

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

Excerpts from the Signature Event featuring Indra K. Nooyi, Chairman & CEO, Pepsico

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Two years ago, when I became CEO of PepsiCo, we put in place in the company a corporate directive at PepsiCo that encapsulated something that PepsiCo had always stood for: We called it performance with purpose. We believed then, as we do now, that there is more to business than the earnings cycle. Our basic idea was that a company had to marry its performance with its ethical concerns. Its performance and its purpose are not separate entities, they merge. They feed off each other, they need one another. This is a particularly important idea against the backdrop of economic troubles we are in today.

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In this maelstrom, a debate has begun about the nature of the way we do business. There are those who argue, like Bob Reich, that capitalism's role is to increase the economic pie and nothing more, let government do the rest. The argument runs like this: Private enterprise is a great vehicle for innovation. It has been the engine of growth and it has facilitated technological advancements we saw in the 20th century. Our prosperity has rested upon it, and so has that of many other nations. So preserving that capitalism as it has been for the past 2 decades is the only way to spur innovation. That is one argument. Then, on the other side of the issue, there are those who say that corporations and the very nature of capitalism have to change radically, with even more government regulation and even more oversight by boards of directors.

I would say to you that it would be a mistake to lurch to either extreme. I think the right answer, instead, is the ideal of performance and purpose working together and working well together.

The company of the future has to be guided by the fact that it owes an obligation back to society. The company of the future has to do better by being better.

Somewhere along the line, the advocates of the joint stock company began to believe they were running a sovereign entity. They forgot that a company operates under license and therefore has to give something back. They forgot that the whole of its duty is not merely meeting its legal and regulatory obligations, but also its larger obligation back to that society.

. . . all corporations have a responsibility to the society that hosts them, I am not talking about a company that is run on sentimental lines. Every business has a bottom line. Every business has to restructure now and then and sometimes make tough decisions. Thinking differently does not mean we suddenly get a vacation from reality. But I do think that we need to think again about the legacy we leave. I think we need to embed a culture of long-term thinking.

. . . the job of the CEO is going to be very different in the future from the way in which the job has developed over the past 2 or 3 decades. The CEO we have tended to admire has been the one who could take the costs out, the one who could get the biggest return in the shortest possible

time. That was what the idea of the company as an engine of short-term value required. But that kind of hard-edged leader delivering a return on capital no matter what the emotional social cost, I believe, is yesterday's leader.

There are some parts of the task that will never change and probably never change forever. CEOs still have to have operating expertise, they have to know the company upward, downward, all the way through. They have to understand how to read a P and L [*statement*], how to manage cash. It will still be important for CEOs to set a course, manage the ship as it steers, be capable of expressing the mission, communicating to people.

. . . the role of the CEO is going to be a lot more, because none of those qualities I just talked about will be enough any longer . . . we need a new breed of CEO better equipped for the job they will now do than the job they did years ago. . . . The CEO has to think long term. . . . The CEO needs to understand the way public and private sectors are coming together and work constructively within that framework. CEOs need to make the phrase "Think global and act local" more than a cliché. CEOs need to be learning and keep an open mind so they can adapt to a rapidly changing world. And, lastly, CEOs need to bring an abundant dose of emotional intelligence to the job.

A good, modern company cannot function without these [*good public/private sector*] partnerships. It is indisputable that the world we live in is more interconnected than ever before. We have shared problems like pandemics and environmental change. It is impossible to contain these problems within national boundaries; they are global issues. Furthermore, a company is always embedded in society. A company is granted a license to operate from that society and therefore it owes that society a duty of care. Intelligent corporate action can be a great help to society. But unthinking corporate action can add costs to taxpayers.

How should large, multinational corporations which operate in multiple countries speak with the leadership of multiple countries in a coordinated way? Do we need a guiding coalition, a representative forum in which the views of the business world are shaped and then conveyed in a coordinated way to this leadership? Should there be, for example, a G-50 of global corporations – not fragmented bodies, but one organization that represents the point of view of global enterprise, perhaps in discussion with the G-20? There is a real need to invent a new forum where private enterprise, governments, and NGOs can all come together to address issues in a constructive way.

Fifty percent of humanity now lives east of the Middle East. Those countries are growing the fastest – both population-wise and economically. In January of this year, China overtook Germany to become the world's third largest economy. Already, one in three people in the world lives in China or India. In this new world, the task of acting local requires – especially for those in the West – acquiring profound, new knowledge. It requires a new way of comprehending the world, because in this new world, power is based not just on Western democracy but on other forms of government, too. The shift is from a culture rooted in Judeo-Christian ethics to a culture rooted in other religious or sometimes no religious ethics. These are societies in which church, judiciary, and state are separate entities and countries in which they are combined.

The fourth requirement of the modern CEO, the CEO has to keep learning. In Plato's Republic, Socrates learns by asking probing questions and listening. That is the way we have to learn in the little republic of the corporation. We have to encourage debate, foster a culture of dissent, and welcome uncomfortable input. We need learning to be a mutual process in which employees learn from this whole change too. The reason we need to act as if we are constantly back at school is that the world we do business in is changing ever so fast.

We need to make sure that as good companies, we reflect the society that we live in. Diversity and inclusion have to be taken to a new level. It needs to become multitalented, multicultural, multiregional, multi-ethnic –and most importantly, multigenerational. No group in society can or should be excluded.

One out of every 10 persons is now 60 years and above. By 2050, one out of five will be 60 years or older. And every region of the world is different. One out of five Europeans but one out of 20 Africans is 60 years or older. In the emerging markets, a full 760 million people, or 25% of the population, will be under the age of 20 by 2030. So CEOs need to get off the executive floor and start talking to people of all generations, not to pass judgment but to learn their language, learn how they see the world, and learn how their thinking will profoundly change the way we do business.

Motivating, inspiring, and holding onto the best of the best requires CEOs to truly understand their employees. Each person, each cohort has unique needs and wants. They are no longer just a group of employees.

I'd argue that we have to go back and revamp our organizational health surveys, our 360- degree feedback processes. And all of these sessions we do, they have to be rethought and revamped because we now have to assess the emotional bond that employees feel to the companies, because unless we have that emotional bond, companies cannot be successful.

This is an age in which curiosity and resilience matter more than certainty. In uncertain environments, it isn't any specific asset, intellectual property, or competitive position that matters most. Rather, being adaptable and nimble are the characteristics that will separate the winners from the losers over the long term. Instead of trying to plan for every possible eventuality, the modern leader has to look at the wider context and try to shape it. It's a fascinating challenge and one which I'm not sure we encounter anywhere in our conventional business training.