

# **Unilever Company Profile**

**written for FNV Mondiaal by  
Food World Research & Consultancy  
/Paul Elshof**

**Amsterdam, updated January/May/July 2005**

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written for FNV Mondiaal by  
Food World Research & Consultancy / Paul Elshof  
as part of the FNV Company Monitor Project

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# 1. General characteristic

## 1.1. Communication Data:

**Company:** Consists of 2 headquarters since the merger in 1930 of Margarine Unie (Rotterdam) and Lever Brothers (London).

<p><b>Unilever NV</b>                  Weena 455                  PO Box 760                  3000 DK Rotterdam / Netherlands                  telephone: ++ 31 (0)10-217 4000                  telefax: ++31 (0)10-217 4798                  www.unilever.com</p>	<p><b>Unilever PLC</b>                  Unilever House                  PO Box 68                  Blackfriars, London EC4P 4BQ / UK                  telephone: ++44(0)20 7822 5252                  telefax: ++44(0)20-7822 5951                  www.unilever.com</p>
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Website <[www.unilever.com](http://www.unilever.com)> has several sections covering: company, brands, environment (including an Environment Report), society (including a Social Review of the Company), finance (quarterly and annual results), careers and news.

## 1.2. Turnover and profit: for the last 8 years

Figures in € mln	Turnover	Operating profit	Net profit
1996	39,840	3,412	1,908
1997	42,926	3,432	4,957
1998	40,437	4,410	2,944
1999	40,977	4,303	2,771
2000	47,582	3,302	1,105
2001	51,514	5,174	1,838
2002	48,270	5,041	2,129
2003	47,421	6,066	2,942

## 1.3. Main activities

Production and marketing of foods and home and personal care products.

**Foods:** margarine and related spreads / culinary products / tea / ice cream

**Home and Personal care:** detergents / toilet preparations (deodorants / oral hygiene / hair care / skin care products / fragrances).

This dual-activity base is a recent phenomenon. During the past decade many of the product divisions have been disposed of; the latest being Specialty Chemicals (Quest / Unichema / Crossfield), which was sold in 1997 to ICI. (See history)

## 1.4. Market Positions

(based on Food-turnover 2000 in billions of US dollars)

Foods worldwide:  
Unilever is 3rd behind Nestlé and Kraft (food turnover only)

1. Nestlé	\$ 49
2. Kraft	\$ 34
3. Unilever	\$ 30

specific regions / continents:  
1st in Europe and South Asia  
2nd in Latin America  
4th in North America

Home & Personal care: worldwide  
1st in detergents, mainly based on dominating market positions in Latin America, Asia and Africa.  
2nd in North America and Europe behind Procter & Gamble or Henkel.  
3rd in personal care worldwide behind L'Oreal and Procter & Gamble  
- a different rank in each region: Unilever's strongest activities are personal skincare (toilet soaps and others), oral hygiene and hair care.  
- In this scheme a single worldwide structure is created for the prestige fragrance activities: Unilever Cosmetics International.

## 1.5. Ownership Structure<sup>1</sup>

(See annex 1 for changes in corporate structure since January 2005.)

The two holding companies, Unilever NV and Unilever PLC, have the same board of directors. This guarantees a unified management approach. Antony Burgmans, the chairman of the board of directors at Unilever NV, since May 1999, is also vice-chairman at Unilever PLC. Meanwhile, Niall Fitzgerald, the chairman at PLC, since May 1996 serves as vice-chairman at NV.

NV and PLC have signed an equalisation agreement, which basically regulates the harmonisation of financial and accounting policies. In fact, this agreement serves as the most important way to guarantee similar dividend policies, albeit expressed in two denominations: the Euro and the British Pound Sterling. For all intents and purposes, the two companies act pretty much as single company.

The PLC headquarters in London also serve as the offices of global division of the Home & Personal Care group. Meanwhile, the NV headquarters in Rotterdam are also the offices of the global division of Unilever Bestfoods and Ice Cream/Frozen Foods.

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<sup>1</sup> Unilever 2003 Annual Report & Accounts and Form 20-F, p.47

In general then, Unilever PLC serves as the shareholder of all Unilever subsidiaries located in the British Commonwealth. In most Latin American countries, Indonesia and China, Unilever NV is the shareholding company. The main exception here is Unilever USA, where NV owns 75% and PLC 25%.

Most subsidiaries are fully owned by one of these two holding companies except those in India, Ghana, Nigeria, Indonesia and a few other countries. In these cases, ownership is to varying degrees shared by Unilever and local shareholders. In India for example, Unilever PLC owns 51.5% of the shares of Hindustan Lever, while 24.5% are owned by institutional shareholders, and the remaining 24% by individual shareholders. Hindustan Lever appears on the Mumbai Stock Market. This is also the case for other subsidiaries only partly owned by Unilever, which appear on their own national stock exchanges.

According to the Annual Report & Accounts and the Form 20-F 2003 Report, there are a few organisations, which hold more than 5% (of NV) or 3% (of PLC) of the shares in both holding companies.<sup>2</sup>

- ❑ in NV: ING Verzekeringen NV and Aegon Levensverzekering (two Dutch-based insurance companies)
- ❑ in PLC: Leverhulme Trade Charities Trust, Fidelity Management and Research Company, and the Capital group Companies, Inc.

The majority of shares remain widely distributed. NV's shares, for instance, are distributed among numerous institutional shareholders and private shareholders in the Netherlands, Switzerland, Germany, and the US. PLC's shares are mostly in the hands of British institutional and private shareholders.

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<sup>2</sup> idem, p.158

## 2. Production Characteristics

### 2.1. Turnover and Profits per Product Group: 1997-20033

#### Turnover per product group

Turnover in € billion	1997	1998	1999	2000	2001	2002	2003
Foods	21.3	20.9	20.3	23.9	28.1	26.9	23,9
Home & Personal care	18.7	18.8	19.8	22.8	22.7	20.8	18,4
Other operations	1.1	0.7	0.9	0.9	0.6	0.5	0,3
Specialty chemicals	1.8	-	-	-	-	-	-
<b>Total</b>	<b>42.9</b>	<b>40.4</b>	<b>40.9</b>	<b>47.6</b>	<b>51.5</b>	<b>48.2</b>	<b>42,7</b>

#### Group operating profit per product group

Operation profit in € mln	1997	1998	1999	2000	2001	2002	2003
Foods	1,242	1,801	1,770	1,707	2,136	2,083	2,648
Home & Personal care	1,849	2,093	2,337	1,392	2,761	2,882	2,766
Other operations	108	516	153	31	49	42	69
Specialty chemicals	233	-	-	-	-	-	-
<b>Total</b>	<b>3,432</b>	<b>4,410</b>	<b>4,260</b>	<b>3,130</b>	<b>4,946</b>	<b>5,007</b>	<b>5,483</b>

### 2.2. Turnover and Profits per Region: 1997-2002<sup>4</sup>

#### Turnover per region

Turnover in € billion	1997	1998	1999	in %	2000	in %	2001	in %	2002	in %	2003	in %
Europe	19.6	18.1	18.0	44	18.9	40	20.1	39	19.5	40	18,2	43
North America	8.9	8.4	8.8	22	11.6	24	13.7	26	12.4	26	9,8	23
Africa & Middle East & Turkey	2.8	3.0	3.0	8	3.2	7	3.2	7	3.1	7	3,3	8
Asia and Pacific	6.6	5.8	6.7	16	8.0	17	7.8	15	7.6	16	7,1	17
Latin America	4.9	5.0	4.3	10	5.6	12	6.6	13	5.4	11	4,4	9

<sup>3</sup> idem, p.129

<sup>4</sup> idem, p.129

## Group operating profit per region

Operating profit in € mln	1997	1998	1999	2000	2001	2002	2003
Europe	1,742	2,254	2,088	1,642	2,412	1,598	2,563
North America	505	942	847	48	1,127	1,541	1,071
Africa & Middle East & Turkey	217	268	302	321	196	282	419
Asia and Pacific	557	457	642	776	873	1,081	1,072
Latin America	411	489	381	343	338	505	358

## 2.3. Specific Product Groups: 2001-2003

### Foods: turnover and operating profit per product-category

Foods (in € million)	2001		2002		2003	
	Turnover	Operating profit	Turnover	Operating Profit	Turnover	Operating Profit
Savoury & Dressings <sup>5</sup>	9,999	765	9,503	427	8,609	478
Spreads & Cooking products <sup>6</sup>	6,771	771	6,216	787	5,028	789
Health & wellness and beverages <sup>7</sup>	4,299	296	4,215	383	3,569	403
Ice cream & frozen foods <sup>8</sup>	7,727	386	7,456	569	6,994	1,024

### Home & Personal care: turnover and operating profit per category

Home & Personal care (in € million)	2001		2002		2003	
	Turnover	Operating profit	Turnover	Operating profit	Turnover	Operating profit
Home care <sup>9</sup>	10,467	627	8,579	836	7,230	908
Personal care <sup>10</sup>	12,310	2,137	12,245	2,048	11,153	1,858

### Employment per Region (at year end)<sup>11</sup>

Per year in thousands						
Europe	81	74	80	71	60	55
North America	23	22	39	22	21	20
Africa & Middle East & Turkey	60	50	48	49	52	52
Asia & Pacific	73	71	84	85	82	77
Latin America	30	29	44	38	32	30
<b>Total:</b>	<b>267</b>	<b>246</b>	<b>295</b>	<b>265</b>	<b>247</b>	<b>234</b>

Source: Unilever Charts 2001

Employment figures per product group are not publicised.

