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A noteworthy characteristic of the contemporary global economy is the uneven distribution of world foreign direct investment (FDI). While in the first global economy before 1929 most FDI was located in developing countries, currently three-quarters of world FDI is located in developed countries. Large emerging economies with little inward FDI include India and Turkey, despite the relaxation over the last two decades of the restrictions imposed on foreign firms between 1950 and 1980. This working paper explores why Unilever, the Anglo-Dutch consumer products company, was able to sustain large businesses in those countries even in the postwar era of hostility to foreign multinationals. It argues that the explanation is multi-causal. Unilever held first-mover advantages in both countries, but it was also prepared to accept low dividend remittances for years. It pursued flexible business strategies beyond its "core" business, even distributing condoms. It maintained a high standard of corporate ethics. It was effective at building contacts with local business and government elites, primarily through localization of management. In short, it took an extraordinary effort by a very large and experienced global corporation to survive the "era of confrontation" which deterred most other foreign firms, and which has left behind a legacy of distrust which helps to explain the continuing low levels of FDI in India and Turkey.

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Overview

A noteworthy characteristic of the contemporary global economy is the uneven distribution of world foreign direct investment (hereafter FDI). Currently three-quarters of world FDI is located in developed countries, but the distribution is uneven. For example, Denmark has the same stock of inward FDI as Japan. The unevenness is even greater in the case of the remaining quarter of world FDI located in developing countries. Approximately one-third of this amount is in Hong Kong and China alone. The majority of the residual is found in a handful of countries, including Singapore, Mexico and Brazil. The large countries with little inward FDI include India and Turkey, whose combined stocks of inward FDI of $3.9 billion and $3.5 billion respectively represent less than 1% of world FDI.[2]

The low level of FDI in countries such as India and Turkey remains puzzling to economists, given that both countries have greatly liberalized their regulations on

[1] I would like to thank Unilever PLC and Unilever NV for permission to cite their archives. Earlier versions of this paper were presented at Harvard Business School and at the Annual Meeting of the Business History Conference held in Toronto, June 8-10 2006, and I am benefited considerably from participant comments. Mira Wilkins provided especially valuable insights. I would like to thank the Division of Research at Harvard Business School for its support of this research.

[2] *World Investment Report* 2005.

inward FDI over the last two decades.[3] Business historians know, at least, that the explanation is time-specific, as the geographical distribution of FDI has changed over time. Before 1945 the majority of world FDI was located in developing countries. One estimate for 1938 is that 56 per cent of world FDI was located in Latin America and Asia, and a further 7 per cent in Africa, primarily in resources and related services. By 1980 Latin America, Asia and Africa combined accounted for only 20 per cent of the world total.[4] India, whose stock of FDI was small in 1980, had been among the world's largest host economies in 1914 and 1929.[5]

Within this context, the experience of Unilever, the Anglo-Dutch consumer goods corporation formed by merger in 1929, is curious. During the postwar decades Unilever owned and controlled diverse business spread throughout the developing world.[6] This included large businesses in both India and Turkey. In both countries it

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[3] For the case of Turkey, see H. Loewendahl and E. Ertugal-Loewendahl, "Turkey's Performance in Attracting Foreign Direct Investment," *ENEPRI Working Paper No 8*, 2001.

[4] J. Dunning, "Changes in the level and structure of international production: the last one hundred years," in *The Growth of International Business,* ed. Mark Casson, London, Unwin Hyman, 1983; G. Jones, *Multinationals and Global Capitalism*, Oxford, Oxford University Press, 2005.

[5] M. Wilkins, "Comparative Hosts," *Business History*, n° 36, 1994.

[6] There is an extensive literature on the history of Unilever. C. Wilson, *The History of Unilever,* 2 vols., London, Cassell, 1954 and *Unilever 1945-1965*, London, Cassell, 1968 discuss the formation and history of Unilever. G. Jones, *Renewing Unilever* Oxford, Oxford University Press, 2005 takes the story up from 1965 to 1990.

remains today among the largest private sector companies.[7] Unilever's position in such countries is striking for two reasons.

First, although Unilever's businesses spanned the oligopolistic detergents and toothpaste markets, its presence in so many developing countries was not matched by international competitors. Among the large US companies, Procter & Gamble ventured beyond developed countries only in special cases, although Colgate-Palmolive was widely represented in toothpaste markets in developing countries.[8] Henkel's few ventures beyond Europe, to Brazil and South Africa, were sold in the mid-1980s, in the former case to Unilever. Unilever also sold foods products, especially margarine, tea and frozen products including ice cream. Among competitor companies, both General Foods and CPC had large foods businesses in Latin America, but not elsewhere, although Swiss-based Nestlé was widely represented in developing countries**.**

Secondly, Unilever's business was also profitable. Unilever grouped most of its developing country business in manufacturing in a management group known as the Overseas Committee (It also operated a large trading and manufacturing business in Africa which was managed by a separate management group, the United Africa

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[7] In India, it is the 25th largest business in terms of revenues, and the 11th if finance and resources are excluded. In Turkey, it is the 25th largest, excluding finance and resources.

[8] Unilever Archives Rotterdam (hereafter UAR), Economics Department, Procter and Gamble's Strategy Overseas, 1984; E & S Department, Colgate-Palmolive; A Competitor Study, July 1975, ES 75235; E & S Department, Henkel: Its Detergents Business, July 1974.

Company).[9] The Overseas Committee also included Unilever's business in Australia and New Zealand, and a small loss-making business in Japan. Appendix Tables 1 and 2 provide revenues and pre-tax profits for the Overseas Committee and selected countries between 1965 and 1980, in nominal and constant money.

As Table 1 below shows, the Overseas countries were important components of the overall Unilever business.

Table 1 Overseas Revenues and Pre-Tax Profits as a percentage of Total Unilever at benchmark dates 1969-1981 (%).

Date	Revenues	Profits
1969	13	15
1974	10	17
1979	11	21
1981	14	41

Source: Unilever Archives London (hereafter UAL)

The Overseas countries were always more important than North America as a source of profits for Unilever between 1960 and 1990. This reflected in part the poor performance of Unilever's Lever Brothers affiliate in the United States during the

[9] D. Fieldhouse, *Merchant Capital and Economic Decolonization*, Oxford, Oxford University Press, 1994; Jones, *Renewing*, p. 191-7.

1960s and 1970s.[10] In one year – 1981 - they even briefly surpassed Europe to become Unilever's largest source of profits. The greater profitability of Unilever's business in Overseas countries suggested in Table 1 is confirmed by Unilever's calculation of "yield"– pre-tax profits divided by gross capital employed - shown in Table 2.

Table 2 Overseas Yield and Average Unilever Yield 1969-1981

Date	Overseas	Unilever Average
1969	7.6	7.5
1974	13.4	8.1
1979	13.8	6.8
1981	15.7	7.0

Source: UAL

The "yield" earned by the Overseas Committee was consistently above that of the Unilever average and, from the 1960s, in excess of that earned either in Europe or North America. Indeed, only the UAC at the height of its profitability in the mid-1970s, earned higher yields within Unilever.[11] After the first oil crisis in 1973,

[10] G. Jones, "Control, Performance, and Knowledge Transfers in Large Multinationals: Unilever in the United States 1945-1980," *Business History Review*, n° 76, Autumn 2002.

[11] UAC profits soared in oil-producing Nigeria after the oil price rises in 1973.

Unilever's margins in the Overseas countries were virtually double those in Europe for the remainder of that decade.[12]

Unilever's performance in developing countries was remarkable in the historical context. From the 1950s decolonization and the growing influence of import substitution policies led to many governments seeking to restrict and control foreign firms. In addition, there was growing economic instability and inflation in many countries. All these factors drove the shift of FDI from developing countries noted earlier.

