

ICI VIEWPOINTS

May 7, 2015

Nooyi's Purpose, Pepsi's Performance

We all have a moral compass. But for PepsiCo's Indra Nooyi, "the moral compass of our lives must also be the moral compass of our livelihoods."

Stirring words from the company's chair and chief executive—and just a few of the many she delivered in a lively Q&A with Vanguard Chairman and CEO Bill McNabb at ICI's 57th General Membership Meeting, which began yesterday in Washington, DC.

Nooyi's chat with McNabb, who is also ICI's chairman, dove deep into the ideas behind PepsiCo's work since she ascended to the top position nearly a decade ago.

A Company with Soul

Returning McNabb's opening volley with vigor and a quick wit, Nooyi explained the three key trends she observed that spawned "Performance with Purpose," PepsiCo's mantra during her tenure as leader.

The first, she said, was a growing focus on "health and wellness—prevention, rather than cure." The second was a growing "environmental consciousness" among both governments and communities, especially as the Millennial Generation has emerged. "There's a cost to not being conscious, in both reputation and hard bucks," she said. And the third trend was younger job-seekers increasingly moving into finance and technology. "To attract and retain the best and the brightest," she explained, "your company must have soul—real soul."

For Nooyi, having soul means forging a connection between people's lives at work and their lives outside it—to connect people's lives as parents, friends, spouses, siblings, and citizens of the community with their role at PepsiCo. What it doesn't mean, she said, is employees "walking in the door as one person, parking that person at the door, working as different person, and then picking themselves up when they leave."

Bringing those three ideas together—shifting PepsiCo's product portfolio toward health and wellness, fostering an environmental consciousness across the company, and integrating people's lives outside work—has been no easy task. That goes especially for the third idea.

"We had to find a whole new model to engage current employees—as well as to attract new talent," she said. "If you really want the best and brightest on the global scene, you've got to be a different sort of company."

The Need for a Long-Term Focus

Being different, in Nooyi's eyes, requires a commitment to maintaining a long-term focus in a business environment that too often focuses on short-term results. That's where the moral compass comes into play—and she made this point with an illuminating example.

"Why do you have to transform your portfolio to healthier products?" she recalled an eager investor inquiring. "I'd like you to focus just on soda and chips, and make the maximum possible earnings right now."

The investor, it turned out, had recently begun to personally focus on health and wellness—yet, in favor of immediate returns, rejected the idea of a long-term strategy at PepsiCo to bring that focus to its products and customers.

This got the crowd laughing—but the point was well-taken. "You cannot have conflict between your personal moral compass and the moral compass that you put in place at work," Nooyi said.

She also stressed that this is not the work of government. Companies must make sure that they're making money the right way. "We can't impose our costs on society. I'm not saying 'kill the profits,' but we are not just talking about level of returns. Duration is equally important—if not more so."

To succeed over the long term, Nooyi said, you have to have "strategic acuity and clarity" to recognize that returns might not be as high during the transformation of a product or process. Explaining this to the board of directors—and explaining what the payback will be at the end of the process—is critical, she said. Ultimately, the company's long-term health will benefit from patience during the transformation.

This long-term thinking, of course, was not lost on Nooyi's counterpart across the table—or on the audience of industry professionals. McNabb's firm, and the fund industry at large, is well known for advising investors to pursue long-term gains over short-term success.

Thinking in a "Borderless" Way

PepsiCo also is going global for the long-term, Nooyi explained, describing the firm's global expansion as a necessity. "If we don't grow and enter new markets," she said, "local companies or other multinationals will go in there, build their skills, and compete with us here." So, she explained, this strategy is both offensive and defensive in nature.

It also centers on thinking in a "borderless" way, she said. "We need a cadre of people who don't think in terms of individual countries. We need people who think about questions like, 'How can we take an idea from China and bring it to Mexico? How can we take an idea from South Africa and bring it to the UK?'" This requires embracing all cultures and countries on a personal level, she said.

Lessons Along the Way

McNabb and Nooyi wrapped up the conversation with some of the lessons she has learned as PepsiCo's boss. Nooyi again described the important lessons as a succinct set of three.

The first, she said, is what it means to be in the top position as opposed to being second in command. “The top position is so much more than stepping up one rung,” she said. “You’re it when you’re the CEO. And the responsibility is just awesome, because the world is watching you.”

The second lesson Nooyi shared was to “shape your board, not stack it, and board members will stand behind you.” She praised her board of directors’ “tenacity and strong will,” along with its clarity and vision. “They took the time to understand what we wanted us to do, and they threw their weight behind us. They said ‘Run this company to be successful—for the long-term, and for all shareholders.’”

Nooyi’s third lesson involved the importance of building relationships across the company. “As a CEO, you can’t run a company through video conferencing or email....You have to present a human face.”

It wasn’t always easy to learn these lessons as CEO, Nooyi said, but she is pleased with the experience overall. Running a firm that operates in more than 200 countries and employs 275,000 people has brought her “a bunch of tough experiences, but I wouldn’t give up this journey for anything in the world,” she said with a grin.

For other GMM highlights, please visit http://gmm.ici.org/gmm/2015/15_highlights.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.