<sup>5</sup> idem, p. 32

<sup>6</sup> idem, p. 34

<sup>7</sup> idem, p. 36

<sup>8</sup> idem, p. 38

<sup>9</sup> idem, p. 41

<sup>10</sup> idem, p. 43

<sup>11</sup> idem, p. 13



## 2.4. Presence by Production Factories & Sales Offices

Unilever and Nestlé are the two most widely represented companies worldwide in terms of production and sales facilities. It is easier to list the countries where Unilever is not represented with production locations at this time: Burma, Cuba, and Algeria.

By far the most important countries in terms of investment and ownership of production locations are:

Europe	: UK, Germany, Netherlands, and France
North America	: US
Latin America	: Brazil
South Asia	: India
Asia & Pacific	: China, Japan, Australia, Philippines, Thailand, Indonesia
Africa & Middle East	: Ivory Coast, Ghana, Nigeria, South Africa

Worldwide Unilever owns about: 500 factories of which about 305 involve food and about 200 involve detergents and personal care products. The acquisition of Bestfoods at the end of 2000 brought an additional estimate 70 factories, employing 44,000 workers in 60 countries.

The results of this acquisition remain ambiguous: a number of factories are being sold off (partly because anti-monopoly agencies in the US and EU made the initial acquisition conditional on some disposals, and partly because specific products didn't fit in with current management strategies). Most of the factories in the 'old' Unilever structure are located in Europe (about 160) and in India (about 110).

The company announced in 1999 that it wanted to concentrate the production of its major brands/products in about **150 key-factories** world wide, all being at least at 'world class manufacturing levels'. The number of actually existing production sites will be reduced by about 100: through closures and disposals. The remainder will be production sites of mostly local products for local markets. Probably these numbers have to be changed after the take-over of Bestfoods. No new information has been released after 2002 about this subject. But quite regularly factories have been closed or sold over the last years.

## 2.5. Characteristics of Product Groups: Products & Brands

### Product Divisions

Unilever has adopted in 2000 a simplified structure involving two major product divisions: **foods** and **home & personal care**. A limited number of **core-product categories** are selected from within this structure.

This structure was designed in 1999/2000 and was implemented in the second half of 2000. It was further implemented worldwide in the course of 2001. The implementation coincided with the acquisition of Bestfoods in 2000 (the largest Unilever acquisition in its history). The Foods division has since been renamed: **Unilever Bestfoods**.

This new structure is much simpler than Unilevers complex structures during the 1980s and 1990s when the company maintained product-based division structures in Europe and North America and regional structures in the most important regions on the other continents. Since 2000 the same structure applies worldwide.

The structure of these two major product groups includes a number of product categories (core product groups) on which the company concentrates worldwide. The aim is to reach number one position in terms of market-position in each relevant market.

Each category has its own growth-target:

superior growth: faster growth (between 6-10% annually) than general market-growth.

steady growth: approximately same growth rate as total market.

selective growth: growth in selected regions, not necessary in all.

The various core categories are listed according to their growth-target and main product group.

	Foods	Home & Personal Care
<b>Superior growth</b>	Tea Culinary products Ice cream	Hair care Skin care Deodorants
<b>Steady growth</b>	Spreads & cooking products (margarine, vegetable oils etc.)	Oral care Laundry detergents Household care
<b>Selective growth</b>	Frozen foods	Fragrances

## 2.6. Market Positions

Unilever is the market leader in nearly all of the selected core-product activities (see table below). This is not necessarily the case in each country in the regions mentioned. But where this is not yet the case one can easily see the Unilever strategy in the years to come: Their aim is to become the market leader through (1) the purchase of national companies, (2) by investing in a green field site in that country, or (3) by importing (when possible and profitable) from external sources.

	World	Europe	N.America	L.America	Asia/Pacific	Afr/M.East
Tea	1	1	1	1	1	1
Culinary prod.	1	1	1	1	2	2
Ice Cream	1	1	1	1	1	1
Spreads & c.p.	1	1	1	1	1	1
Frozen foods	n.a.	1	3/4	n.a.	n.a.	n.a.
Laundry det.	1	2	2	1	1	1
Household care	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hair care	2	3	2	1	1	1
Oral care	2	2	2	2	2	2
Skin care	2	2	1	2	2	2
Deodorants	1	1	2	1	1	1
Fragrances	1	2	1	n.a.	n.a.	n.a.

n.a.: not available or not applicable

## 2.7. Brands

Unilever owned until recently some 2000 different brands worldwide. This is the direct result of the company's history. Over the decades, it acquired many local/national companies, each with its own national brands. This legacy continued for a long time. In 1999, Unilever came up with a new strategy to accelerate growth, its so-called '**Path to Growth**'. One of the major elements of this strategy involved refocusing more on major brands. This involved the reduction of its number of brands from about 1600 still in use to 400.

Very few brand names have worldwide resonance. Unilever's policy involves stretching well-known brand names into different product categories. For instance, Lipton started as a brand name in tea but has since

expanded into beverages. Dove began as a brand name for special soaps, but has since expanded into shampoos, deodorants, shower gels and other products.

The major brand names are mentioned below, with foods and home & personal care products separate.

**Foods: Products and Brand Names**

	<b>Oils &amp; dairy-based foods</b>	<b>Ice cream</b>	<b>Beverages</b>	<b>Culinary products</b>	<b>Frozen foods</b>
<b>Worldwide brands</b>	<i>Margarine:</i> Rama Becel Blue Band <i>Mayonnaise:</i> Hellman's <i>Table oil:</i> Bertolli	Magnum Cornetto Calippo Solero Winner Taco Ben & Jerry's	Lipton Tea Brooke Bond Lipton Ice Tea	Knorr Lipton	
<i>Brands in:</i>					
<b>Europe</b>	<i>Margarine:</i> Flora /Pro-Activ Becel /Pro Activ  <i>Mayonnaise:</i> Calve	Vienetta Carte d'Or		Ragu Calve Amora Maille Colmans Chicken Tonight	Langnese Byrds Eye W. Captain Iglo Iglo Agrigel
<b>North America</b>	Take Control Shedd's Brummel&Brown ICBTNB	Klondike Popsicle Good Humor Breyers		Ragu	Gorton's
<b>South Asia</b>		Kwality	Lipton Tiger	Kissan Annapurna	
<b>Asia &amp; the Pacific</b>		Wall's Mountain Cream Streets	Jinghua		
<b>Latin America</b>				Cica	
<b>Africa &amp; M.East</b>	Rama			Tasbeeka Annapurna	

**Home & Personal Care: products and brand names**

<b>Detergent powders &amp;</b>	<b>Home cleaning products</b>	<b>Personal skin care</b>	<b>Personal oral hygiene</b>	<b>Personal hair care</b>
--------------------------------	-------------------------------	---------------------------	------------------------------	---------------------------

	<b>liquids</b>		<b>- toilet soaps - foams - deodorants</b>		
<b>World wide brands</b>	Sunlight Omo Surf Skip Wisk	Cif Domestos Vim Comfort Sun	Dove Lux Rexona / Sure Axe / Lynx Pond's Suave Vaseline Impulse	Pepsodent Close-Up	Dove Timotei Sunsilk Suave
<i>Brands in:</i>					
<b>Europe</b>	Persil Robijn Snuggle			Signal	Andreon
<b>N.America</b>			Caress Lever 2000	Mentadent	Thermasilk
<b>South Asia</b>	Wheel Rinso		Aviance		
<b>Asia &amp; the Pacific</b>	Viso			Zhonghua P/S	Hazeline Mod's Hair
<b>Latin America</b>	Brilhante Ala		Ala		Seda
<b>Africa &amp; M.East</b>			Good Morning		

**Fragrance** brands are commonly employed worldwide: Calvin Klein, CK-One

Recently, Unilever acquired numerous “wellness products” and added them to the foods division under the brand name Slim-Fast. Slim Fast was a wellness products company ( dietary food products) that was acquired in 2000 in the USA. The line consists of products that are substitutes for full meals and are claimed to contribute to the general health of consumers. But this acquisition didn't bring results, while this brand lost market share in the competition with the Dr.Atkins range in North America .