This working paper begins with a brief survey of the nature of Unilever's business as a whole in developing countries. It then turns to the specific cases of India and Turkey.

Unilever in Developing Countries

Unilever and its predecessors were early to invest in developing countries. By the 1930s the scale of Unilever's businesses in India, Indonesia, South Africa and a number of other countries was already substantial. It was often the first manufacturing facility. In China, where Lever Brothers established the China Soap Company in Shanghai in 1923, soap sales constituted around 2 per cent of Unilever's worldwide total by the mid-1930s, when it was the only Western firm manufacturing soap.

[12] Unilever Archives London (hereafter UAL), OSC Profitability-A Review, Economics Department, July 1982.

Unilever also sold margarine, and by the end of the 1930s had plans to enter ice cream and meat processing in China.[13]

The Second World War and its aftermath were a major disruption to Unilever's expansion. Unilever's initial focus was on rebuilding a European business devastated by war. Subsequent decolonization and the spread of anti-Western sentiments made investment prospects look less than attractive. The Unilever business in China was devastated first by the Pacific War, and then by the Revolution in 1949, However during the 1940s and 1950s there was a flurry of investments in new countries, usually in politically safe British colonies. In Africa, where Unilever had manufactured in Nigeria since 1923, soap manufacture was begun in southern Rhodesia (Zimbabwe) in 1943, and other factories followed over the next decade in northern Rhodesia (Zambia) and Nyasaland (Malawi). In 1953 an edible oils factory was also opened in Kenya.[14] In 1952 a soap factory was opened in Malaya, despite the growing political instability in that still British-ruled country.

From the late 1950s the Overseas Committee began a program of new expansion based on a clear view of both risks and opportunities of the period. As the executive heading the Overseas Committee later wrote in his autobiography,

"The calm certainties of currency and political stability on which I was brought up disappeared. The protection of the sterling area faded away as red gradually receded from the map of the world - at least as printed in England - and instability followed in the wake of a widespread but untutored rush for political

[13] Wilson, *Unilever*, vol. 2, p. 364-5; F. van der Putten, *Corporate Behaviour and Political Risk. Dutch Companies in China 1903-1941*, Leiden, Research School of Asian, African and Amerindian Studies at Leiden University, 2001.

[14] D. Fieldhouse, *Unilever Overseas*, London, Croom Helm, 1978, p. 387-405.

independence…The certainties had gone, but so had the stagnation. Vast numbers of the peoples of the world were not only finding it possible but were being encouraged and taught to aspire to something more than the simple wants of a primitive and constricted existence. We would have lacked the essential element of our calling-enterprise - if we had not gone out to meet this surge of demand for the everyday products which Unilever sells."[15]

Unilever began a new mission designed to supply "everyday products" to new swathes of consumers in developing countries as their incomes rose. Unilever sometimes entered new countries just as Procter & Gamble fled. This was the case in Chile in 1963, when it bought the former factory of Procter & Gamble, which had decided to divest fearing a left-wing victory in that country's next elections. Unilever seldom divested from a country.

During the 1960s the political risks of emerging countries began rising. A number of countries nationalized Unilever businesses. Foreign firms were subject to multiple controls on prices, imports, production, dividends, borrowings, remittances, expatriate employment and salaries. Governments restricted the payment of dividends and service fees. There was a surge of demands for local equity participation. Such requests were anathema to many large US firms, such as IBM and Coca Cola, who both left India as a result during the 1970s. Unilever also disliked them, fearing knowledge leakage, loss of trade marks, and moral hazard issues.[16] However Unilever became a master at delaying tactics, using its extensive contacts and goodwill in many countries to modify regulations, and generally bargaining with governments.

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[15] A. Knox, *Coming Clean*, London, Heinemann, 1976, p. 213.

[16] UAL, Minutes of OSC Meeting, 5 and 6 June, 1978.

Whatever the severity of government pressures, Unilever strictly limited its involvement in politics to the kind of lobbying and engagement seen in all business systems. There was never any question of involvement in regime changes on the lines pursued in Central and South America by the more infamous US corporations such as United Fruit or ITT. Nor did Unilever fund political parties, either in government or opposition, in any country. The company also did not bribe politicians and officials. The spread of government regulations in many developing countries provided opportunities for corruption. Although in some countries small facilitating payments had to be made to make things happen, Unilever had a strict policy to avoid corrupt payments on a grander scale. In 1968 a proposal by one Unilever company "to make a substantial payment to a public official to encourage him to give suitable attention to an outstanding matter of company business" led to a ruling that Unilever companies "should not, as a matter of general policy, enter into any transaction of this kind."[17]

In some of Unilever's most important markets corruption was endemic in corporate and public life, but Unilever's size facilitated its policy to stay clean. There were, however, costs. "You need to have established strength and, if everybody knows you don't pay, they stop asking," a Vice-Chairman of the Indian affiliate Hindustan Lever in the late 1960s later explained. "It means that you have to employ a lot of minions running around from government office to government office persuading the right clerk to put the file on the top of the pile instead of at the bottom. You don't in any way pay for the decision but you take a lot of trouble to get the thing dealt with properly."[18]

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[17] UAL, N.A. Smith to S.L. Agarwal, 25 November 1968, Special Committee Supporting Papers 22 56 AA.

[18] UAL, Interview by Charles Wilson with R.W.Archer, 7 February 1989.

The major problem faced by Unilever was to make sure local managements followed corporate rules in this respect. There were occasional unwelcome discoveries of irregular payments being made by local companies, often but not always recently acquired ones. Italy rather than developing countries was the main problem.[19] During 1978 the Argentine company was also discovered to have deposited “black cash” in a bank in Uruguay to be used as a special fund in case of kidnapping, while in Turkey it was discovered that funds had been used for payments to expatriates to circumvent government regulations.[20] In some cases the problem lay in differing definitions of what constituted a “bribe.” It was often, it was noted, “extremely hard to draw the line between what was acceptable and what was not.”[21]

Unilever had appointed the first “locals” to managerial positions in developing countries - India and Ghana – in the 1930s. More followed during and after World War 2. During the mid-1950s the head of the Overseas Committee identified the issue “as one of over-riding urgency” both in response to the aspirations of rising nationalism and also in Unilever’s best interests. He argued that Unilever companies would benefit “from being managed by nationals who truly know the country and the business as a whole would have a broader base or original thought, a wider field from which to recruit senior management and a much more truly international aspect.” In 1955 Unilever had over 800 managers in Overseas companies in developing countries of whom 32 per cent were expatriates. By 1966 it had 2965 managers of whom only 8 per cent were expatriates.[22] This localization of management was aligned with

[19] UAL, Minutes of Conference of Directors, 9 September 1977.

[20] UAL, Private Note of Discussion, 20 March 1978.

[21] UAL, Private Note of Discussion, 20 October 1976.

[22] Knox, *Coming Clean*, p. 161-171.

