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Thank you John for that warm introduction. Ladies and gentlemen, good evening. It is a tremendous honor and privilege to be speaking here at the Economic Club of Chicago. And thanks to you Mellody Hobson and President Grace Barry for inviting me.

Before I share some of my thoughts, I want to say a big thank you to each and every one here for giving up an evening to attend this event. For someone like me, who fresh out of business school started here in Chicago 30 years ago, it is incredible to be addressing the leaders of this great city. It has a dream-like quality. I stand here as an example of the “meritocracy” that exists in the United States - something that I am grateful for. Something we should all cherish and further. I know I will do my part.

Let me now turn to the topic I want to discuss with you this evening. You have all seen the numbers. In poll after poll, when asked to name the professions that they admire most, people always say something that we should find disconcerting. Business is not in a good place. This was not always so. In the 1980s and 1990s, the popular mood in the United States was that business was a place of great creativity. Not anymore. The same leaders who were lionized 20 years ago are now thought to be part of the problem.

In the Edelman Trust Barometer for 2010, trust and transparency were more important for corporate reputation than the quality of services. Financial return was a long way down the list. You won't be surprised to learn that politicians rank lowest in the ranks of trusted spokespeople. But CEOs are near the bottom. That's not good news. So, what happened over the past 2 decades? Did other professions just trump CEOs? Or, did CEOs sink into disrepute due to their own actions?

I would like to posit that CEOs are ranked low in public esteem because some CEOs failed to manage for the long-term when short-term pressures were acute. We meet tonight in the visible shadow of a terrible crisis. It was only two years ago that capitalism, as we know it in the Western world, went to the edge of the precipice because of an excess of risk-taking. Our capacity to understand the risks we were taking was outstripped by our ingenuity in devising new ones. But why were these risks taken? I think it's because many were chasing short-term goals, short-term profitability, short-term compensation. Many CEOs just forgot that they were the trustees of an economic system.

So, this evening, I want to talk about what I think is the defining leadership task of our time - the search for the right balance between the demands of the short-term and the responsibilities we all have to the long-term. I want to briefly discuss what we mean by the short-term, discuss the forces that got us to this point and suggest how we might strike the right balance for the future. I then want to lay out what companies and Boards can do on their own, starting right now. I will close talking about what PepsiCo is doing to accomplish this balance.

My talk today comes with a simple but heartfelt plea. The business community has to earn back the trust and credibility that was lost. It's going to take awhile, but it is important that we are all

seized with a sense of urgency about this issue now. Too many lives and livelihoods depend on this. We cannot afford to get it wrong again.

Let's start by clarifying what we mean when we talk about short and long-term events. Time is linear, stretching out endlessly and the line between the immediate and the distant is arbitrary. Ancient civilizations used to think that the long-term described the unfolding of many centuries. Modern agriculture and industrial societies, which used a fixed calendar and calculated time more precisely, took the pace of life up a notch. Democratic politics introduced a further short-term bias. Democratic dispute, which is the lifeblood of a free society, does mean that democracies struggle to deal with long-term issues. If the needs of your constituents are pressing today, then the big infrastructure projects will usually have to wait until tomorrow.

In business, the definition of the short-term is, if anything, even more severe. The investment community, without quite meaning it, has strongly favored short-term thinking. Many years ago the belief was that investors buy shares of businesses and prosper over time as the company grows profits. In fact, in 1960, holding periods for stocks were almost 9 years. In 1990, holding periods were just over 2 years. Today, they have shrunk to less than 9 months. Too many investors have become almost like speculators trading wiggles on a stock chart, in hopes of selling shares at a higher price to other speculators within a few quarters.

The technology revolution has meant they can act on instinct, in an instant. Real-time global news and financial updates are available round the clock, so it is not surprising that analysts demand visible change four times a year. 24/7 media amplify the smallest missteps forcing corporate leaders to be constantly on guard. There is precious little time to pause and think. Attention spans are short, time is money, and there is a premium on speed.

These trends are not doing CEOs any good either. Time in post is getting shorter and shorter. In 1999, the average tenure as a CEO was nearly 10 years. By 2006 it was only just over eight. 40% of CEOs last no more than two years in the job, and turnover of CEOs has grown by 60% in a decade. If we carry on like this we'll be leaving as soon as we arrive.