## 3. Strategy

### 3.1. History

The company under its present name of Unilever was founded in 1929 when two major companies, Margarine Unie and Lever Sunlight, merged. Margarine Unie was itself the result of a merger of two Dutch-based margarine companies, Van den Bergh and Jurgens. From the beginning, Unilever adopted a dual structure involving two headquarters—one in London (Unilever PLC) and one in Rotterdam (Unilever NV) and shared a common board of directors, with a British citizen always heading the British PLC branch and a Dutch citizen always heading the Dutch NV branch.

By 1930, a third major company merged with Unilever: the United Africa Company (UAC), basically a large trading conglomerate with very strong positions in the African export-import trade (mostly involving Western Africa). In 1929, the two parent companies already owned factories and trading subsidiaries in Asia and Africa. Both remained dependent on vegetable and marine oils for their margarine and soap products and so they expanded their activities into countries where they could acquire these basic raw materials.

In the early years, Unilever developed into a company with worldwide activities. It built or purchased factories in Japan (1909), Argentina (1928), Brazil (1929), Thailand and Indonesia (1932), India (1933).

Between 1945 and 1980, expansion of Unilever activities took place mostly in Europe. Unilever diversified into new areas including frozen foods, fish production, fish restaurants, transport, animal feed, chemicals, and printing. This diversification took place mostly in Western Europe, and specifically in its “home-countries” the UK, the Netherlands, and West Germany. Unilever’s soaps and detergents sectors expanded steadily worldwide, primarily through acquisitions. Meanwhile, Unilever’s food sector remained predominantly a Western European company.

### 3.2. Strategies 1980-2000

Between 1980-1982 Unilever began reviewing its strategy and decided to select a few **core-product groups**. Thereafter the predominant strategy became:

- ❑ expand worldwide in the selected core-product activities
- ❑ disposal of all activities no longer considered core (mostly involving activities in Europe)
- ❑ increase growth in North America and major developing countries; diminish the high dependency on Europe (60% sales and profits).

This process commenced in 1982 and continued on into the late-1990s. Unilever’s first important acquisition was Brooke Bond in 1983. It instantly made Unilever the worldwide market leader in tea and gave it a strong position in India’s tea market. In 1985 it attempted to acquire Richardson Vick’s in the US but was outbid by Procter & Gamble. A year later, in 1986, it successfully acquired Chesebrough Pond’s. This purchase allowed Unilever to strengthen its North American position in personal care products sector (one of the selected core product activities).

The other side of this strategy of concentration on core activities worldwide involved the process of European disposals. Between 1983 and 1990, Unilever sold some 70 companies, even though these companies gave it market leadership in some product sectors in Europe. That was the case involving the areas of transport, animal feed and oilseed milling. Critics at the time commented that buying and selling companies seemed to be Unilever’s main activity.

This policy plus the fact that Unilever was not prepared to inform its workers about this policy or even discuss it with them made workers feel insecure and angry. This provoked a unique trade union action when some 4,000 Unilever workers, from some 10 countries demonstrated in front of the Unilever headquarters in Rotterdam against this strategy.

In the period 1989-1990, Unilever's management department was also changed to facilitate a sharper focus on the core activities strategy. All activities were structured into 3 product groups: Lever / Foods Executive / Personal Products.

This laid the basic groundwork for an **aggressive globalisation policy in the core activities**:

The main strategic elements were:

- ❑ aggressive acquisition policy in emerging markets: with first priority given to foods including tea, ice cream, margarine & spreads, and culinary products.
- ❑ **priority regions** to attack: China, India, Indonesia, Eastern Europe, Latin America.
- ❑ internal market harmonisation project that was directed at the EU in 1992: consolidation of production facilities to prepare for the one European market scenario.

Unilever wanted to generate some 30% of its total turnover in 1995 from developing countries, which had been renamed emerging markets.

An illustration of the way Unilever pursued these 1990s policies:

- ❑ Between 1992-1999 it acquired market leadership status in the ice cream market in China, India, Indonesia, Thailand, Brazil, Argentine, Mexico, and the US. In fact, worldwide.
- ❑ During this same period, it reorganized its European ice cream companies: reducing the number of factories from 17 to 8 and a few more will probably end up being closed in the future.
- ❑ Unilever acquired market leadership status in culinary products in Argentina and Brazil by purchasing Cica; and in India with the purchase of Kissan (both very important tomato-based product companies). It also bought important culinary product-companies in China (Laocai), in the UK (Collman), and in France (Amora-Maille). World brands were acquired with Unilever's takeover of Bestfoods in 2000 (Knorr/Hellmann).

### **3.3. Strategy implemented in 2000-2004: Consolidation of Brands and Production**

In 1999, Unilever formulated its actual ongoing strategy under the name "**Path to Growth**".

The key elements of this strategy are:

- ❑ Concentration of investment, innovation, and marketing support on a limited number of about 400 worldwide brands. In other words: a strong focus on branding. This implies reducing the number of brands from 1600 to 400.
- ❑ This was meant to reach annual growth figures of 5-6% in sales volume and operating margins of over 16%. The actual figures are about 2-4% growth with operating margins of 12.1% in 2000.
- ❑ In conjunction with this focus, Unilever seeks to reduce the number of production sites and thus concentrate production at about 150 key sites in the period 2000–2004. This means a reduction of the number of factories by about 100 via disposals or closures. In 2000 23 factories were closed or sold, involving 5,300 employees. In 2001, 59 plants were closed or sold. In addition to the 150 key sites, 200 sites will serve as production sites for local or national products. In Unilever's language of "local heroes", this means factories where local market-leading and profitable products are produced.
- ❑ At the same time a higher level of outsourcing of production to third parties will be part of this policy.
- ❑ The costs of this restructuring operation are estimated at € 5 billion over a period of 5 years. In the year 2000, Unilever paid out € 1.8 billion for restructuring costs. The aim is to reach annual savings of about € 1.5 billion per year and delivering extra profits of about € 2.5 billion during this period. On top

of these savings, Unilever expects to save another € 1.6 billion per year by switching from local/national to global buying or sourcing. This means a switch to fewer suppliers and they in turn are urged to deliver higher volumes for lower costs. This cost-cutting strategy cascades down through the entire supply chain.

This strategy was successful in the first couple of years. Volumes and profit margins went up.

At the end of 2003 the leading 400 brands made up for 93% of total turnover.

But the momentum got lost in 2003 and in 2004 the results disappointed heavily.

In the third quarter of 2004 sales in Foods declined with 1,5% and in HPC with 0,2%.

In stead of having growth rates of 5-6% overall, the figure for the first 3 quarters of 2004 came only to 1,5%.

According to Unilever this was mainly due to two factors:

- ❑ the fierce retailers price war in Europe, where discounters such as Aldi and Lidl, but also a growing price competition by major retailers like Ahold, Tesco and others, eat away the margins of big A brand companies like Unilever, nestle and others.
- ❑ Aggressive competition in the Asia/Pacific region from Procter & Gamble, that is attacking Unilevers leading positions in HPC.

But where turnover and sales growth were disappointing, the targets in terms of profitability were reached. This is above all an indication of the massive restructuring Unilever executed in all its operations, first of all in the supply chain: the whole production organisation of Unilever itself and the purchasing operations from suppliers. It seems that the bulk of this part of the strategy has been executed. There is not so much space left for further reductions.

### 3.4. The new strategy: building on Path to Growth 2005-2010

In July 2004 Unilever announced its new strategy for the period 2005-2010. It adopted a more conservative approach. The main headlines of the strategy for the new 5-year period were:

- ❑ Stay within the top position of the major fast moving Consumer Good Companies
- ❑ Average sales growth of 3-5%
- ❑ Free cash flow generation of about € 30 billion ( in the period 2000-2004 this was € 20 billion). This has to result in an increase in return on invested capital from 12,5% in 2003 to at least 17% by 2010<sup>12</sup>
- ❑ Improvement of the capital efficiency. In other words, ongoing restructuring, but now not in the first place in production. The emphasis will now be laid upon restructuring in overheads and indirect functions.