Unilever's postwar culture which emphasized local autonomy of its affiliates, and the importance of local knowledge and responsiveness to local markets. [23]

Unilever's personnel policy continued to permit European expatriates continued to be sent to Overseas countries. This was important in supplying expertise to local companies, in maintaining personal relationships within Unilever's large businesses, and in providing postings for managers identified as "rising stars." However, nationals from developing countries were increasingly also used as expatriates in third party countries. By the 1970s the Overseas Committee had a policy of internationalization "by that we didn't just mean putting Europeans into developing countries, we meant having about 15 per cent of the management team in any country non-nationals; so we might have Dutchmen or Englishmen or Indians or Nigerians or Brazilians or Australians working in countries other than their own; what we didn't want was a situation where it was the Europeans going out and showing them."[24]

The "everyday products" that Unilever sold were primarily home and personal care. In many developing countries, Unilever products were often one of the first things people purchased as they had discretionary income. They often made their first purchase of hard soap to wash their clothes, or sometimes fat to make their food more palatable. As incomes rose, the demand rose for more expensive products. While hard soaps were the standard for washing clothes, over time Unilever could begin selling detergent paste, and then powders, and ultimately liquid detergents and fabric conditioners. Unilever primarily cascaded products and brands sold in developed markets. The only fundamental research in developing countries was conducted in

[23] Jones, *Renewing*, chapter 9.

[24] UAL, Interview by W.J. Reader with Fraser Sedcole, 29 November 1988.

India. However there was constant product adaptation in formulations and brand images. In Thailand, where Unilever held in the early 1980s nearly 50 per cent of the total toilet soap market with *Lux*, the local company formulated its toilet soap with no tallow, using palm oil.[25]

In many developing countries, Unilever was a "first mover" in soaps, and occupied a commanding market position. In Unilever's market share position in soap and detergents included 58 per cent in South Africa, 40 per cent in Turkey, 37 per cent in Brazil and 23 per cent in India.[26] Hard soap and fabric products were usually the mainstay in lower income markets. The absence of major international, though not local, competitors, meant that Unilever could avoid heavy spending on marketing and innovation, so margins were often good in many countries.

Unilever also sold personal care products. It was successful selling shampoos. In lower income markets hair cleansing was typically an extension of personal washing, and either no separate product was employed or oil used to provide manageability. In these markets Unilever introduced its *Sunsilk* brand targeted at the rich elites who had begun to use hairdressers, and a large socially aspirant group of women who had enough disposable income to sue a specialist hair product occasionally. Unilever's shampoos achieved impressive shares in a range of countries. Colgate-Palmolive and Johnson and Johnson were the only competitors which came remotely near to Unilever's spread of business, although Revlon, Kao, Procter & Gamble, Beechams and L'Oréal were active in certain countries. In the early 1980s Unilever was a strong market leader in India and Indonesia – with approaching 40 per

[25] UAL, Board Meeting, 13 January 1983.

[26] UAR, CSAC 1 Background Paper: Detergents, 17 June 1983, ES831738.

cent of the overall market – and in Brazil, though it was dwarfed by Kao in Thailand, Colgate-Palmolive in the Philippines, and Beecham in Malaysia.[27]

Unilever also sold toothpaste in some countries. *Close-Up* was Unilever's leading brand, though *Pepsodent* was in a leading position in Indonesia, Venezeula, Chile and in English-speaking West Africa, while *Signal* dominated in Francophone Africa. Imaginative ways were developed to expand the market. In 1984 Unilever launched *Close-Up* in sachet form in Thailand designed to encourage first-time users in rural areas. Unilever faced major competition from Colgate-Palmolive which pioneered the introduction of toothpaste in many markets. In the mid-1960s Colgate-Palmolive held around 30 per cent of the Brazilian toothpaste market, and 50 per cent of the Indian and South African market. Unilever had a bare 6 per cent of the Indian market. However in other markets, including Turkey and Nigeria, where Unilever held 40 per cent of the markets, there was no competition from Colgate-Palmolive.[28]

In contrast, Unilever did not develop a very large foods business in developing countries. It was hard to sell its major product, margarine, in countries which did not eat much bread, which ruled out much of Asia. Unilever's large business in convenience and frozen foods, including ice cream, was hard to exploit in developing markets. There was a general problem for frozen products in many developing countries because electricity supplies were not reliable, with consequent problems for distribution and cold storage.[29] Ice cream required a certain level of purchasing power

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[27] UAR, Economics Department, Shampoo Overseas, March 1983, ES 83111.

[28] UAR, Toothpaste Strategy: An Economics Contribution, May 1987, ES 87017; Economics Department, Colgate-Palmolive Report, Appendices (January 1988).

[29] UAL, Conference on Innovation Overseas, 15 March 1984; Interview with Hans Eggerstedt, 8 May 2000.

to be viable, and also involved complex logistics from the initial stage of milk acquisition through to delivery of the final product in a good condition to the consumer. There was little demand for convenience products. In most countries there were often plentiful fresh vegetables and fruits – and the cooking skills to make use of them – and so no great demand for the kind of convenience foods. In Asian countries the urban middle class was accustomed to eating on a daily basis in numerous street stalls and restaurants which served delicious food at very low prices. It was an uphill struggle to persuade such consumers to buy more expensive packaged products which they needed to cook in their own homes.

There was a contrast between Unilever and Nestlé's much larger foods business which was widely spread in Latin America, Africa and Asia. While instant coffee and milk products gave them a much better basis for growth than Unilever's "core" food products, Nestlé also leveraged its strong research base in foods by locating development laboratories close to markets. In the mid-1980s the Swiss company opened a research facility in Singapore dedicated to the development of products based on soy and other oil yielding plants and dehydrated culinary products. It was also more willing than Unilever to use joint ventures to access local markets. The upshot was that Nestlé built very much larger foods businesses in many countries in which Unilever was long established, including in Asia the Philippines, Thailand, and Malaysia.

Hindustan Lever

Unilever had a long history in India. Lever Brothers had exported soap to India since before the First World War. In 1924 a small factory was opened in

Calcutta which manufactured soap. A new modern soap factory was constructed in Mumbai in 1934. In 1932 a factory was opened just outside Mumbai to make vegetable ghee or vanaspati, a product whose use as an additive to natural ghee had grown over the previous decade.[30]

After Indian independence in 1947, the government progressively introduced a planned economy, with licensing of capacity, price controls, and import and exchange controls. Taxation levels rose sharply. However, as elsewhere, the high level of protection sheltered Unilever and other firm firms such as Colgate-Palmolive who manufactured locally from international competition.[31] By the mid-1950s the Indian government had also begun to encourage Unilever to allow a local shareholding in the business. In 1956 the separate detergents, vanaspati and personal products businesses were reorganized into Hindustan Lever, with 10 per cent of the equity sold to the public. Further government pressure raised the local shareholding by 1965 to 14 per cent.

The Indian government also encouraged the appointment of Indian nationals as managers. In 1949 a management training scheme was started. In 1961 an Indian national, PL Tandon, was appointed Chairman. Tandon's appointment was the first time that an Indian had become the chairman of a large foreign-owned company, and He proved effective at getting the company in India "seen to be Indian," by working with the government and joining the boards of several large public companies. Tandon eventually resigned his chairmanship of Hindustan Lever in 1968 to head a

[30] Fieldhouse, *Unilever Overseas*, p. 148-181. The following section draws on the Fieldhouse study and Jones, *Renewing Unilever*, p. 169-74.

[31] D. Encarnation, *Dislodging Multinationals. India's Strategy in Comparative Perspective,* Ithaca, Cornell University Press, 1989, chapter 2.

large State trading corporation.[32] Unilever can therefore be regarded as a pioneer in recognizing India as a major source of management talent.

During the 1960s profits from the vanaspati business fell away with growing competition and price controls. Government controls over imports of raw materials kept vegetable oil prices artificially high and so reduced the relative cheapness of vanaspati as compared with natural ghee. Official control over imports of capital equipment also effectively blocked technical improvements in methods of manufacture, making it impossible for Unilever to introduce more upscale brands of the product. Unilever's share of vanaspati production declined from almost 30 per cent in 1948 to 18 per cent in 1965. Soap, which was not subject to government price controls, remained profitable. Unilever held a particularly strong position in branded premium soaps. However the domestic markets for such branded goods was rather small, while government controls over foreign exchange and a lack of local alkalis meant that Unilever was unable to begin manufacture of synthetic detergents.

