

THE CORPORATE PERSPECTIVE

Antony Burgmans, former CEO of Unilever

Antony Burgmans until recently has been non-executive chairman of Unilever, a company he joined in 1972 as marketing assistant. Number 59 according to *De Volkskrant's* ranking of the most 'powerful' people in the Netherlands. According to Unilever's own website: "he is a keen supporter of the planet's wildlife and set up an initiative between Unilever and the World Wildlife Fund, resulting in the Marine Stewardship Council". He is also a member of the supervisory board of AkzoNobel, a member of the international advisory board of Allianz AG and non-executive director of BP. He is co-chairman of the Global Commerce Initiative (GCI) and chairman of the supervisory board of the Mauritshuis Museum in The Hague.

My congratulations to the Rotterdam School of Management, Erasmus University, and to Max Havelaar for picking such an interesting topic, especially for a business school. Many great thinkers come from business schools – my very great friend C.K. Prahalad for instance. He was the inventor of the phrase "the bottom of the pyramid." There is a lot that business schools can add when they discuss this problem. I want to make four points in the context of what Jeffrey Sachs has said.

Agricultural paradoxes

The first one is the devastating effects of the agricultural policies of the U.S. and Europe on poverty. We should not forget there are about a billion people who have \$1 a day, or less, to spend. And there are about a billion people who are underfed – probably this is the same group. The agricultural subsidies in Europe, the U.S. and Japan, frustrate agricultural development in developing countries. A whole sector – which could be flourishing in the developing world – is being chopped off because we block the access for their products to our markets. For instance, for decades we have in Europe been paying three to four times the world market price of sugar because sugar-producing nations, who do it far more efficiently and effectively and are often much poorer in their economic development than we are, cannot access our markets. And, by the way, who pays for it? You and I: because we have been paying three to four times as much for sugar as we could have been doing. Now, there is modest reform under way, but we are still paying far above normal market prices.

The second thing we do, when there is a functioning agricultural sector in developing countries, is that we sometimes kill it off through our subsidies, since we export to these markets. Jeffrey Sachs gave [in the discussion, ed.] the very good example of cotton. Now a new cynical chapter has been added to the history of agricultural policy: biofuels. What we are doing nowadays – when we well know there are 1 billion people poor and hungry – is that we are putting food in our petrol tanks, in our cars, in order to move around. This is one of the most important factors behind the worldwide rise in food prices at the moment. There are other factors too, but this is a very important one. With subsidies both in Europe and in the U.S. we are now encouraging farmers to grow corn and then convert it into biofuels. Then we say that this is good for the environment. Well, this is a myth. A recent study published by the Swiss government shows that first-generation biofuels do not have a positive effect on global warming. Now, food prices are going up 20 to 30% at the moment. A World Bank study has

shown that a 1 per cent increase in food prices leads to a half % reduction in calorie intake. So while we know there are 1.5 million people going hungry, we still support these policies. To use an old Indian saying: we speak with forked tongue. On the one hand we commit ourselves to the plight of the poor, but on the other hand we enact new policies that are directly adverse to the plight of these people.

Development aid and the role of business

The second point I want to make is on the whole issue of development aid. I agree completely with Jeffrey Sachs that we have to step up our game here in the western world. However, this in itself is far from enough. Many countries have received billions and billions of dollars over the last 25 years, many times the size of their GDP, and they have nothing to show for. So there is an issue here. Throwing money at the problem is not the only answer. Yes, we need the funds, but we need to improve the absorption capacity of these countries to take on aid. The second problem we have with development aid at the moment is that 55% of all development aid never reaches its destination. Somewhere before that it is swallowed up by consultants, bureaucracy and government bodies. According to World Bank estimations, 55% of development aid never gets in the targeted country. So I think the efficiency and effectiveness of development aid are things that really need to be considered, and I think business schools can play an important role here.

The third point I want to make is on the specific role of business in poverty alleviation. Now, the best thing business can do for a poor country is being there and doing business. Oxfam, together with Unilever, studied the effects of Unilever's presence Indonesia. I know that country very well. I lived there for seven years. Oxfam started this study and anticipated it would confirm its suspicions that most of the added value reached the multinational and not the locals in the community. I have lived there and I knew beforehand that the conclusion was going to be completely different – and so it was. Three quarters of the added value that Unilever generates in Indonesia stays in the country. How? Through paying taxes; by paying people decent wages; by organising training – not just for our own people but for our suppliers, our customers and our distribution base. We provide jobs for over 10,000 people just in our distribution base, we train these people and many more things. If you go through this with a fine tooth-comb you will find the vast majority of the added value stays in Indonesia. Business schools can carry out studies to document the positive effect of multinationals on these countries. So, as I have said, the best thing that businesses can do is to be there doing business. However, you need an environment there in which you can do business. What should the host government do? I very much agree with Jeffrey Sachs – it is back to basics. We need roads to transport our products; we need infrastructure; we do need people with a decent education, and we need people to be healthy, otherwise they cannot work. Healthcare is very important. It is these basics that a country needs. Sometimes it is as basic as safety and sanitation. We used to have a great business in Congo, but unfortunately we had to leave because we could no longer guarantee the safety of our own employees. And that is when it all stops. So we need basic infrastructure to do business. Witnessing in how many countries – more than 125 - not only Unilever, but other companies, can operate, and you can see firms do not need much. Most of important of all is a reliable judicial system.

Appropriate business models

The final point: is there anything more that business can do? Of course there is more, and here I would like to come back to a point Jeffrey Sachs made. In the pursuit of earnings, a decent return for our owners - our shareholders - we develop skills and competences and technologies. Very often if you apply these skills with relatively little effort in the communities with which you are surrounded you can make dramatic changes. Let me give an example – which has also been documented by business schools. I wrote a case history when I was on the student council – and I know Harvard has written a case history on Shakti. Shakti is a project in India. We have a great company in India. Shakti is a programme that employs women in deeply rural communities in India. They help us in our distribution chain. If you live at the bottom of the pyramid and you are very poor you cannot step into your car and drive 20 kilometres to go to the supermarket to buy your shampoo or your washing powder – you have not got the money for it. What we do in India, in Indonesia and Brazil, is that we practically deliver the products to the consumers' doorsteps, because these people cannot travel more than half a mile. We need to have our distribution points very finely located in the rural areas of India. What we did was select women in those rural areas and train them. Then, through a micro credit bank, we asked them to invest \$200 to buy our Unilever products and they then set forth and started selling their stock, the products – with a mark-up of course – to little shops in the area and to consumers, door to door. We have tested this in two states in India and currently we do not employ them – they are entrepreneurs – but we guide them and we train them. We make sure they have the necessary micro finance, and we currently employ 20,000 women there. On average they can improve their monthly wage of about \$20 to about \$40 - \$50 on average. That is the difference between life and death in these communities. Fifty dollars a month is a large amount of money in that community. What we have done there is de facto an integral part of our business model. We know everything about distribution, we know everything about training people, this is part of the skills we have in doing business. We are applying that with relatively little effort in these two states. We are already helping 20,000 women, so if we do this across India we could easily be talking about 200,000 women. I have been to these villages, and I have seen what happens to these ladies. All of a sudden they become more assertive, better mothers, better managers of their households. It has a radiating effect.

The point that I would like to leave you with for the business school is that these things become more effective if businesses can find ways in which to build these sorts of efforts into their business models.