The abovementioned policy implies that Unilever will measure its TSR ( Total Shareholder Return) over a three year period with those of a peer group, existing by 2004 out of the following companies:<sup>13</sup>

Altria Group (Philip Morris/Kraft)	Colgate	LÓreal	Sara Lee
Avon	Danone	Nestle	Shiseido
Beiersdorf	Gillette	Orkla	
Cadbury Schweppes	Heinz	Pepsico	
Clorox	Kao	Procter & Gamble	
Coca Cola	Lion	Reckitt Benckiser	

The explicit goal is to stay within the top three of these companies.

On the item of free cash flow generation analysts expect that Unilever will announce at the occasion when it publicizes its 2004 results a more moderate policy. They consider the aim of € 30 billion too ambitious.

<sup>12</sup> idem, p. 08

<sup>13</sup> idem, p. 57

The first measures in the new restructuring policy have already been announced. In November 2004 Unilever announced in many countries that it would **merge the two main divisions Foods and HPC into one operating company in each country**. This implies the reduction of the numbers of managers with many hundreds world wide. First of all one operational company will be formed in each country. And in this company there will be separate marketing operations for the specific core products. Probably this will also have repercussions for the production factories in the coming years. But they will only be released when the new management structures are formed and have had time to prepare further efficiency measures in the supply chain.

Other important methods to reduce costs are:<sup>14</sup>

- ❑ **More intra regional sourcing** : what has been started in the EU will be introduced now in other regions in the world. It means the reduction of production locations per region and the concentration of production in fewer selected sites. For example, Indonesia has been selected as the major production base for South East Asia. This led already to the shift of production from Australia and the Phillipines to Indonesia and the closure of factories in those countries. Similar operations will follow in the Mercosur region and others
- ❑ **Outsourcing of production will go up from 15% to 25%**
- ❑ In some countries the levels of outsourcing are probably already higher, as is the case in India.<sup>15</sup> These figures relate to the overall pattern for the whole company worldwide.
- ❑ **Selective cross-regional sourcing**. This goes one step further. For specific products it could be possible to source for example for the EU market in Asia or vice versa, dependant on various factors. The result is in any case the reduction of the number of production sites involved.
- ❑ **Raise the level of world wide buying from 50 to 60%**. A higher level of centralized buying will reduce costs and will make live for suppliers tougher. They will start restructurings to as an answer to this policy.

### 3.5. Vitality for whom?

Together with the announcement of the new strategy for the coming 5 years Unilever adopted a new logo. The old blue U will be exchanged for a U that is composed of about 40 very small symbols that together are shaped as an U. The symbols stand for many elements or ingredients that Unilever uses in its products. The new logo is aimed to express the vitality Unilever wants to give as a leading theme to all its products. It announced that mid 2005, when it celebrates its 75<sup>th</sup> birthday, this logo will be placed on all its products and all publications and packagings. This is a new policy, while Unilever until now used mainly its several brand names as the leading logo on all its products. It will make the company more visible for its customers.

The use of the word vitality is argued in this way: “Our mission is to add vitality to life. We meet everyday needs for nutrition, hygiene, and personal care with brands that help people feel good, look good and get more out of life”<sup>16</sup> The announced measures don’t seem to bring a lot of extra vitality to Unilevers employees.

### 3.6. New Working Methods

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<sup>14</sup> These measures were announced by Mr. Patrick Cescau, the new president of the Board of Unilever PLC, as successor to Mr. Neil Fitzgerald since May 2004 in a speech to senior managers in September 2004.

<sup>15</sup> Based on research done by AICUU, the All India Council of Unilever Unions. The AICUU consists of two major federations: the Hindustan Lever Employees Unions Federation and the All India Brooke Bond Employees Federation.

<sup>16</sup> Unilever 2003 Annual Report & Accounts and Form 20-F, p. 07



Within the core activities, Unilever introduced new management techniques. The combination of higher levels of mechanisation and automation meant higher levels of training and skills for its employees. In the early 1990's, Unilever introduced its TQM (Total Quality Management) programmes in a few of its subsidiaries. At that time, new management techniques concerning work organisation, industrial relations, team building, TPM, etc. were usually tested in subsidiaries of the Personal Products division (later the Home & Personal Care division). Later, these trial runs were set up in the Detergents group and Foods activities subsidiaries. Currently, all product groups start more or less simultaneously with new work strategies. In typical Unilever fashion, these developments were initiated in all the relevant regions worldwide. Forerunners include the Gessy Lever plant in Valinhos, Brazil; the Lever Brothers plant in Utsonomiya, Japan; the Rungkit factory in Surabaya, Indonesia; and the Elida Gibbs plant in Buxtehude, Germany.

In 1997, Unilever initiated a new corporate management structure called the Manufacturing and Supply Chain Technology (MAST) Council. All of Unilever's business groups, sectors, and corporate management employees are actively involved. MAST's aim is to *survey and promote best-practice procedures regarding the purchasing, production, and distribution aspects company-wide*. One result has been that TPM (Total Productive Maintenance: engineering and maintenance are progressively integrated into the job description of process-operators who are retrained as multi-skilled operators) is operational in 155-160 factories of Unilever worldwide. One of the core issues of TPM is to raise the levels of efficiency of machine and production line utilization from low levels of some 50-60% to highs of some 85-95%.

Where the TPM method has been introduced now in most production facilities, a new phase is recently started by the introduction in office functions. In November 2004 the Hindustan Lever general office in Mumbai was the first office operation world wide to receive the TQM award from the Japanese institute that audits companies on TQM. The other offices of Unilever worldwide will follow the coming years.

### 3.7. Consequences for employment

The general tendency at Unilever is to progressively reduce the workforce annually. The aforementioned strategic changes to ever-more focus over the past 15 years, have been coupled with several rounds of worldwide restructuring to reduce workforce figures by many thousands.

- ❑ During 1991–1993 the “Beethoven” program eliminated some 5,000 jobs mostly in Europe at a cost of US \$380 million.
- ❑ The aim of the follow-up restructuring program, “Encore”, during 1994-1995 was to eliminate 7500 jobs, mostly in Europe, in the foods and detergents sectors at a cost of US \$750 million. 40% of these job cuts were to come from the administrative/sales and marketing departments while some 60% were to be production jobs. These actions were to result in annual savings of approximately \$380 million beginning in 1996.
- ❑ In 1996, another round of job cuts—mostly in the European frozen food and bakery products sectors—was announced at a cost of US \$370 million.

According to Chairman of the Board at that time, M. Tabaksblat, top Unilever management began realising that from then on, annual restructurings would cost around US \$300 million per year. Restructuring became a structural phenomenon and part of the company's dynamic, meaning that major restructuring will be a normal part of the company's operating strategy.

Total employment declined between 1995–2000 from 308,000 to 255,000 worldwide. But this figure is rather difficult to interpret. Many companies have been disposed of or closed (59 plants in 2001), many more were purchased (i.e., Bestfoods with 44,000 employees). At the end of 2001, employment figures stood at 265,000.

The estimated costs of the ongoing “Path to Growth” restructuring program, 2000-2004, is estimated at € 5 billion over these 5 years. More than 20,000 jobs are affected by this program. Ten to fifteen years ago, the average European Unilever factory employed between 600–1000; restructuring has reduced these figures to approximately 200 employees. This is in large part due to production automation, outsourcing of many non-

core activities such as services (canteen, cleaning, transport, etc.) and the reduction of team-sizes. In 2003 restructuring costs amounted to € 470 million.<sup>17</sup> No specific data are given about the number of job losses that have been involved. Neither does the information on the new strategy indicate how many jobs will be involved by the recently announced policies.

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<sup>17</sup> idem, p. 16

## 4. Industrial Relations

The Board of Directors of NV and PLC and the senior management groups of the Foods and HPC groups working out of the Rotterdam and London headquarters never meet with trade union officers. The other senior management officials at the headquarters only communicate with other levels of Unilever management and staff. In general, unions are involved mainly with:

- ❑ local plant management; and
- ❑ national management when there are national agreements to finalise.

This basically means that management groups, which create the guidelines and strategies to be implemented locally are not accountable to consultations of, or negotiations with, workers' representatives, i.e. the unions or workers councils. This creates a frustrating situation for workers' representatives. The general policy of Unilever's industrial relations is first of all that management must obey the national laws of the host countries where Unilever operates.

### 4.1. Relations with Unions

Unilever has a "Code of Business Principles", which is based on the ILO Declaration on Fundamental Principles and Rights at Work. The old Code made no references to workers' organisations or trade unions, stating simply that: "Unilever believes it is essential to maintain good communications with employees, normally through company-based information and consultation procedures". The revised Code of Business Principles, adopted in spring 2002, adds that "we respect the dignity of the individual and the right of employees to freedom of association". The 2002 *Social Review* states that Unilever fully recognises the right of employees to join trades unions. "Companies in all 11 countries in our CSR pilots report that trades unions actively represent sections of their workforces. Based on available data, Table 25 shows that our trade union membership levels in industrialised countries is broadly in line with the national average. In developing countries, such as Indonesia, it is probably far above the national average".