Unilever also diversified into other product areas. In 1943 a factory was built in Calcutta to manufacture personal products. However whilst talcum powder and shaving soap grew quite quickly, sales of toothpaste made no progress against Colgate-Palmolive. From the mid-1950s Unilever also began to consider schemes for further diversification, both to use capital released from sale of equity, and to convince the government of Unilever's contribution to the economy, which was the key to getting import licenses to import capital equipment and so on. A particular concern was to move into areas not subject to price controls. In 1957 a small research facility was also established in Mumbai, initially to explore the potential for fruit processing.

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[32] UAL, Interview with T. Thomas, 21 December 1989.

During the late 1950s and early 1960s a number of new initiatives were launched in processed foods. Tandon was especially enthused with the potential of convenience foods. He believed that there was potential for producing and marketing dehydrated peas and dried milk curd, but it became apparent that this would involve Unilever organizing its own supplies. Both projects were launched in the state of Uttar Pradesh. In 1959 a pilot project for growing peas on contract was started, and pea hydration operations began at its Ghaziabad factory. A larger project involved building a new factory for milk products at Etah which would be surrounded by a large number of milk-collecting stations and milking centers. Hindustan Lever made contracts with local farmers to bring their cattle to the milking centers, and then transferred the milk to collecting centers and on to the central factory for processing. In 1960, and largely at the behest of the Indian government, Hindustan Lever entered cottonseed processing, designed both to expand the supply of vegetable oil and to provide a market for farmers. Unilever's oil milling business also led to investment in compound cattle feeding stuffs.[33]

In the late 1960s Hindustan Lever was a much diversified business both in terms of India and of Unilever. By 1967 its turnover of Rs 932.8 million ranked it in the top five private sector firms in India in terms of sales, with almost 7,000 employees and six factories. It had a wide span of businesses, though in terms of share of total sales soaps and detergents (over 50 per cent) and edible fats (around 36 per cent) dominated. *Sunlight*, in laundry soap, and *Lifebuoy* and *Lux* in toilet soap, had large sales. There were also the Etah dairy products, which included skim milk powder and baby foods, and milk drinks and milk sweets. The latter included a quick cooking mix for the sticky but delicious "Gulab Jamun," a widely consumed sweet

[33] Fieldhouse, *Unilever Overseas*, p. 148-244.

which was later to become a standard feature of Indian restaurants in Britain. There were small sales of dehydrated peas and dried soup mix. And Unilever even distributed condoms on behalf of the government family planning program.

Unilever's commitment to research in India expanded in 1967 when a new Research Centre was formally inaugurated by the Deputy Prime Minister. At the centre of much of the Indian laboratory's research was the use of indigenous materials. During the 1970s its research began to contribute significantly to the Indian economy through import substitution. The use of unconventional oils for soapmaking reduced imports of tallow. In chemicals, new processes were developed relying on Indian turpentine, Javanese citronella (grown in the 1970s under contract for Hindustan Lever at a price half that of indigenous oils) and Indian lemon grass oil for perfume. By the end of the 1970s Hindustan Lever had developed four chemicals from lemon grass, five from citronella, and one from turpentine. The R and D program enhanced the company's reputation with the Indian government and the Indian professional classes, the latter facilitating the recruitment of excellent staff.[34]

In terms of profits, the Indian business had become anything but diversified by this period. During the second half of the 1960s virtually all profits originated in soap and detergents, which cross-subsidized the losses everywhere else in the business. By then the effect of price controls on vanaspati had reduced Unilever's gross margins to 4 per cent, yet it was generally accepted as impossible for the company to withdraw from making this mass consumption article without incurring the wrath of the

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[34] J. Behrman and W. Fischer, *Overseas R & D Activities of Transnational Companies***,** Cambridge, Mass., Oelgeschlager, Gunn & Hain, 1980, p. 231-37. Jones, *Renewing*, p. 280.

government.[35] Nevertheless the fact that substantial profits could be made at least in detergents, and that the business had grown amidst difficult political and economic conditions which included a war with Pakistan, droughts and a major devaluation provided grounds for optimism. Moreover Hindustan Lever was a considerable contributor to Unilever coffers. During 1956 to 1969 it remitted dividends amounting to £7.8 million to its parents.[36]

The strategy to build successful businesses beyond soap and detergents ran into considerable difficulties. Tandon's vision of the importance of convenience foods was ahead of its time, as was shown by the ultimate failure of the dried pea business, which was abandoned in 1970. The dried pea operation required Unilever to expand pea cultivation around the factory at Galziabad just outside Delhi. Unilever had to give the small farmers the seed they wanted them to grow and the fertilizer to grow it under an arrangement whereby the farmer contracted to grow peas in a certain number of acres at a an agreed price. By the end of the 1960s Unilever had around eight thousand acres of land under pea cultivation with three to four thousand farmers. However the project ran into trouble at the marketing stage. In India's hot and humid climate, peas needed expensive packaging in a laminate of paper, aluminum and plastic. The resulting product was too expensive for middle class consumers, while the very rich had servants who could buy peas from the market and shell them.[37]

The most pressing issue in the late 1960s was the accumulating losses on the Etah project. The initial problems at Etah related to a shortage in the supply of milk

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[35] UAL, Minutes of Meeting of the Special Committee with the OSC, 26 July 1967.

[36] UAL, OSC memorandum to Special Committee on India-Corporate Strategy, 7 January 1971, Overseas Committee Supporting Document no 4945.

[37] UAL, Interview with T. Thomas, 21 December 1988.

resulting in a less than 50 per cent utilization of the factory capacity. However there were also technical failings as Hindustan Lever opted for roller driers for drying the milk rather than spraydrying, which dissolved the milk faster, with the result that the product was not as good as competitors. Then between 1965 and 1967 poor monsoons led to a fall in milk supplies, prices doubled, and production fell below sales requirements. In response, the government imposed controls on baby food prices and began importing cheap skim milk powder. Subsequently Unilever's sales faltered as milk supplies improved and imports of skim milk powder increased. Yet Unilever's management felt locked into the project because of its high profile image and because of the hope that a profitable foods business might compensate for blocked opportunities elsewhere.[38]

By 1971 Hindustan Lever was firmly committed to selling the Etah dairy plant by 1973 "at any means."[39] In practice trade union pressure provided a major obstacle to any sale. Unilever tried to give it away for nothing to the government of the United Provinces, which declined the offer. Unilever realized that the success of the factory depended on increasing the milk availability in the Etah district, and that this was linked to the overall socio-economic development of the region. In 1976 the then chairman of Hindustan Lever, T.Thomas, reviewed the situation. Thomas sent five supervisors from the factory and assigned them to different villages within the district. The supervisors were all agricultural graduates who had been trained within the company in the milk procurement operation. They were also from the area around Etah and therefore were familiar with the local environment. The supervisors were

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[38] UAL, The Etah Project, 6 January 1970, Overseas Committee Supporting Document no 4567.

[39] UAL, Annual Estimate 1972.Overseas Summary.

assigned villages and told to investigate data on a wide range of matters and to work with the villagers in improving agricultural output, without the company having to subsidize the operations financially. After six weeks Thomas met the supervisors who identified a number of problems facing the villagers in lack of finance, lack of professional guidance in agriculture and animal husbandry, lack of reliable sources of supply for essential inputs such as fertilizers, and lack of warehousing and marketing facilities.