These are profound forces in the modern world, crowding in upon us, demanding instant decisions, making the pursuit of short-term goals seem perfectly rational. This combination - of media pressure, investor pressure and political pressure - has brought us somewhere unintended, to a point where the balance between the short and the long-term has been lost.

Now, let me be clear, an excess of long-term thinking could be just as bad, in a different way. If we didn't have the discipline of commercial pressure then the corporate world would not be the engine of efficiency that it is. Competition is severe, immediate and tough but it's a powerful system for unleashing innovation. If we spent all our time worrying about the distant future we'd never get round to the things we have to do, today. So I'm definitely not saying we need to throw out the short-term and replace it with the long-term. No, this is all about balance.

So, what should we do? The need for change is extremely urgent. Well, let me say straight away that there is no single answer to this question. Every company, in every country in the world, needs to work out its own way. The right balance isn't something that will drop out of a calculation in a spreadsheet - it's a fine judgment. But let's not allow the fact that we are all different to be an excuse for inaction. At the moment, not acting is a greater risk than acting.

There is a mood for action against the excesses of business in this nation at the moment. Never mind that each one of us will no doubt be thinking, "I did no wrong. That's not my company you're talking about." I've no doubt we are all right.

We can choose to act and participate in the change that is inevitable, or just stand firm and have regulation imposed on us. But, let's not kid ourselves, regulation isn't always subtle. It often does not differentiate between good and bad company management. At times, it does not single out renegade sectors either. Think back to what happened after Enron. The Sarbanes-Oxley Act was introduced in haste. It was useful in some ways, but it added bureaucratic regulation to the system and may not have addressed all the problems that it was intended to fix.

So, I think we, as business leaders, need to start our program of action. Let me be clear, there are many systemic issues beyond individual firms that need to be addressed especially as it relates to the financial sector. I want to focus my comments here on firm level initiatives. They are not 100% of the solution, but they are a good start. I have three thoughts to offer, most of which we can start working on right now. I want to stress that they are more about attitude inside corporations and boardrooms than they are about policy. They're about how we think about what we do.

That's why the first and most important thing we can do is to change our narrative about what companies are for and what they exist to do. As capitalists, we need to rediscover our higher calling. For a long time, the doctrine of shareholder value, which has had some distinguished advocates, dominated Western economies. Companies were seen as instruments to make money, lots of it, as fast as possible.

This is not a description of a company. It is a caricature. A company is not an engine for the short-term. It is a complex organism and it does not float free of society, free of long-term obligations. John Quincy Adams, among many others, advocated the joint-stock company "as a 'truly republican institution' that allowed investment by 'the poor, females and children, the widow and the orphan.'" Perhaps the greatest foreign observer of American traditions, Alexis de Tocqueville, understood that "private interest and public interest meet and amalgamate" in the company. With all the eloquence of de Tocqueville, in spite of the short-term thinking that dominates capital markets, we need to go back to make the case - the case for the true vocation of the public company.

The second thing we can do is to change the way we lead. The only way to reconnect with people is to offer leadership that is authentic, and is driven by a higher purpose. Leadership needs to stress the long-term even if that involves short-term pain. We live in a skeptical age in which trust has to be earned not demanded. Institutions, both public and private, now relate to individuals in a wholly new way. This is not at the expense of shareholders, this is in defense of shareholders.

The old way was like the ancient model of the universe. Political, commercial and civic institutions held both the power and the knowledge. They were at the center of the known universe, the sun around which everything revolved. The public was trusting but disempowered. People orbited around their institutions with no sense that they could shape the course of the solar system in which they were just small planets.

Today, we live after the equivalent of the Copernican Revolution. Today, the public are the golden planet at the centre of the system. We, politicians and corporations, encircle them, trying to gain their attention and win their trust. And the only hope that we have of winning trust is if we articulate a clear purpose. We have to set out a clear path to the long-term future. We must also consistently demonstrate progress on that path.

To do so, we need metrics that measure sustainable performance and which capture the sense of a wider purpose. For example, there is a great deal of intangible value in assets such as reputation, the capacity to innovate, and a commitment to social well-being. In the end, they feed through into performance but they will not be captured in the dry arithmetic of economic value-added, calculated on a short-term basis. Designing these metrics will not be so easy. As Albert Einstein once said “Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.” But that doesn’t mean we can’t get somewhere.