The experience of Unilever in terms of unions reveals that where strong unions exist management communicates with these unions. In places where unions remain irrelevant, management tends to bypass existing unions and relate directly to the employees, in some cases to intimidate workers into forming independent unions.

- ❑ Corporate policy tends to rely primarily on direct forms of communication with employees embedded in company-based structures. Only in cases where strong, relevant unions exist does company management feel compelled to communicate with union-based structures.
- ❑ This is in line with its policy of refusal to negotiate on an international level with unions. For example, when it became time to negotiate an European Works Council, Unilever management would only negotiate with elected employee representatives. The 3 union officers from the 3 major Unilever nations at that time (the UK, Germany, and the Netherlands) — from the T&GWU in the UK, the NGG-BRD and FNV Bondgenoten in the Netherlands — were restricted from participating by Unilever management. These officers continue to be restricted to an advisory role to the EWC and are not to attend full meetings. These 3 union representatives can, however, advise the EWC in preliminary meetings. They also continue to have regular meetings with national and site managers in their respective countries. For Unilever, its refusal to negotiate with unions beyond the national level remains an issue of principle.

### 4.2. Conflicts

Most conflicts occur on local or national level. Conflicts usually involve plant closures and the opposition of employees to this strategy. In a growing number of these situations—in Europe at least—management is encouraged to attract new investors who might keep the plant in question open and, in this way, securing the employees' jobs.<sup>18</sup>

But in other regions, conflicts arise especially when Unilever refuses to acknowledge the freely-elected unions as the representative of the employees and turns to intimidating workers to scare them away from the unions and attempts to establish a company-friendly manager-made union. In India there have been in last years open conflicts mostly related to big reductions in the number of employees due to the shift of production to other sites. This was for example the case in January-February 2003 at the Garden Reach detergents factory at Calcutta.

### **4.3. European Works Council**

The EWC agreement was signed in November 1996. Negotiations took place between mid- 1995 and November 1996. A number of European meetings on the product group level have been organized since 1989. They were funded by a special funding agency within the European Parliament that was seeking to establish international consultation guidelines for multinationals. These meetings, organised by the European trade unions through the regional secretariats of the IUF and ICEM, established a strong collective position before entering the negotiations with management. Nevertheless not all of their demands were met.

The EWC consists of 31 employee representatives from some 12 countries. All are union members although union membership is not obligatory. The EWC meets annually, chairs its own meeting, and meets with European regional management. Plus they usually organise an annual training meeting. The EWC is comprised of a 6-person steering committee, with one employee representative from each of the most important nations: Germany, UK, Netherlands, France, Spain, and Italy. This body meets more frequently.

After several years of operation, it appears that the EWC is functioning well but its impact needs to be increased in order to make it a more relevant player among the national constituencies. Of vital importance is a well-organised national coordination structure and to pursue opportunities to meet at the product-group level — either Foods or HPC.

At an international trade union meeting in 1999, Unilever employees from 3 major regions of the world (Brazil, India and Netherlands/Europe) met to exchange experiences and data. The EWC steering committee expressed the need for developing inter-continental as well as continental networks.

### **4.4. Personnel Policies & Human Relations Management**

Unilever belongs to a group of multinationals that are quickly adopting and implementing new management styles and human relations approaches. Unilever's acquisition of Chesebrough Pond's in the US meant that Unilever could utilise Chesebrough's experiences in its implementation of TQM projects over recent years.

Between 1986–1990, several study tours were organised for senior and plant managers in the Personal Products division of Europe, Asia, and Latin America to Chesebrough Pond's American locations. The group also visited other companies with TQM experience such as Rank Xerox. They experienced the early-stage manifestations of TQM. It has been Unilever corporate policy since the 1990s to implement TQM policies in all of its core-activities. The timing was left up to local management. Other serious restructuring operations were

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<sup>18</sup> In 2003 the HR managers of Unilever Europe released a document, based on frequent discussions with the European Works Council, under the title: Social restructuring. In this document Unilever states that the first priority in restructurings is to organize new work perspectives for the employees involved: or by redeploying them in own operations, or by finding a new investor for factories that will be disposed of or by outplacemnt support.

not to interfere with the introduction of the TQM process. Local management had some options but not introducing TGM was not one of them.

TQM is closely related to the introduction of higher levels of mechanisation and automation, computer literacy for most operators, and the notion of flexible operations on production sites. The skills, the experience, and infrastructure are all there to raise the standards of process quality and manufactured products.

Somewhat later, Unilever began to introduce **TPM** (Total Productive Maintenance) in earnest with the help of several Japanese consultancy firms who had implemented TPM in the Japanese automobile and electronics industries. Unilever began collecting TPM performance data as early as in 1992–1993.

In 1994, it began organising small international training sessions so that process-operators from related industries worldwide could meet and exchange ideas for improving the operations and efficiency of the various machines and production lines. After a few first meetings the discussions continued via the Internet and email. Actual face-to-face meetings were no longer necessary.

**Training** is of growing importance for all levels of employees. Unilever has long invested in its own management training centre at Four Acres in the UK, where courses were offered to over 3,000 employees in 2001. Many senior and junior managers from all over the world spend a few weeks to receive various types of training. But over the past 10 years, vocational training, skills training, and multi-skill training became the standard training regimen for many employees.

One example involves training employees in Poland. Figures quoted are from the *Social Review 2000, Unilever's Approach to Corporate Social Responsibility*. Unilever in 1999, employed some 3,018 workers in Poland. Unilever spent approximately €735,000 on training these employees. Over 100 employees received overseas training. Nine senior managers received on average approximately 1.5 days of training. 281 managers received 10.8 days of training and the 2,728 factory and administrative employees received on average about 5 days of training in 1999.

In general, training is important for all levels of employees. This is certainly the case involving the 150 key production sites where training in TPM, HACCP, ISO certification procedures and GMP (Good Manufacturing Practice) issues are promoted for all employees.

**Health and safety** has been incorporated into the new Code of Business Principles and the *Social Review 2002* reports on the measures that have been instituted to achieve the objective of insuring employee health and aiming for zero accidents.

## 5. Corporate Social Policy

In 2000, Unilever began publishing its *Social Review* as a practical format for Unilever statements regarding Corporate Social Responsibility. In 2002, the *Social Review* analysed the year 2001, explaining its history, structure and immediate future as the internal way of monitoring social issues the company wants to promote.

In 1996, Unilever formulated its *Corporate Purpose*, a kind of mission statement, which formed the basis for its “Code of Business Principles”, a kind of operational standard of Corporate Purpose. This Code was revised in 2001–2002 to make it compatible with the recently revised OECD Guidelines for Multinational Enterprises (published in June 2000) and to take into account the UN Global Compact. It basically declares that Unilever will abide by the OECD Guidelines.

The revised Code of Business Principles addresses the following issues:

- ❑ Standard of conduct
- ❑ Obeying the law
- ❑ Employees
- ❑ Consumers
- ❑ Shareholders
- ❑ Business partners
- ❑ Community involvement
- ❑ Public activities
- ❑ The environment
- ❑ Innovation
- ❑ Competition
- ❑ Business Integrity
- ❑ Conflicts of Interests

**The revised “Code of Business Principles” states the following about “employees”:** “Unilever is committed to diversity in a working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of our company. We will recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We are committed to safe and healthy working conditions for all employees. We will not use any form of forced, compulsory or child labour. We are committed to working with employees to develop and enhance each individual’s skills and capabilities. We respect the dignity of the individual and the right of employees to freedom of association. We will maintain good communications with employees through company based information and consultation procedures.”

The revised “Code of Business Principles” includes an explicit reference to human rights where it makes clear that Unilever will not use “forced, compulsory or child labour”. The *Social Review 2002* points out that Unilever’s operating companies have systems in place to check the age and status of all employees where legally appropriate. The *Social Review 2000*, already stated that, among others, Unilever fully endorses two relevant ILO regulations:

- ❑ **The ILO Convention on the Minimum Working Age, Convention 182.** This convention, which prohibits employing anyone under 18 years of age, is not only applicable to the company and its subsidiaries, but also to suppliers and subcontractors.
- ❑ **The ILO Declaration on Fundamental Principles and Rights at Work.** In some countries, Unilever began monitoring its employees on the basis of ethnicity, gender and other diversity issues. Some facts:

of a total of 18,906 managers worldwide 4,099 (21.6%) were women in [2000] as compared to 2,110 in 1992. In 2001, no woman held a top management position but at middle management levels, over one quarter of all managers worldwide were women, approximately twice as many as in 1992.

the top 300 managers came from 33 different countries. Important developing countries function as the training stage for expatriates from other countries: Brazil had 52 expatriates from other countries, India had 10, while, on the other hand, 50 Brazilian and 60 Indian managers were working in foreign countries.