The outcome was a development program aimed at improving the prosperity level of the Etah district farmers through their own efforts by providing them with animal husbandry skills. The five supervisors were placed in permanent residence in the villages they had surveyed. Selected farmers were used as role models and helped in deciding on crop rotation, seed selection, fertilizer dosage, irrigation intervals and weeding. Farmers were helped to get loans. Under the old system, Thomas later explained,

"if you are a farmer and you wanted a loan, you had to go through a bureaucracy. The first stage is the local tax-collecting official for the village. The farmer has to bribe him to get a certificate from him saying that he owned the land. Armed with this, the farmer will go to the Bank in the nearest town. The Bank staff also demanded their cut. So by the time he gets the loan, already a good portion has gone. He takes the loan at a very high cost and defaults. So he never takes another loan."[40]

Hindustan Lever intervened with both the banks and the tax authorities to do away with these abuses. As yields rose, the program was extended beyond the original six villages. A medical scheme was introduced primarily aimed at preventive

[40] UAL, Interview with T. Thomas, 21 December 1988.

measures, such as vaccinations, and for spreading hygiene in the villages, and the training of villagers in para-medical activities and mechanical equipment repair was started. In 1979 a program was commenced for the reclamation of uncultivable alkaline and saline land, which represented over 5 per cent of the Etah district. Throughout the project Thomas remained personally involved visiting every month. By 1978 the dairy project had become profitable, but perhaps even more important was the goodwill it generated in India about Unilever.

During the 1970s Unilever, like other foreign firms, was badly affected as the regulatory and political environment for foreign companies in India deteriorated. Price controls had a serious impact on profitability. By 1971 the vanaspati business had been rendered completely unprofitable, but there was also no prospect of selling it, and even if they could no prospect of repatriating any money from such a sale.[41] While some local firms were able to use unorthodox methods to avoid price controls, this option was not open to Unilever, which through the 1960s sought to maintain margins by expanding volume and reducing raw material and processing costs, but by the early 1970s the room for further efficiency improvements was not great. During 1972 the decision was taken to withdraw from vanaspati "as quickly as it is commercially and politically feasible."[42] However Unilever's synthetic detergents business remained not subject to price controls, and was quite profitable.

Between 1972 and 1974 Unilever undertook extensive negotiations with the Indian government for relief from the effects of price control. The eventual deal was that price control was removed on soaps conditional on the large manufacturers introducing a poor man's toilet soap at a controlled price. A critical part of the

41 UAL, Meeting of Special Committee with Overseas Committee 13 April 1971.

42 UAR, Annual Estimate 1973.Overseas Summary.

arrangement was that Thomas persuaded the government that it could make soap by using non-edible oils like castor oil and rice bran oil instead of imported tallow, permitting the government to use the foreign exchange it had allocated for the import of tallow to import badly needed fertilizers instead. This involved Hindustan Lever rethinking its brand strategies for premium soaps. In 1975 price control was also removed from vanaspati. This lead to a reversal of the decision to withdraw from the product and a new policy to re-establish the *Dalda* brand, as well as to introduce a colored and flavored margarine.[43] Profits soon rose. By the end of the decade Unilever directors were beginning to wax lyrical about the merits of their Indian company. "Talent for innovation shown by the management in India was quite remarkable right through the business," one director returning from India observed. "They were very clever at adapting to circumstances and overcoming shortages."[44]

Unilever, like other foreign companies, was challenged by the enactment of the FERA legislation under which all companies not engaged in "core" or non-technology industries had to bring their shareholding down to 40 per cent from 1974. Unilever had no wish for a minority equity stake in its large Indian business. Thomas's strategy was to resist reducing the Unilever shareholding down to 40 per cent, and seek instead to retain the 74 per cent shareholding permitted for firms in the high technology or core sectors. After long and complex negotiations, an agreement was negotiated with the government under which a foreign company was permitted to hold 51 per cent of the equity, provided that 60 per cent of its turnover was in the core or high technology sectors, and that it exported 10 per cent of its production.

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[43] UAR, Annual Estimate 1976.Overseas Summary.

[44] UAL, Minutes of Conference of Directors on 24 January 1980, EXCO:LACA,India 1980-1987.

Hindustan Lever then set about to satisfy the government that it met these criteria. The company began to expand its exports from India. Large exports of detergents and soaps were made to the Soviet Union. Hindustan Lever began exporting a wide range of products, including a mandatory 10 per cent of its total exports from the small-scale sector. Not only company products were exported, but also carpets, shoes, garments, marine goods and other products processed under company supervision and specification By the early 1980s Hindustan Lever had become India's second largest private sector exporter. Thomas also sought to persuade the government that the technologies it had developed for using non-edible oils in soap manufacture represented a sophisticated technology, though this claim was ultimately rejected. A new left wing government elected in 1977 issued an order requiring Unilever to go down to a 40 per cent shareholding by 1979.

Thomas proved adroit at handling the politics both of India and of Unilever. With the Indian government, Thomas adopted delaying tactics arguing that Unilever should be allowed to reduce the shareholding in two stages. The first step to 51 per cent was implemented in 1978, but by 1980 the advent of a new government provided an opportunity to delay the second stage. By this date Thomas had expanded the chemicals side of the business with a project begun in 1974 to manufacture sodium tripolyphoshate (STPP). This project had encountered considerable skepticism within Unilever's management group for chemicals, known as Chemicals Co-ordination, because "they felt that Unilever had no know-how in that area and had no confidence that the Indian Co. could manage something as complex as a large chemical plant." However, senior management supported the Indian company, and a plant went into operation at the end of 1979.[45] In 1981 the government finally permitted Unilever to

[45] UAL, Interview with T. Thomas, 21 December 1988.

retain a majority shareholding in Hindustan Lever. Unilever became one of a relatively small number of foreign companies which successfully bargained with the Indian state to maintain its majority shareholding.[46] Given the wide dispersion of ownership of the shares held by the public - in 1980 almost 90,000 Indians held Hindustan stock – this left Unilever in more-or-less full control of the company.

The perception of Hindustan Lever as a high technology company was ultimately facilitated by a transfer of assets between it and another Unilever company in India, Lipton. The Indian company proved the most troublesome affiliate of the British-based Lipton International tea business acquired by Unilever in 1971. Lipton was a one product company engaged in packing and distribution of tea competing against both small packers who controlled 90 per cent of the Indian domestic tea market, and Brooke Bond (also British-owned) which had twice its size in tea packing and in tea and coffee plantations. The major part of the business, including the head office and the main factory, was in Calcutta, yet this represented only 13 per cent of the Indian market. Worst of all, the poorly managed company was hugely overmanned. Thomas estimated that 1,400 of the 1,800 salesmen were surplus to requirements if a Hindustan Lever type of distribution was introduced, whilst around 1,000 workers in the Calcutta factory were also surplus to requirements.[47]

The full horror of this situation had not been noticed as its accounts were subsumed into those of Lipton as a whole. However the formation of a separate company, Lipton India Ltd with a 60 per cent Indian shareholding – there was no possibility of a tea company escaping the FERA legislation - revealed the scale of the problems. An attempt to improve the situation led to a five-month strike in 1979, the

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[46] Encarnation, *Dislodging Multinationals*, p. 111-12, 182.

[47] UAL, Minutes of OSC Meeting, 30 January 1980. Central Filing: OSC 1980.

loss of all its financial reserves, and a fall in market share down to less than 20 per cent. The virtual bankruptcy of Lipton prompted consideration of divestment.[48] However Unilever's top management rejected this advice, stressing the moral commitment to the outside Indian shareholders.[49] During the following two years Unilever transferred management staff from Hindustan Lever and made an attempt to turn the business around. By 1982 it made a small profit, though no radical changes could be made because of the complexities of getting the agreement of the Indian shareholders to any plans for structural change or refinancing.[50] In 1984 Hindustan Lever's business in vanaspati was transferred to Lipton.

