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PEPSICO: ‘PERFORMANCE WITH PURPOSE’; HOW CULTURE EATS STRATEGY

A big majority of top leaders are still hesitating. While the most candid go as far as to confide that they are scared or overwhelmed by the scale of disruption, few have yet to mobilise in ways that end the default to conformity across their company or government department. This is due to two factors. First is their anxiety about leading a revolutionary attack on the status quo. Second is active resistance to seismic changes in the ranks below the C-suite.

This is indicative of what has been variously described to us as the ‘frozen middle’ or that ‘permafrost’ which ‘lacks muscle’. We have examples – which we cannot name – where those at the top have had the courage and humility to lead a move against conformity. They have communicated their determination to those who work for them. But then they have been thwarted either by indifference or by active resistance and dragging of the anchor chains.

More broadly, there are first corporate fears – even from CEOs themselves – that capitalism is at risk. There are also signs of first moves towards greater joined-up recognition of the nature and true scale of the threats, then the imperative for coordinated action. The voices are not yet large in number. But they are more public and starting to urge the need to act with a degree of togetherness to warn that the way leadership is currently is not the way it should be. And the need is urgent.

Indra Nooyi has been President and CEO of PepsiCo since 2006. In 2014, she was ranked number 13 in Forbes’s list of the world’s 100 most powerful
women. She was second on the 2015 Fortune list. These awards recognise more than the corporate performance in financial numbers. She is one of the few CEOs who have long positioned themselves publicly out front for changing corporate culture, mindsets and behaviour. A decade of concerted action began in 2009. For much of the time she struggled uphill against a general corporate spine of resistance. ‘We had to change the culture of this company. When people say “culture eats strategy”, I lived it first-hand. I saw how many people sort of said, why should we change our company that’s been so successful, for a future we don’t quite understand?’

Had she experienced automatic buy-in to her ideas? ‘When we become CEOs, they give us CEO pills, and that allows us to remain strong in the face of all this criticism,’ she has often been quoted as saying. ‘People talk about a honeymoon period, but there really isn’t a honeymoon period, because from day one you are the CEO.’ The challenge is both attractive and daunting. ‘When you become CEO, overnight, you are the person calling all the shots. You’re responsible for making sure you get all the information from the company, crystallise it down to simple ideas, and then tell the organisation what to do. It’s a very daunting job to be a CEO.’ In harsh times like the 2008 financial collapse, ‘one had to learn in a hurry how to run this company through extreme periods of adversity. There’s no book you can read.’

In 2006 Indra Nooyi’s new driver for the world’s second-largest food and beverage business became the slogan ‘Performance with Purpose’. The company’s aim would be to deliver ‘sustainable long-term growth while leaving a positive imprint on society and the environment’. The portfolio of products had to be changed at the same high speed that consumer tastes and demand were changing. PepsiCo had to be must be ‘transformed to offer healthier options while making the food system more sustainable and communities more prosperous’. She was determined that this would not be dismissed as window-dressing. ‘As we looked at consumer trends, and we looked at where we thought the markets were going, we knew we had to retool our portfolio. That was not even a question. We knew that if we didn’t do it, our future was in jeopardy.’

Nooyi defined it as ‘a great opportunity for us to change our portfolio, go where the consumer’s going, and gain market share. But I was not stupid enough to say this can be done overnight. I knew the journey was going to be long, arduous, and was going to be filled with pitfalls. [That’s] because it’s not just the desire to change the portfolio, but to line up the entire company’s innovation and marketing execution and budgets to go where this marketplace was going.

For ten years Indra Nooyi had driven the company realising that scarcity and climate change meant PepsiCo could not ‘continue with business as usual’. If it did then PepsiCo was likely to discredit much of what had been achieved and could still be done. Sugar, salt and saturated fat levels had already been reduced. The number of nutritious products and beverages was up. Since 2015, she had been driven by the fear that corporates were losing touch with the new and more values-based expectations of customers. And that was not value by money. It was a whole new and different type of social value. The voices were getting louder. Yet generally the reactions in corporates and the public sector remained cautious and muted.