The impression seems to be that Unilever installs Indian managers to improve operation efficiency in China and to train new Chinese management candidates. In 2000, Unilever announced that it sought to develop China's infrastructure to reach its goal of long-term market leadership in all of its relevant product categories. This is already the strategy in India with Hindustan Lever. Indian managers can play an important role by utilising their own experiences.

## 5.1. Future Internal Monitoring on Social Issues by Unilever

In the years 1999 and 2000, Unilever conducted 9 pilot projects on social monitoring to collect practical experiences to develop a group of standard issues for Unilever to concentrate upon. To conduct these pilot projects, 9 countries were selected:

- the UK, the Netherlands, and Canada: 3 long-standing Unilever countries with highly developed economies
- Brazil and Turkey: important industrialised developing countries
- Ghana and India: important developing countries with a high Unilever presence
- Poland and Vietnam: examples of societies developing from central demand structures to 'free market' economies

Together they represent the diversity of countries and cultures in which Unilever operates and together they represent approximately 25% of worldwide Unilever turnover.

Management representatives from each country wrote a comprehensive self-assessment manual, which created an opportunity to rely on more practical forms of measurement and benchmarking as opposed to the more abstract philosophising of business and social values.

The focus is on distilling methods and forms in the near future to help measure social conduct on various issues as gathered from these pilot projects. The methods and forms will eventually be applied to all Unilever operations worldwide.

It is important to mention the topics included in the first *Social Review*:

- ❑ The creation of wealth and sharing of wealth: various stakeholders
- ❑ Standards on health and safety
- ❑ Investing in people: training and health care
- ❑ Respect and dignity in the workplace
- ❑ Valuing diversity
- ❑ Meeting everyday needs of consumers worldwide
- ❑ Quality and safety standards
- ❑ Sustainability (in agriculture/ fishing/ water conservation: related to the Environmental report)
- ❑ Investments in communities

Unilever in *Social Review 2000* announced that it would complete its CSR road map and implement its roll-out worldwide in 2001-2003. The review of the Code programme (completed in 2001) has delayed the preparation of a detailed CSR road map. Only the "community involvement" aspect has thus far been issued.

In its *Social Review 2002*, Unilever mapped out its further objectives:

2003: Issue CSR roadmap of good practices, drawing on internal and external expertise

2003: Issue guidance for managers on standards for contracted suppliers

2003-2004: Expand local reporting and support local managers to include self-assessment indicators in reports

2004: Consolidate learning from self-assessment to identify select indicators for future reporting

2004: Increase transparency of performance information at <www.unilever.com>  
2004: Increase participation in social partnerships, through the Global Compact and directly.  
Ongoing: Engage with stakeholders to share and keep abreast of best practices in CSR

At this stage it is clear that the CSR project in Unilever is a management responsibility and is corporate driven. Local and national subsidiaries are required to set standards and formats, at least on those issues considered to be standard international issues. Some issues may remain specific to local situations.

Furthermore: Unilever considers it of vital importance to extend its influence and responsibility to its suppliers and (sub)contractors on both social and environmental issues. In specific situations, Unilever has declared that it will continue to buy certain ingredients only after suppliers conform to specific environmental guidelines. Suppliers received several years to fully comply. If they didn't match the given standard they were no longer suppliers and Unilever switched to other ones.

Auditing the compliance of its operating companies with the standards set is done internally.

## 5.2. Conclusion

Unilever has over the past 5 years been actively involved in setting standards for social and environmental behaviour and conduct. It does this in a very systematic way and is in the process of developing procedures to make the developed standard applicable throughout all of its operations. This approach and its schedule have been explained in the *Social Review*.

Nevertheless, in recent years some of Unilever's subsidiaries have been involved in activities that are in conflict with its Code of Business Principles. These allegations have been made public and they include:

- ❑ The manner in which a subsidiary went about closing a thermoter factory in South India and remains unprepared to negotiate the unresolved health issues of its workers.
- ❑ Examples of local situations were presented at the international tricontinental conference in May 1999 involving employees from India, Brazil, and the Netherlands. The incidents involved the violation of employees' basic rights to organise freely, the harassment of union leaders, etc.

This demonstrates the urgency for developing an effective and independent monitoring system based on employee interests. The issue should be taken seriously by both corporations and unions worldwide. And so, the FNV-sponsored programme of an international trade union-based monitor of corporations is perfectly timed. With a time-line of 2002–2004/5, this monitoring process pretty much runs parallel with the internal efforts of Unilever (see *Social Review* process), and so they could mutually influence one another. Maybe this can jump-start a serious discussion between both sides on the gradual improvement of social standards in all Unilever operations worldwide.

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## **Annex 1: Changes in corporate structure since January 2005**

This annex has been written to update the recent Corporate Company Profile. In the least few months some important changes took place; so important, that it was thought necessary to communicate them to all researchers, doing specific analysis on national level.

### ***Further simplification of company structures***

In the profile the information was already given that Unilever announced in November 2004 that it would merge its two main divisions Foods and HPC in each country into one operational company. The consequence will be the reduction of the number of managers and a structure that can be managed more easy in each country.

A couple of months later, in February 2005, another step was announced: the simplification of the top structure.

Untill now Unilever operated always with two Boards: one at PLC level with headquarters in London and one at NV level with headquarters in Rotterdam.

Starting from May 2005 the two Board will be merged. One of the two Board presidents, A.Burgmans, president of the Board of Unilever NV, will step down and become the President of the Supervisory Board. The president of the Board of Unilever PLC, P.Cescau will be the new CEO, Chief Executive Officer.

There is widespread criticism by institutional investors on the appointment of Burgmans as President of the Supervisory Board, while he cannot be an independent Supervisory Board member. He was one of the main architects of the Path to Growth strategy, a strategy that failed to deliver what it should deliver. Normally he would have stayed as president of NV until 2007. Now he would continue until his retirement in the function of President of the Supervisory Board.

During the shareholders meetings in London and Rotterdam in the beginning of May it was said that it could be a possibility that he will leave this job earlier than originally planned, namely 2007, and well as soon as Unilever found a qualified new and independent president for the supervisory board.

The Executive Board will in the future consist of 7 persons, presided by the Frenchman Patrick Cescau, the first non Dutch or English president in the history of Unilever.

The new Board will be a lot smaller and leaner than the old one that consisted of 25 topmanagers.

During the coming year Burgmans will preside a management team that will investigate further simplification steps, such as:

- ❑ The unification of the juridical structure. It could become the end of the NV and PLC structure and the change into a unified legal company structure according to UK –law
- ❑ In line with this study lies also the possibility that in the nearby future the headquarters of the Company will be located in one place, most probably London. For many years London was the headquarter for the HPC activities and Rotterdam for the Foods activities. There are rumours that say, that Rotterdam could become the regional headquarters for the EU-activities. The implication will be a huge number of shifts of managers from one job to another and the reduction of the numbers of management at top level
- ❑ Boardmembers, including the new CEO Patrick Cescau deny that the company eventually will be split into two independently listed companies, one for HPC products and the other one for Foods. But the external pressure to study this possibility is growing.

## ***Criticism of shareholders regarding the remuneration of topmanagement***

At the shareholders meetings in London and Rotterdam there was widespread criticism on the higher pay packages for top managers. The criticism was sharpest regarding the \$ 2.25 mln pay package for Nial Fitzgerald, the president of the Board of Unilever PLC who retired from Unilever in September last year. The executive directors total salary sum was raised from £ 7.9 mln in 2003 to £ 14.4 mln in 2004 ( about \$ 25 million.). The general feeling amongst shareholders was that Unilevers results are not really worthy of the high paid executive directors.

During the shareholders meetings Burgmans informed the shareholders present about some aspects of the recent Path to Growth strategy:

In the period from 2000 untill end 2004 in total 110 companies have been sold, what meant in concreto 150 factories. Most have been sold, an unknown number of factories has been closed. About 1150 brandnames have been scrapped.

The recently announced new structure with one smaller Board has to make the decision making process in the company faster and more aggressive.

What this exactly will mean, will become clearer in the coming months.

## Annex 2: Unilever and Corporate Social Responsibility

This paper is an annex to the Corporate Company Profile on Unilever, written in January 2005 as an update of earlier profiles.

As such it forms part of the Company Monitor Project of FNV Mondiaal.