The Dow Jones Sustainability Index has devised a set of sustainability criteria that are an excellent starting point for this discussion. In addition to traditional performance, they look at a corporation’s code of conduct, its regulatory compliance programs, its risk and crisis management; its environmental criteria; its record on philanthropy, labor practices and recruiting. There is also an industry-specific component. A food company will be assessed, for example, on the basis of its brand management, marketing practices, and research and development programs. This is a very good start. It may now be time for all CEOs and Boards of Directors to think about how to address social, environmental and economic risks in a company’s public filings.

Third, we need to be as good as we can be within our own corporate structures. The right balance between short and long-term will be different for every company. So, a great burden rests on the CEO and on the Board of Directors. Each Board needs to identify and focus on those metrics that strike the right balance for their companies and align executive compensation to these metrics. Its all about motivating and rewarding people the right way.

Interestingly, many companies today see the balance as a zero sum game. But, when done right, it is amazing how thinking about the long-term can have short-term benefits as well. A great deal of this is within our own hands. The paradox of profound change is that it does not need a revolution in our structures. It just needs a revolution in our thinking. I don’t, for one second, think that any of this will be easy. There are many different ways up the mountain. But I want to leave you with a sense of the particular approach to the balance of long and short-term that we have adopted at PepsiCo.

Let me give you some background. With revenues of nearly \$60 billion, PepsiCo is the largest food and beverage company in North America and the second largest in the world. We employ 285,000 people world wide and 110,000 in the US. Just in the Chicago area, we employ 3,500 people. We have a large portfolio of products. Eighty per cent of our portfolio is made up of products we call Fun For You or Better For You - products such as Pepsi, Diet Pepsi, Mt Dew, SoBe Life Water, Propel, Lays, Doritos, Fritos, Sun Chips, Cheetos and Tostitos – the world’s most loved brands. The other twenty per cent is made up of products that we describe as Good For You – healthy products such as Tropicana, Quaker Oats, Naked Juice and Gatorade for athletes.

Over the past 10 years, we have delivered 7% annual revenue growth, 8% percent annual profit growth, and 12% annual EPS growth. Between 2002 and 2009, we returned \$37B to shareholders through share repurchases and dividends. Pretty good performance I'd say.

Besides our financial performance, PepsiCo has always been a company known for adapting its business model to the emerging realities of the market place. For example, in the U.S., we were the first to diversify into a whole range of non-carbonated beverages way back in 1991. We were also the first to eliminate trans-fat from all our snack products in 2003. Even though it cost us quite a bit to make this change, we did so because we felt it was the right move for consumers. Over the past 10 years, recognizing changing consumer lifestyles, we have built a \$10B Good For You businesses. In the last three years, we have significantly increased our investment in R&D to enable us to bring more science-based products to the marketplace. I would like to say that as a company, we are pretty good at delivering short-term results while investing for the long-term.

Three and a half years ago, when I became CEO, I wanted to articulate how our company should manage itself over the long-term. We encapsulated our thoughts in a simple phrase - Performance with Purpose. Performance was always the lifeblood of PepsiCo. We were committed to delivering top quartile financial returns and have been doing so for several years. But we went a step further. We laid out additional short and long-term performance goals for ourselves that included metrics related to our performance in the eyes of our retail partners, our consumers and of course our investors.

On Purpose, we articulated three planks - Human sustainability, Environmental sustainability and Talent sustainability, which together laid out the roadmap for PepsiCo's future. Purpose in PepsiCo is not corporate social responsibility in the traditional sense. It is not focusing on performance during the day and doing good deeds on the side. In fact, we have to execute our purpose objectives in order to deliver performance.

Human sustainability is about changing the balance of our portfolio to offer consumers a range of high quality, enjoyable and wholesome foods and beverages. It is about addressing the twin problems of over nutrition and under nutrition. And, it's about providing people with options to manage their portions, nutrition education, and devising programs to encourage physical activity.

Environmental sustainability is about investing in a healthier planet by reducing water usage, increasing recycling levels, minimizing our carbon footprint, engaging in sustainable farming and helping communities in every country in which we operate in the areas of water conservation, efficient agricultural methods and increasing access to safe water.