By then the Indian business was safe. It had more or less successfully negotiated the minefield of government regulations concerning foreign firms. Within India, Hindustan Lever had built a strong reputation for professional competence, whilst its investments in heavy chemicals also won many plaudits. The company was widely regarded as being able to recruit the best young Indians – almost entirely MBAs outside technical functions – which it trained rigorously, beginning with a long period out in the Indian countryside at Etah or elsewhere. Hindustan Lever chairmen continued to occupy prominent places in the Indian business community. Ashok Ganguly, a scientist who became chairman in 1980, served as president of the Mumbai Chamber of Commerce in 1984-5, joined the board of governors of the Indian Institute of Technology, Kanpur and the Administrative Staff College,

[48] UAL, Memorandum to the Special Committee, 16 December 1980, EXCO: LACA, India 1980-1987.

[49] UAL, Private Note of Discussions held on 17 December 1980.

[50] UAL, Overseas Committee Annual Estimate, 13 December 1982.

Hyderabad, and became a member of the Indian prime minister's Scientific Advisory Council. [51]

However there were a number of unsatisfactory features of the business during the 1970s. First, while senior management attention was focused on government negotiations, Hindustan Lever faced unexpectedly serious competitive pressure from a locally-owned low cost detergent manufacturer, Nirma. The fabrics market had been dominated by hard soap, and Unilever's premium powder brand *Surf* was decimated after 1975 when Nirma launched a powder at parity with hard soaps, but with much better washing powder, providing a new value for money concept. Having begun with such low price products, Nirma moved up-market with products which directly competed with Unilever's customer base and took market share from them. It was only after a significant delay that Hindustan Lever was able to respond with low cost but quality products.

Secondly, as Appendix Tables 1 and 2 suggest, the growth of Hindustan Lever's revenues and profits were slower than other major markets such as Brazil and South Africa. While the overall revenues (in constant prices) of the Overseas Committee had a CAGR of 4.1 per cent between 1965 and 1980, Indian revenues grew only by 0.8 per cent. Over the same period, while total Overseas pre-tax profits had a CAGR of 4.5 per cent, India's CAGR was –0.04. As Appendix Table 3 shows, remittances from the Indian business became very small during the second half of the 1970s. They were dwarfed by those of South Africa, and more or less on a par with far smaller businesses such as Thailand. There were several reasons for this including that Hindustan Lever was only a 51 per cent owned company, that no service fees

[51] UAL, Business India, 29 December 1986- January 11 1987, EXCO: LACA India, 1980-1987.

were received because the Indian government prevented such payments, that corporate taxation was high, and that a high proportion of funds - about one third of distributable profits - had to be retained in the business given the high rates of tax.[52]

A number of factors were important in Unilever's survival and growth in India. In addition to its long-established presence in the country, the early commitment to localization of senior staff provided a series of outstanding chairmen able to negotiate within the Indian political system. They were permitted to pursue the rural development and heavy chemicals projects which enhanced the company's image and standing within India. The business grew with a strong local management cadre, and indeed India became an exporter of management talent within Unilever. Unilever itself pursued a flexible business strategy, including the acceptance of low levels of remittances for decades, which saw its operations through complex political circumstances and it enabled it to develop.

Turkey: Waiting for Better Days

The entry of Unilever into Turkey became a corporate legend. It was widely believed that - either in 1939 or 1949 – the Dutch director Sydney van den Bergh had arrived in Istanbul by accident when his plane developed technical problems, and then noticed how much bread was eaten in the country and thought it would be a good

[52] UAL, OSC memorandum to the Special Committee on Hindustan Lever Limited, 29 June 1985.

market for margarine.[53] Although there is no evidence to support this account, Van den Bergh was certainly the prime mover behind the decision to invest in the country in the late 1940s. At a time of tight exchange controls in Europe which made the transfer of funds difficult, and in the context of the wishes of the Turkish government for Turkish shareholders in the proposed Unilever company, Unilever sought local partners. Vehbi Koç, who had established what became Turkey's largest diversified business group in 1926, declined an invitation on the grounds that there was no future and profit in margarine - a decision he later told Unilever executives he very much regretted.[54] However the government-owned Iş Bank did become Unilever's sole partners, holding 20 per cent of the equity of the new Unilever-Iş.

The decision to invest in Turkey in 1950 was a pioneering one, as it was not until the 1960s that the country began to industrialize on large-scale. Unilever's first product was a vegetable ghee known as *Vita*, which was much cheaper than the natural ghee previously used in Turkey. Unilever transferred a production manager from its Indian business to develop the manufacture of the ghee, which was sold in tins which were subsequently used for many purposes including roofing houses. Subsequently *Sana* margarine was developed manufactured from sunflower oil and soy bean oil imported cheaply from the United States under an aid program put at the disposal of the margarine industry to help keep the cost of living down. The cheap

[53] Interview with H. F. van den Hoven by P.W. Klein, 29 May 1989, UAR. Fieldhouse, *Unilever Overseas,* 419-447, provides background on Unilever's business in Turkey before 1965.

[54] UAR, J. P.Erbé to H.A.Kinghorn, 19 September 1977, AHK2123/928.

prices of the products and a fast rate of population growth contributed to a formidable increase in sales.[55]

Unilever-Iş had no competitors, but it was also successful in creating a market for margarine by consistent advertising and efficient distribution. Products manufactured in Istanbul were distributed through depots to wholesalers in the main towns quickly and cheaply. Product consistency was a novel feature in the market and an attractive one.[56] By the mid-1960s – by which time the Turkish economy was growing quickly at over 7 per cent per annum - Unilever-Iş supplied about one-third of all fat consumed in Turkey, including butter and olive oil. Butter remained the preferred choice of Turks to margarine, both for its taste and for its nutritional value, but the market for margarine was dominated by Unilever. At the end of the 1960s *Sana* was estimated to hold around 90 per cent of the margarine market and *Vita* around two thirds of the vegetable ghee market.[57]

Unilever-Iş also invested in a number of agricultural projects. In 1962, when Turkey's sunflower crop was ruined by disease called orobanche, it supplied farmers with a resistant strain of sunflower seed with a higher oil yield which was obtained from Russia via France. By 1973 the local sunflower seed crop had increased from an oil equivalent of about 25,000 tons to at least 80,000 tons making Turkey self-sufficient in vegetable oils in a good crop year.[58] It 1965 Unilever began a project to develop a jasmine plantation in the Antalya region designed to supply jasmine perfume to a French firm. There was a rationale beyond Unilever's penchant for

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[55] Fieldhouse, *Unilever Overseas*, p. 428-435.

[56] UAR, J.P. Eerie to H.A. Kinghorn, 19 September 1977, AHK 2123/928.

[57] UAR, Economics and Statistics Department, Turkey-Foods 1 Study, April 1971.