The reason that this part is written separate from the Profile is simply the fact that the person who has been responsible at managerial level for the design and execution of the CSR policy of Unilever couldn't make time available for an interview in an earlier stage.<sup>19</sup>

And it was considered important to talk with the person who was in charge on an operational level for this issue and was accountable directly to the Board of Directors of the Company.

### *History of CSR in Unilever*

The start of the notion Corporate Social Responsibility is not the start of the policies that form part of CSR. The invention of the word CSR marks above all the period that these policies are incorporated in a more systematic approach by companies.

Unilever has according to Mrs Cormack a long track record in social responsible behaviour. As one of the first examples she referred to the village build by Mr. Lever nearby the Sunlight factory in Liverpool to provide social housing to Levers employees.

Unilevers policy on environmental, social and community issues was in the past very much decentralized and was part of the responsibility of local management teams.

When a department was formed on Corporate Responsibility at the end of the 90-ies it had as a first task not to start a policy on CSR or impose certain values but it considered to be the main task to discover what policies and activities were carried out at local-national level.<sup>20</sup>

This decentralized policy was also a consequence of the Unilever policy to abstain of using the name of the holding on its products and use first of all specific brand names in its communication with consumers. This implied that it was not possible to have an all embracing CSR type of policy, while the values that were carried by the various products and brands were different per product group and even per county.

During the years starts were made at separate issues to develop policies to promote consistent policies together with other stakeholders, mostly concerning issues related to environment and sustainability.

To mention a few of them:

- ❑ the Marine Stewardship Council (MSC), co founded in 1996 together with WWF ( Worldwide Fund for Nature) established a global standard for sustainable fishing. While Unilevers is one of the worlds biggest buyers of frozen fish, all suppliers are asked to operate according to the MSC standard. Unilever expects to buy about 60% of all its needs from sustainable fisheries.
- ❑ A Sustainable Agriculture Programme, also started in mid 1990/ies to develop sustainable policies for Unilevers most important agricultural crops: black tea, palm oil, spinach, peas (frozen) and tomatoes. During the years 1997 –1999 field trials were started for these products with farmer groups in various countries: UK ( for peas) , Australia and Brazil (for tomatoes), Kenya and India( for tea) , Malaysia (

<sup>19</sup> The person in question is Mrs Mandy Cormack, vice president Corporate Responsibility & Head Corporate Relations at Unilever PLC London., a function that started in 2002. Before she was involved with the organization of the pilot studies in 9 countries during 2000 and 2001. This interview was held by phone on July 19th 2005.

<sup>20</sup> The first concrete task set for the Department on CR (Corporate Responsibility) in 1998 was to make a survey of what policies national or local companies had concerning donations to local communities: The levels of donations pretty close mirrored the contribution of these subsidiaries to global Unilever sales. For example, about 20% of all donations by Unilever subsidiaries was made in the USA, just as USA's share of total Unilever turnover is about 20%. And this proved to be the case for nearly all countries.

for palm oil) and Germany, Italy and Spain (for spinach). The strategy is to develop together with agricultural experts, customers, suppliers and others a process that leads away from intensive agriculture and to fully sustainable agricultural systems.

- ❑ In 2003 the Roundtable on Sustainable Palm Oil (RSPO) was founded together with different stakeholders, amongst with again the Worldwide Fund for Nature. It started with work on a draft framework document on the criteria for palm oil sustainability. In 2005 the implementation is at stake and the first steps are made to extend this initiative to all other major vegetable oil crops such as olive, rape, soy and sunflower.
- ❑ Another dimension has the alignment of Unilever with UNICEF. In December 2004 Unilever joined forces with UNICEF to tackle the UN Millennium Development Goal 4, aimed to reduce mortality rates amongst children under five with 2/3 over the next ten years. Subsidiaries have to consider how they can contribute to this program.
- ❑ And already for many years the company subscribes to the OECD Guidelines and the ILO Codes governing a number of labour issues.. These are more than the other ones directed at the internal responsibilities, concerning labour relations, labour and human rights issues. In this part and in the interview these issues were central.

## **Reporting about the CSR practice**

As the base of its CSR policy Unilever uses the *Code of Business Principles*. This one was first drafted and published in 1996 as *Corporate Purpose*. It was a kind of mission statement addressing in abstract wordings the principles in its relations with employees, consumers, business partners, communities, the environment. The first edition of the Code of Business Principles in 1999 was the operational standard.

In 2000 the first edition of Unilevers Social Review was released. In its essence it gave a number of descriptions of existing patterns of policies in the various subsidiaries without any pretention to set policies. In the period 1999, 2000 and 2001 pilot studies were made in 9 countries that were selected at central level:

- ❑ UK, Netherlands and Canada : 3 long standing Unilever countries with highly developed economies
- ❑ Brazil and Turkey : important industrialised developing countries
- ❑ Ghana and India: important developing countries with a high Unilever presence
- ❑ Poland and Vietnam: as societies developing from central demand structures to 'free market' economies.

Together these countries are good for approximately 25% of Unilevers world wide turnover.

The mechanism used was to ask management in the countries concerned to write a comprehensive self assessment report, what created in itself the possibility to start practical forms of measurement and collection of relevant data and a process of benchmarking over the years. This was needed to develop the rather abstract Code of Business Principles in a practical way.

The issues included and reported in the first Social Reviews of 2000, 2002 and 2004 are amongst others:

- ❑ standards on health and safety
- ❑ creation of wealth and sharing of the wealth
- ❑ investments in people: training and health care
- ❑ respect and dignity in the work place
- ❑ diversity in the work place
- ❑ quality and safety standards.

In its 2002 Social review Unilever published the timetable it would follow in the development of its CSR policy:

2003 : issue of a roadmap of good practices, based on internal and external expertise

2003 : issue guidance for managers on standards for contracted suppliers

2004 : expand local reporting and support local managers to include self assesment indicators in reports

2004 : consolidate learning from self-assesment to identify and select indicators for future reporting

A roll out of the self-assesment reporting was foreseen in the period 2001-2003.

The drastic overhaul of the company during the execution of the Path to Growth strategy in the years 2000-2004 slowed down this process.

Until this process and the procedure of self assessment is fully embedded in the operations of all companies the Social Reviews will be the publication in which data on basic principles are gathered and published, but in a very fragmented way.

It is quite clear that Unilever until now has used the procedure of self-assessment against a number of abstract criteria as the ruling principle. Improvements can be made in each subsidiary against past years and they will have to be made when their reports show weak realities in some aspects.

Out of the pilot projects and the discussions afterwards with the management teams involved three central conclusions were drawn:

- ❑ it is crucial to develop practical and efficient ways to collect the data you need to show in a transparent way the track records and realities in specific issues
- ❑ it is vital to develop a way to include the supplier chain in this process.
- ❑ It will be impossible to compare all measured data on an international level. It is therefore more important to measure against local practices and organize the best possible practice in a local context than to compare internationally.

## ***The actual situation and the coming years***

Recently Unilevers toplayers of management formulated their new strategy for the period 2005-2010. The company made the word 'vitality' its core word.

The company changed last year its logo and it started the policy to use the Unilever name and logo on all its products.

It has started the TPM procedures in all its major production sites in the world ( about 150-180) , what enables to keep the company continuous track records on a number of health and safety issues.

In the strategy 2005-2010 CSR ( environmental and social responsibility) is one of the 6 major substrategies .

The CSR policy has become more important in the communication with the outside world. The department responsible for CSR will report directly to the recently appointed new Chief Executive officer, Patrick Cescau.

In the past Mrs Cormack reported to the Board member responsible for Corporate Development. From September 2005 onwards it will be the CEO. The new manager who will manage Unilevers CSR policies will be from September 2005 Mr. Kevin Neath.

With these changes the CSR policy is more embedded in the strategy of the company.

The first tasks are the implementation of the self assessment procedures world wide and the start of a similar process with the first tier suppliers everywhere in the world.

In 2004 a Business Partner Code was developed , based upon the Code of Business Principles. This Business Partner Code contains 10 principles covering items as business integrity, responsibilities concerning employees, consumers and environment.

Unilevers adopts with its suppliers the same approach as it uses internally: self assessment is required from the suppliers. They are supported in the process to internalise the required patterns of conducts in their daily operations,. This approach is according to Unilever the key to success.

To support the first tier suppliers to operate according to these lines, Unilever trained its supply managers to assist the suppliers with this process.

At the end of 2005 Unilever expects from all first tier suppliers a positive assurance of adherence to the Code. What happens when suppliers don't deliver such an assurance is not yet clear, but systematic refusal to give this assurance or a systematic breach of the code will lead to delisting of this supplier as supplier to the company.

In the long run, Unilever wants to include the whole supply chain, including all levels of suppliers into this policy. This is considered to be a long term educational process. Mostly the carrot will be used, sometimes the stick will be necessary.