The public mood was suddenly changing unthinkably fast. Corporate complacency carried a new cost. Consumers were no longer just consuming indiscriminately in the ways they, their families and those around them had always done. Producers like PepsiCo could no longer benefit from consumer ignorance or indifference. It could not take convenient refuge behind its own slogans which suggested products were initially ‘fun-for-you’ and then ‘better for you’ and finally ‘good-for-you’. Consumers were developing more than just different tastes. Driven by the NextGen they had different values born of a new sense of social responsibility, both for themselves and the world around them. As a result, increasing numbers were deep-diving into the nature and details of products so they could be sure they met new consumption criteria. They boycotted and did not buy products which represented anything they did not like.

But Pepsi had a culture that did not really want to embrace the fast-changing realities. ‘I think this culture change is what took so long. Through that process, obviously people were impatient. Because the way our whole investing works, it’s, yeah, you need to make the strategic changes... [But] once you start to change the culture of the company, everything else happens fast.’
The next generation were fast becoming very particular and demanding on this issue. But far too many big companies and governments were either blind or downright dismissive. ‘We are in danger of creating angry customers and angry consumers,’ we heard Indira Nooyi warn several large gatherings of fellow CEOs. Many nodded quietly. But how many really agreed? How many still conformed to the executive driver that ‘value’ meant the highest financial returns and the best quarterly earnings?

‘Trust in institutions is near all-time lows as consumers increasingly expect companies to make money in a way that does not burden society,’ Nooyi told LinkedIn. In PepsiCo there had to be a ‘galvanising of our entire company to embrace a deeper sense of meaning in our work. From the start we knew this wouldn’t be easy. We knew it wouldn’t happen overnight. We knew it would take a willingness to overcome the doubts of those who said it couldn’t or shouldn’t be done.’ She talked of how, in PepsiCo, the old guard and old attitudes were being retired out. It would be tough. But so what? That should be the new driver. Customers and consumers were demanding new attitudes and new ways. ‘We also knew something else. We knew that being a good global citizen wasn’t just the right thing to do. It was the right thing to do for our business.’

Big demographic and generational changes were creating other new realities. The next generation did not naturally default to want to work in big corporations. Their different values extended to where they work, how they work, and what kind of organisation they will not work for. Loyalty to a brand means less. Attachment to new principles and values means more. ‘They [millennials] no longer look at it [work] as just another paycheck. They look at it as “How can I go to work and make a difference in society?”’ she told the Fortune CEO Initiative in New York City, attended by one hundred of the more enlightened CEOs. She said it sitting alongside Mark Bertolini, CEO of Aetna. Mindful of that deep push back from the next generation, he had told the same chief executives that ‘the capitalistic model no longer works. … We are in danger of losing our operating licence.’ It was Nooyi’s alert expressed differently.

The Nooyi principles for deepening Performance with Purpose inside PepsiCo through to 2025 were unambiguous. The official line is that there is great excitement and engagement in almost every market. There is significant evidence that this is the achievement. ‘Needed: systemic change’ is the bold headline in PepsiCo’s own public audit of Performance with Purpose so far. ‘The global food system is at an inflection point. Intensifying, interrelated challenges – in public health and nutrition, climate change, resource scarcity, human rights and other areas – require us to act. The vast network of farmers, traders, suppliers, processors, manufacturers and retailers that feed our world must embrace change to create a healthier future for people and our planet.’

But what comes next is an example of how these bold and admirable principles can easily appear to stumble or be sidelined internally. Despite the clear message from the top, a giant corporate like PepsiCo, which is deeply sensitive to the dangers and the cost of unthinkables, can still be caught out in an all-too-public way by occasional internal failings.

On 10 April 2017 PepsiCo posted a video promotion for the Pepsi drink in cans. The title was ‘Living Bolder’. It featured the highly paid model and reality TV star Kendall Jenner. The advertisement starts with a photo shoot in a US street. She steps out of it to join a heavily policed demonstration. The mood is good but potentially tense. Jenner is seen walking to the police line, apparently trying to defuse the tension. She does so by handing a can of Pepsi to a police officer, who is equipped with riot gear at the ready. He half smiles as if calmed by the Pepsi. It appears that, single-handedly, Jenner has calmed the police. This prompts cheers from the demonstrators.