Talent sustainability is about creating an environment within PepsiCo where our employees feel they can bring their whole selves to work. It is about allowing our people not to view PepsiCo just as a place where they can make a living but a place where they can have a life as well. It is about building a diverse workforce where our employee base reflects our consumer base.

Why articulate Performance with Purpose? Why make everything so explicit? It's because I felt strongly that as a company with a market cap near \$100B, we were indeed a little republic. As a food and beverage company, we had a role to play influencing eating and drinking trends. We had to be responsible stewards of the environment and provide livelihoods and lives for all our

people. And, consistent with the definition of a public company, we operate with a license from society and we owe every society we operate in a duty of care.

Interestingly, Performance with Purpose has signaled to our employees that we recognize that they are first wives, husbands, mothers, fathers, daughters and sons and citizens of every community and country they live and work in. This has unleashed their deepest emotions and brought them closer to PepsiCo. It's becoming incredibly clear that what we are doing with our portfolio, the environment and our people has our employees saying they not only love coming to work at PepsiCo but they are also really proud to be part of PepsiCo. Performance with Purpose has also been a great recruiting tool. On college campuses across the world, young people want to come to work for PepsiCo because we stand for something that resonates with them.

What is particularly gratifying is how, in three short years, Performance with Purpose has galvanized PepsiCo. In every country, in every one of our businesses, you will see great examples of Performance with Purpose in action. It is woven into the fabric of our company and has become our guiding mantra. The two strands – the commercial and the ethical – are so wrapped together now that we could not subtract one without damaging the other.

Performance with Purpose is now moving from the country and business level to the brand level. Let me give you an example - the Pepsi Refresh Project. Late last year, when the Pepsi brand team was planning its activities for 2010, they decided to take Performance with Purpose to a new level. Through purpose, which in this case is the support of communities, we were successful in getting the message of brand Pepsi out to consumers. We did not link this program specifically to purchase, but brand equity scores for brand Pepsi are significantly up.

Three years after it was first articulated, we have taken Performance with Purpose to a whole new level. We recently published our long and short-term goals and commitments to our shareholders, to our consumers, to the environment, to our employees and to all the communities in which we operate. Performance with Purpose, the promise of PepsiCo, is on our website is our first step to lay out our metrics and report on our progress.

And, as I said earlier, its all about rewards and recognition of our people. So, our executive compensation programs are tied to our short and long-term metrics. 1/3 of our annual bonus is based on the delivery of strategic objectives which are largely linked to human, environmental and talent sustainability. Soon, we plan to peg a portion of our long-term performance share awards for senior executives to select metrics on human sustainability. And, we do our best to set aside time in every Board meeting to discuss progress on long-term initiatives. Navigating through the challenging economic environment has made it difficult to always strike the right balance, but, it appears we have the necessary discipline now in place.

We are not immune from criticism, by any means. There are skeptics and cynics who say this is all a marketing gloss. But we will remain committed and steadfast. We know that staying strong in spite of the critics is what will deliver short-term results and long-term value. It is what will allow us to hand on what we inherited – a durable company, set for the future.

So, let me close by referring to a book called the *Devil's Dictionary* from 1906. Ambrose Bierce, the author, made the following entry under the term "corporation:" "an ingenious device," he

wrote, “for obtaining profit without individual responsibility.” A few times over the past century, his satire appears to have come uncomfortably close to the truth. Let us commit together that we will rewrite the definition of the corporation once and for all.

Like the characters in the Hindu epic, the Ramayana, capitalism has the ability to assume different forms for different times and different nations. Clearly, the Western capitalism that dominated the last years of the 20th century has suffered a severe jolt. But, out of the wreckage of the old, the new is struggling to be born. We do not lack the knowledge to improve our world. Neither do we lack the need. If we fail, it will be because we lack the will. We cannot say yet quite how it will look, but together we, as corporate leaders, as members of Boards of Directors, can bring it about.

There is a telling proverb which says, “if you want to know your past, look into your present conditions. If you want to know your future, look into your present actions.” Ladies and gentleman, it’s down to you. It’s down to me. It’s down to all of us.

Thank you so much for your attention this evening. It has been a privilege to speak to you.