network of teams has been created to test and rapidly roll out different models of servicing the e-commerce channel in a variety of markets including India. The key is to simultaneously build and deploy world-class capabilities across all operating companies.

Unilever is also harnessing the potential of Big Data to create and globally deploy leading-edge operational and marketing capabilities. For example, the company has launched two big initiatives – 'LiveWire' – an innovative cross-functional analytical platform that enables real-time decision-making across operating units and the 'People Data Centre' that uses advanced analytics to provide real-time consumer insights and enable personalised consumer engagement. The ability of global organisations to leverage new digital capabilities and roll them out rapidly across markets is an important aspect of winning in this new digital world.

Diversity of talent

Diversity of talent is key to global enterprises. In order to compete in this connected and networked world, companies need talent that has international experience and importantly a global mindset. Multinational organisations use their international footprint to identify, develop and retain a diverse talent pool. Ultimately, people power organisations and deploying a diverse talent pool allows global businesses to be closer to local cultures and at the same time build powerful international networks. Research shows that a more inclusive workforce can boost financial performance, reputation, innovation, and employee motivation. It can also help companies better anticipate and meet the needs of their diverse consumers. This can be a clear competitive advantage for global companies and Unilever recognised this opportunity early in its global expansion.

The company attracts, develops and deploys some of the best talent globally. Closer home, HUL is seen as a CEO factory in India and is also an important talent pool for senior managers within Unilever. While Unilever recruits 95% of its managers locally, a large number of them are provided with international experience at different stages of their career. In fact, the Unilever 'top 100' team has as many as 25 nationalities, making it perhaps one of the most diverse management leadership groups in any company.

Purpose-driven and values-led leadership

The most important asset for any global organisation is the reputation and trust it builds within the local communities. In today's connected world, a carefully built reputation can be instantly destroyed at the click of a mouse. We have seen many global companies pay the price for a wrong leadership action and Volkswagen's 'dieselgate' saga is one such recent example.

Good governance and compliance to local and international regulations is minimum table stakes for any global company. Therefore, robust internal systems and processes are important for a global enterprise to run not just efficiently, but also responsibly. However, the ultimate glue that holds an organisation together is not just operating manuals, but a common purpose and shared values. For that, businesses need a new kind of leadership that is purpose-driven and values-led. It is a common purpose that energises an organisation towards bigger goals and shared values that keep it anchored in a set of non-negotiables. Both are equally important.

'Doing well by doing good' has been Unilever's guiding principle since inception in the late 19th century when William Hesketh Lever saw the squalor of Victorian England and acted to change it. He offered a simple yet effective way of improving the lives of people – a bar of Sunlight soap that helped to popularise cleanliness and hygiene. In his own words, it was 'to make cleanliness commonplace; to lessen work for women; to foster health and contribute to personal attractiveness, that life may be

more enjoyable and rewarding for the people who use our products'. What took root was a business with a social mission. This has stayed with the company in every single part of the world where it operates.

Unilever's purpose of 'making sustainable living commonplace' and values of integrity, responsibility, respect and pioneering, motivate and drive the 168,000 employees across the world. The philosophy that underpins this purpose is as plain as it is powerful: Unilever wants to prosper with the communities in which it operates. The vision is to grow the business whilst decoupling its environmental footprint and increasing its positive social impact. This is at the core of the Unilever Sustainable Living Plan (USLP), Unilever's blueprint for sustainable growth.

The USLP has three overarching goals – help more than a billion people improve their health and well-being, halve the environmental footprint of its products and enhance the livelihoods of millions of people. These commitments are underpinned by clear targets which are monitored and reported annually. For example, by 2015, Unilever reached over 450 million people through its programmes on handwashing, oral health and safe drinking water. In manufacturing operations, Unilever reduced CO₂ emissions from energy by 39%, water use by 37% and waste by an impressive 97% as compared to 2008. More than half of Unilever's raw materials are now sourced sustainably. In fact, 100% of palm oil used in Unilever products

is from sustainable sources backed by GreenPalm certificates; also, 100% of the tea in Lipton tea bags comes from Rainforest Alliance Certified™ sources. In partnership with others, over the last decade, the company enabled 2.4 million people – 600,000 smallholder farmers and 1.8 million small-scale retailers – to access initiatives aimed to improve their agricultural practices or increase their sales.

The global impact of USLP is due to its passionate deployment across all Unilever operating units. For example, in India, HUL has reached over 65 million people through its Lifebuoy Handwashing programme mainly in the rural areas. The 'Swachh Aadat Swachh Bharat' programme launched last year in line with Government of India's Clean India Mission, has reached out to 75 million people through a mass-media campaign and is being augmented by on-ground initiatives in urban slums. The Hindustan Unilever Foundation, in partnership with NGOs and local governments, has created water conservation potential of over 200 billion litres in water scarce regions across India. Through 'Shakti', a programme that creates livelihood opportunities for rural women, the company is empowering nearly 70,000 women. The USLP is inspiring several similar initiatives in other parts of the Unilever world and reinforcing its commitment to responsible growth.

Unilever is not alone in recognising that enterprises must link business good to societal good. According to the UN Global

Compact – Accenture CEO Study, 97% of CEOs see sustainability as important for the future success of their business and 78% see sustainability as an opportunity for growth and innovation. Unilever CEO Paul Polman has stated, "The more our products meet social needs and help people to live sustainably, the more popular our brands become and the more we grow. And the more efficient we are at managing resources such as energy and raw materials, the more we lower our costs and reduce the risks to our businesses and the more we are able to invest in sustainable innovation and brands." This forms a virtuous circle of growth that is imperative for successful businesses in the future.

Conclusion

We live in fast-changing times. The three megatrends of connectedness through digitisation, the imperative for sustainable business models and a changing global economic order are converging to create a new world.

With developing countries poised to lead the world economy, this is a defining moment for Indian businesses that plan to expand their global footprint. To be a truly global enterprise, businesses need to balance global leverage with local relevance, build an organisation that is diverse and agile, and embrace technology to serve the fast-changing needs of consumers everywhere. While organisations may be global, success and failure is decided locally around the world and winning in the marketplace

through great execution has to be an integral part of any corporate agenda.

Above all, to be successful in a world where societal trust in business is eroding, global companies must adopt the model of responsible growth and go beyond mere compliance to laws and regulations. The outcome of the recent 'Brexit' referendum is a reminder that there is a rising tide of nationalism and a retreat of globalisation. In that context, it is even more important for companies to not just be seen as responsible international citizens but also be perceived as serving the local communities. Business is and must be a force for social good and companies must strive to win the hearts and minds of the local communities in which they operate. This requires a new kind of leadership that is purpose-driven and values-led, leadership that embraces the new mantra that successful companies need to go from 'great' to 'good' – be focussed on delivering great business results but at the same time be good for the society.

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