The timing of the use of a can of Pepsi to calm a police officer who might soon be under orders to bang heads could not have been more ineptly timed. Police officers in various parts of the US were facing charges for killing scores of black Americans or disproportionate use of force. Many were acquitted. The Black Lives Matter movement, set up to reflect anger at the police targeting of black people, had significant momentum nationwide.

PepsiCo was widely accused of making an ‘insensitive’ video. An NBC News report described in sarcastic tones the hole PepsiCo had dug for itself. ‘If the Black Lives Matter movement were led by a 21-year-old white supermodel armed with a can of fizzy soda, then maybe everyone would...’
just get along. That’s the vision presented in Pepsi’s new ad featuring reality TV star Kendall Jenner.275

The PR disaster was potentially an existential backlash of the very kind Indra Nooyi knew was there, and had warned about. Those ‘angry consumers and citizens’ had pushed back hard and very fast. Even her own massive corporate structure – which she believed she had sensitised to the issue under the Performance with Purpose – had been caught out.

On this occasion the internal systems failed. The global corporate policy had somehow been lost for a national marketing team in the enormous US market. This was missed in the pre-launch review process. As a result, additional checks and balances had to be introduced.

The promo ad was axed after less than one day to avoid reputational damage. In a statement on its website, PepsiCo said of the video, ‘Clearly, we missed the mark.’ They did not intend to make light of serious issues. ‘Pepsi was trying to project a global message of unity, peace and understanding.’ In 24 hours the advert had vaporised without trace.

It was a vivid example of how even the most sensitised of corporate structures does not automatically have the depth and breadth of internal behaviour, culture and mindset to think unthinkables. Well-established and ingrained top-down processes and attitudes are just not enough anymore.

This is even under a CEO like Indra Nooyi who more than any other CEO is fully seized of the disproportionate damage that can be done by such an unthinkable error. Nooyi revealed later that she had not been aware of the ad which caused such “consternation”. She told Fortune:

‘This has pained me a lot because this company is known for diversity, and the fact that everybody who produced the commercial and approved the commercial did not link it to Black Lives Matter made me scratch my head. . . . I take everything personally. The minute I saw people upset, I pulled it. . . . at the end of the day, our goal is not to offend anybody.’276

But from such a mistake can come a new precision and determination to ensure Performance with Purpose will not just work but succeed, both within PepsiCo and beyond. Is Indra Nooyi unbalanced at times by disruption? ‘You can look at it with pessimism, that, “Oh, my God, all of this is changing,” or optimism, to say perhaps this is the time to rewrite some of the rules and rebalance the competitive equation in the industry. I’m in the latter camp. And I’m looking at the world and saying, “Interesting times.” I just hope I have the energy to help us through it. Right now, I do.’277

So what principles will make that possible?

‘All that we want to do is to make sure that this entity called PepsiCo, in whatever shape or form, on our own and in combination with others, remains a vibrant company that is growing; that’s creating shareholder value, for the short and the long term. That’s what we’re singularly focused on. If it means changing our business model, but doing it in a way that doesn’t take us way off our core competence so we don’t fall flat on our face, absolutely we’ll do it. But we have to do whatever transformation, keeping in mind that there are things that we’re good at.’278

End notes

269 This and subsequent remarks are from an interview with Indra Nooyi on the Freakonomics Radio podcast, 31 January 2018.
270 Performance with purpose, PepsiCo, 17 October 2016.
271 ‘Indra Nooyi just issued a major challenge to the world’s CEOs’ by Daniel Roth, LinkedIn, 19 October 2016.
272 ‘10 years ago, I said PepsiCo had to be about more than making money. Here’s what’s in store for the next 10’ by Indra Nooyi, LinkedIn, 17 October 2016.
274 op cit. Performance with purpose.
276 21 September 2017.
277 ibid.
278 op cit. Indra Nooyi interview for Freakonomics Radio.