## ***Consequences of not compliance***

In the case of the suppliers who have to deliver their proof of adherence to the Business Partner Code at the end of 2005, non compliance will have no immediate negative consequences. But when valid arguments for the non compliance or not adherence or not available, the pressure will be high to adhere on the short term. When not, the supplier ship will be ended as soon as possible.

In its internal operations all national companies have to report about their self assessments. But their results are not monitored by the same managers who monitor business performances. Unilever formed a couple of years ago the Code of Business Principles Compliance Committee. This committee monitors and reports on the compliance with the Code of Business Principles. The joint secretaries of PLC and NV are responsible for the operations of this committee,.

Members are the chief auditor, senior vice president HRM and the Head of the Corporate Relations Department. This body meets quarterly and reports regularly to the Executive Board and the Audit Committee. Audits are mostly done internally. But in cases where standards are used that are broader than only viable within Unilever external auditors will be used. In the case of Health and Safety methods the TPM audits are done by the Japanese Institute of Technology.

While the whole CSR operation is based on the principle of self assessment there are always possibilities of breaches of business principles that are consciously not reported. It makes therefore a lot of sense for interested parties, most of all employees, to report themselves in cases of flagrant violations of the business principles to central management and eventually in a wider way, the general public audience.

In the second half of this year and the beginning of next year the strategy 2005-2010 will be refined. In this process it will become clearer how CSR will be embedded in this strategy.

The national case studies carried out in the FNV Company Monitor project and their focus on supplier CSR behaviour can play an important role in the identification of the weak spots in Unilevers CSR policy. When the discussion based on the findings of these studies are carried out in an open and constructive way it may lead to a more active monitoring by employees organisations when the consciousness is their that monitoring an reporting leads to results.

The discussions and their follow up have to proof it.

## Annex 3: Unilever's Code of Business Principles<sup>21</sup>

### Chairmen's Introduction

Unilever has earned a reputation for conducting its business with integrity and with respect for the interests of those our activities can affect. This reputation is an asset just as real as our people and brands. Our first priority is to be a successful business and that means investing for growth and balancing short term and long term interests. It also means caring about our consumers, employees and shareholders, our business partners and the world in which we live. To succeed requires the highest standards of behaviour from all of us. The general principles contained in this Code set out those standards. More detailed guidance tailored to the needs of different countries and companies will build on these principles as appropriate, but will not include any standards less rigorous than those contained in this Code. We want this Code to be more than a collection of high sounding statements. It must have practical value in our day to day business and each one of us must follow these principles in the spirit as well as the letter.

### Standard of Conduct

We conduct our operations with honesty, integrity and openness, and with respect for the human rights and interests of our employees. We shall similarly respect the legitimate interests of those with whom we have relationships.

### Obeying the Law

Unilever companies and our employees are required to comply with the laws and regulations of the countries in which we operate.

### Employees

Unilever is committed to diversity in a working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of our company. We will recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We are committed to safe and healthy working conditions for all employees. We will not use any form of forced, compulsory or child labour. We are committed to working with employees to develop and enhance each individual's skills and capabilities. We respect the dignity of the individual and the right of employees to freedom of association. We will maintain good communications with employees through company based information and consultation procedures.

### Consumers

Unilever is committed to providing branded products and services which consistently offer value in terms of price and quality, and which are safe for their intended use. Products and services will be accurately and properly labelled, advertised and communicated.

### Shareholders

Unilever will conduct its operations in accordance with internationally accepted principles of good corporate governance. We will provide timely, regular and reliable information on our activities, structure, financial situation and performance to all shareholders.

### Business Partners

Unilever is committed to establishing mutually beneficial relations with our suppliers, customers and business partners. In our business dealings we expect our business partners to adhere to business principles consistent with our own.

### Community Involvement

Unilever strives to be a trusted corporate citizen and, as an integral part of society, to fulfill our responsibilities to the societies and communities in which we operate.

### Public Activities

Unilever companies are encouraged to promote and defend their legitimate business interests. Unilever will co-operate with governments and other organisations, both directly and through bodies such as trade associations, in the development of proposed legislation and other regulations which may affect legitimate business interests. Unilever neither supports political parties nor contributes to the funds of groups whose activities are calculated to promote party interests.

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<sup>21</sup> Source: [http://www.unilever.com/Images/Unilever%20Code%20of%20Business%20Principles\\_tcm13-12290.pdf](http://www.unilever.com/Images/Unilever%20Code%20of%20Business%20Principles_tcm13-12290.pdf)

**The Environment**

Unilever is committed to making continuous improvements in the management of our environmental impact and to the longer-term goal of developing a sustainable business. Unilever will work in partnership with others to promote environmental care, increase understanding of environmental issues and disseminate good practice

**Innovation**

In our scientific innovation to meet consumer needs we will respect the concerns of our consumers and of society. We will work on the basis of sound science applying rigorous standards of product safety.

**Competition**

Unilever believes in vigorous yet fair competition and supports the development of appropriate competition laws. Unilever companies and employees will conduct their operations in accordance with the principles of fair competition and all applicable regulations.

**Business Integrity**

Unilever does not give or receive whether directly or indirectly bribes or other improper advantages for business or financial gain. No employee may offer give or receive any gift or payment which is, or may be construed as being, a bribe. Any demand for, or offer of, a bribe must be rejected immediately and reported to management. Unilever accounting records and supporting documents must accurately describe and reflect the nature of the underlying transactions. No undisclosed or unrecorded account, fund or asset will be established or maintained.

**Conflicts of Interests**

All Unilever employees are expected to avoid personal activities and financial interests which could conflict with their responsibilities to the company. Unilever employees must not seek gain for themselves or others through misuse of their positions.

**Compliance – Monitoring - Reporting**

Compliance with these principles is an essential element in our business success. The Unilever Board is responsible for ensuring these principles are communicated to, and understood and observed by, all employees. Day to day responsibility is delegated to the senior management of the regions and operating companies. They are responsible for implementing these principles, if necessary through more detailed guidance tailored to local needs. Assurance of compliance is given and monitored each year. Compliance with the Code is subject to review by the Board supported by the Audit Committee of the Board and the Corporate Risk Committee. Any breaches of the Code must be reported in accordance with the procedures specified by the Joint Secretaries. The Board of Unilever will not criticise management for any loss of business resulting from adherence to these principles and other mandatory policies and instructions. The Board of Unilever expects employees to bring to their attention, or to that of senior management, any breach or suspected breach of these principles. Provision has been made for employees to be able to report in confidence and no employee will suffer as a consequence of doing so.



## Annex 4: Unilever's Business Partner Code<sup>22</sup>

We are committed to working with our business partners to achieve high standards and to provide greater transparency on how we work together.

To meet the expectations our consumers have of our brands as high quality, reliable products, we form close working relationships - many of them long-term - with our business partners. In support of this approach, we have developed a Business Partner Code that is compatible with our Code of Business Principles. The Code makes clear the standards to which we expect our business partners to adhere. It contains 10 principles covering business integrity and responsibilities relating to employees, consumers and the environment.

In 2004 we started to introduce the Code by writing to all those suppliers with whom we have a direct relationship ('first-tier suppliers'). In keeping with Unilever's partnership approach, we work together with our partners, first to establish how compatible their standards are with ours and then, where necessary, to agree on measures and timescales to achieve the desired performance levels.

### ***Business Partner Code***

- ❑ There shall be compliance with all applicable laws and regulations of the country where operations are undertaken.
- ❑ There shall be respect for human rights, and no employee shall suffer harassment, physical or mental punishment, or other form of abuse.
- ❑ Wages and working hours will, as a minimum, comply with all applicable wage and hour laws, and rules and regulations, including minimum wage, overtime and maximum hours in the country concerned.
- ❑ There shall be no use of forced or compulsory labour, and employees shall be free to leave employment after reasonable notice.
- ❑ There shall be no use of child labour, and specifically there will be compliance with relevant ILO standards.
- ❑ There shall be respect for the right of employees to freedom of association.
- ❑ Safe and healthy working conditions will be provided for all employees.
- ❑ Operations will be carried out with care for the environment and will include compliance with all relevant legislation in the country concerned.
- ❑ All products and services will be delivered to meet the quality and safety criteria specified in relevant contract elements, and will be safe for their intended use.
- ❑ There shall be no improper advantage sought, including the payment of bribes, to secure delivery of goods or services to Unilever companies.

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<sup>22</sup> source: [http://www.unilever.com/ourvalues/purposeandprinciples/business\\_partner\\_code/](http://www.unilever.com/ourvalues/purposeandprinciples/business_partner_code/)