[58] UAR, Note Attached to J.P. Eerie to de Munich, 15 June 1973..

diversification in this era, for it was hoped that the generation of exports from Turkey would protect the profit remittances from the edibles business.[59]

The upshot was a national institution largely run by Turks. By the late 1950s there were only ten expatriates out of over 500 employees. Unilever was a model employer providing a range of health and social benefits, including co-operative housing schemes. The company was embedded in the lifestyles of the population. As a future Unilever chairman who had worked in Turkey during the 1950s later recalled, Van den Hoven later recalled, "You couldn't meet the government, minister or the prime minister, or anybody in the country, who didn't know the name of our product, "*Vita*'. And who would say that his life depended on it."[60]

It was a successful business. Unilever's Turkish operations delivered hard currency dividends, amounting to some $23 million between 1953 and 1978.[61] During the 1950s and first half of the 1960s returns to capital invested were among the highest of any Unilever subsidiary worldwide. It was the only firm which made margarine and vegetable ghee with vegetable oil and water without using animal fats. Without competitors, advertising expenditure was minimal. The company spent no more than 2 per cent of sales on advertising, compared to upwards of 14 per cent in South Africa. The oils imported under the PL 480 program were also quite cheap. [62]

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[59] UAR, Memorandum by OSC to the Special Committee, 14 July 1971, OSC Supporting Paper no 3388.

[60] UAR, Interview by P.W. Klein with H. F. van den Hoven, 29 May 1989.

[61] UAR, Proposals for dealing with the current situation of our business in Turkey, 23 July 1980, EXCO: LACA Turkey 1965-1986.

[62] Fieldhouse, *Unilever Overseas*, p. 444.

The major problem, which got worse over time, was the government. The first signs of difficulty occurred in detergents. Before the 1950s Unilever products such as *Lux* toilet soap and *Vim* scourers had been sold in Turkey through the agency of the Couteaux family, who were of Belgian origin but resident in Turkey. In 1954 the government granted Unilever a license to make toilet soup and soap powder, and it began manufacturing with Couteaux as Lever Brothers (Turkey). By the late 1950s Unilever wanted to expand its detergents manufacture on a larger-scale, and to expand into laundry soaps and synthetic detergents. A license was granted in 1960, but a change of government – a military coup overthrow the government of the Democratic Party in that year - was followed by intense lobbying by local soap makers. Eventually the government ruled that it could only proceed with its plans if the entire production was exported.[63]

Unilever also encountered problems remitting profits from the detergents business, for only Unilever-Iş had the right under law to remit funds abroad. A solution was found by appointing the merchant firm of G. and A. Baker, long owned by Unilever's UAC and at one time the owner of Turkey's largest department store in Istanbul, as the agents for both companies, for having been established for more than one hundred years it had rights to export profits. Unilever ended up with a complicated business structure with three companies doing different things under different laws. Unilever-Iş was licensed to trade only in margarine and vegetable ghee; Lever was licensed to deal only in soap products; G and A Baker was licensed to trade in any commodity, but had no borrowing rights and had to declare and remit 100 per cent of post-tax profits.

[63] Fieldhouse, *Unilever Overseas*, p. 436-8.

Unilever's business became progressively restricted by government controls and restrictions. Its managers responded by trying to seek growth in areas that the government might approve. Government pressure on foreign firms remitting profits to develop compensating export facilities led to an investment in a tomato paste processing venture as a minority partner with Turkish interests.[64] Dosan, which had a 25 per cent Unilever shareholding, was launched in 1971, with a tomato puree production plant located in a large tomato and onion growing area. Dosan was committed to export 60 per cent of its output as a condition of the government agreeing to Unilever participation. By 1976 Dosan had become the second largest tomato paste producer in Turkey.[65]

A search began for ingenious schemes to build a detergents business despite government restrictions. During the early 1970s Unilever launched a new company called Desas, wholly owned by its partners Couteaux, to pack its *Omo* detergent powder. Desas delivered to Baker and extended credits to Baker, giving that firm a source of funds. This was a risky arrangement as Unilever ultimately had no control over the business.[66] A more permanent solution was sought through an alliance with the Koç group.[67] An agreement was negotiated in 1973 under which Unilever's existing detergents operations would be placed under a new company in which

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[64] UAL, Minutes of meeting of OSC with Special Committee, 13 May 1969.

[65] UAR, Report on Visit to Turkey, 26-29 January 1976, Sundry Foods and Drinks Co-Ordination, 3 February 1976, AHK 2004.

[66] UAL, OSC Memorandum to the Special Committee, 28 July 1972.OSC Supporting Paper No.5546.

[67] UAL, Meeting of the OSC with the Special Committee, 5 June 1972.

Unilever held a 37 per cent shareholding along with Koç.[68] Unilever senior management approved the new proposal, even though considering it "far from ideal,"[69] but the government rejected it.[70]

Eventually a new set of arrangements were put in place. Baker ceased manufacturing itself, and instead marketed products made by two third party Turkish companies, Temsa and Marmora Kozmetik. Temsa, which made toilet soap and detergents, was owned 49 per cent by Desas and 50 per cent by the Iş Bank Pension Fund, but its general manager and some staff were seconded from Unilever-Iş or Baker. Marmora Kozmetik, which began operations in 1978, was owned in part by the Couteaux family and made shampoo and other hair products, deodorants and skin cream. Baker worked for those companies on commission. These arrangements finally enabled Unilever to build a strong market share for its detergents, but the business remained fragile as Baker's control over Temsa rested entirely from putting key personnel in the company.

During the second half of the 1970s government controls were pushing even Unilever-Iş's edibles business into loss. There were tight controls over both the price of oil to the factory and of margarine and ghee to consumers. While the other large manufacturers were government–owned and so were less concerned about losses, Unilever was squeezed. The Turkish government also implemented a so-called "fixed assets" ruling specified that the extent to which the value of a firm's assets exceeded

68 UAL, Minutes of Special Committee, 28 July 1972; Minutes of Special Committee with Overseas Committee, 5 April 1973, EXCO:LACA Turkey 1965-1986.

69 UAL, Minutes of Special Committee, 12 June 1974.

70 UAL, Memorandum to the Special Committee on Turkey by OSC, 5 September 1975.

its capital caused profits to be frozen proportionately and deposited in a bank, usable with special permission only for beneficent works and a few other purposes within Turkey. If Unilever produced less to cut costs, the government would be furious, while if it produced more by putting in labor and cost saving machinery, resulting profits would be blocked.

Unilever's resolution to stay in business in Turkey in spite of horrendously complex controls reflected its outlook on the prospects of emerging economies. The country's population of over 40 million offered a tantalizingly large market, while Unilever had also developed a highly respected cadre of managers some of whom were already sent as expatriates elsewhere. The result was a resolutely long-term view of the need to stay in Turkey. One report written at the height of Unilever's difficulties in 1978 reflected:

"we will take a long-term view on the assumption of Turkey's entry into the EEC in 2 decades will result then or before in a liberalization of investment and the removal of these many constraints….By the time Turkey enters the community it will be a country of some 70 to 80 million people. If it does liberalize, competitive investment in consumer goods will soon arrive. Better we should already be established than have to re-enter, hence it should be worthwhile hanging on now even if the effective freezing of remittance levels does not adequately justify the effort in the short -term."[71]

The late 1970s were the testing point for this philosophy. Unilever had no wish to withdraw from the country, but nor was it willing to devote resources to try

[71] UAR, Visit Report to Unilever-Iş by F. Martin, 30 January- 3 February 1978, AHK 2242.

and expand the business.[72] The country appeared to be disintegrating. Badly affected by rising oil prices, Turkey ran chronic current account deficits, which were primarily financed by external borrowing. By 1980 the country's external debt was $16 billion, or one-quarter of the GDP, and debt servicing costs were 33 per cent of exports. Inflation reached triple digits. The stock of inward FDI had only been $300 million in 1971, and during the 1970s the average annual inflow was only $90 million. As a result, Turkey had by far the lowest amount of FDI of any comparable economy.[73] As the economy went into free fall, terrorism and political unrest spread.

In the autumn of 1977 the cessation of remittances by the Central Bank prompted the first thoughts of divestment at Unilever. It was eventually resolved to stay, but senior management became progressively more skeptical that things would improve. "They felt that the Turks were incapable of running the country properly and it would always be lurching from one crisis to another. They did however stick to the laws and as long as we could continue to get some money out we might as well stay there."[74]

As the tables in the Appendices show, during the second half of the 1970s remittances fell to low levels. The business shrank in terms of constant money. The overall revenues (in constant prices) of the Overseas Committee had a CAGR of 4.1 per cent between 1965 and 1980, but Turkish revenues shrank by -3.8 per cent. Over

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[72] UAL, Minutes of the Special Committee, 28 July 1977, EXCO: LACA Turkey 1965-1986.

[73] V. Balasubramanyam, "Foreign Direct Investment in Turkey," in S. Togran and V. Balasubramanyam (eds), *The Economy of Turkey since Liberalization*, New York, Palgrave Macmillan, 1996.

[74] UAL, Minutes of the Special Committee, 25 July 1978.

the same period, while total Overseas pre-tax profits had a CAGR of 4.5 per cent, Turkey's CAGR was –1.65 per cent. The business was loss-making in four years between 1974 and 1979.

Despite the bleakest of environments, the executive transferred from Unilever's German affiliate Langnese-Iglo to Unilever-Iş in 1978, was able to make some progress. His brief on transfer was simply to keep the business alive until better days came, but even this brief required thinking out of the box. The company responded to the chronic unreliability of electricity supplies by laying down their own electricity lines from the power station to the factory. Unilever persuaded the government to allow it to export margarine to Iran, and to use the proceeds to buy raw materials for margarine manufacture and to make dividend payments. This in turn made the Overseas Committee more willing to accept the need to build a new factory at Corlu, which was becoming urgent as water supplies at its old factory at Bakirköy were becoming difficult, and the site was surrounded by residential buildings whose inhabitants disliked a factory in their midst.[75]

In 1980 there was another military coup. The Army, which had watched the growing violence and instability with alarm, dissolved the National Assembly, and banned political parties and trade unions. The coup marked the beginning of a change in the environment faced by Unilever. Although political liberties were severely curbed, the coup began a transition to more stable economic policies with tighter monetary control and depreciating exchange rates which helped double Turkish exports within two years. Turkish policies began shift from a protectionist import substitution growth strategy to export promotion. In the new environment, Unilever's edibles business was rescued as the availability of raw materials improved and price

[75] UAR, Interview with Hans Eggerstedt, 8 May 2000.

controls were lifted. The free supply of oil from 1980 onwards enabled Unilever to expand production, and permission was also given to build its new factory at Corlu.

The major problem remained Unilever's detergents business in Turkey. In terms of market share and brand strength this had become successful, but the business was grossly under-capitalized, which put Unilever at a considerable cost disadvantage against its main – local - competitor. The asset base in Baker also meant that Unilever could not remit dividends at a level proportionate to the management involvement. Although Unilever effectively managed the business, it received only 35 per cent of the net profits. Additional challenges emerged as the new liberal policy regime began to attract the entry into Turkey of other firms.

During the 1980s Turkey was to remain one of the non-Communist countries with the lowest amount of inward direct investment. Despite policy liberalization, a very poor institutional environment for business persisted, including political interference with business, a very weak justice system, and very widespread corruption. Most foreign companies preferred to conduct their business through Turkish agents.

Within this context, Unilever's achievement in building and sustaining a large Turkish business, which was operated fully within the norms of Unilever's worldwide ethical standards, was striking. *Sana* was Unilever's largest single margarine brand in the world in 1980. As in the case of India, a long-term strategy and a willingness to accept little or no returns over long periods was combined with strategic flexibility and the recruitment of an excellent local management. As in India also, the legacy of government controls meant that Unilever's business was fragmented into several different entities, but a potentially highly successful and deeply rooted business was in place.

Conclusions

Unilever's ability to retain a large, and in some if not all cases profitable, business in such countries as India and Turkey during the postwar decades was remarkable. Certainly it was much less exposed than mining, petroleum, agricultural, and utility companies to anti-foreign hostility. It did not operate on the basis of concessions, nor (before the acquisition of Brooke Bond in 1984) did it employ thousands of plantation workers, and its products were not in a "strategic industry." Nevertheless the plethora of controls and regulations were quite sufficient to deter or drive away other consumer products companies, including Procter & Gamble. There were at least five factors which explain Unilever's ability and willingness to persist in developing countries such as India and Turkey.

First, it held first mover advantage in many countries. As Import Substitution Industrialization regimes were adopted, it was well-situated in protected domestic markets, even though it had to contend with price and capacity controls, dividend limitations and other government regulations. Unilever was able to transfer brands, technologies and marketing methods from its businesses in developed countries, and exploit them behind tariff walls.

Secondly, Unilever took a long-term investment horizon based on the view that sooner or later as incomes rose people would want to consume the company's products. The company was prepared to accept low dividend remittances for years, or decades, both to build up businesses, and to wait for better times. It made large investments in plant and equipment - often at the expense of short-term remittances for dividends to its shareholders – in order to build sustainable businesses. Its size and financial strength enabled it to wait for future income flows. As Unilever was more willing to accept the risks of developing countries than many large Western competitors, it was rewarded by limited competition from international rivals, notably Procter & Gamble.

Thirdly, Unilever pursued flexible business strategies. As the Unilever director noted of the Indian affiliate, they "were very clever at adapting to circumstances and overcoming shortages." The company made margarine from sunflower oil and toilet soap from palm oil. It invested in tomato puree, jasmine plantations and chemicals. It exported shoes. It engaged in rural development and built its own power plants to run factories. Unilever's decentralized management structure permitted flexibility in adjusting to the different environments of developing countries.

Fourthly, Unilever's high standards of corporate ethics were a significant factor in its business success. Its refusal to tolerate corruption in highly corrupt environments was noteworthy, as was its refusal to make political payments. The policy of staying outside of party politics meant that the company had few enemies. Indeed, in India, Turkey and elsewhere it made products which many poorer people bought, or aspired to buy, and politicians had no motivation whatever to be seen denying access to such products by crippling Unilever.

Finally, and most importantly, Unilever became embedded in local business and political systems. The early localization of senior management was critical in providing voice, contacts and legitimacy in countries such as India and Turkey. In many countries Unilever identified, and promoted to the most senior positions, some of the best business leaders of their generation. This meant not only that Unilever's businesses were managed by extremely good people, but that Unilever was able to function as a quasi-insider within governmental and business networks in many countries.

The reasons for Unilever's survival and growth in countries such as India and Turkey also explains why the company was an outlier, and why the level of FDI shrank to low levels in those countries, and has remained low. Few other companies had either the deep pockets to sustain businesses with low remittances over long periods, or the willingness and desire to diversify into exporting shoes or making tomato puree. Nor did they have the organizational culture which would have permitted them to localize their management. Meanwhile the formidable complexities and downsides of trying to doing business in countries such as Turkey and India during the 1960s and 1970s seemed to have stayed in collective corporate memories long after the more restrictive policies began to be relaxed. It has taken the IT boom over the last decade to begin to change corporate perceptions of investing in India, while Turkey has yet to significantly change its image.

Appendix

Table 1 Overseas Committee Revenues and Pre-Tax Profits 1965-80 (₤ 000)

Revenues						
Years	Turkey	India	Brazil	South Africa	Australia	**Total OSC**
1965	14,930	51,014	9,050	24,249	31,436	**215,284**
1966	16,885	38,419	12,721	26,019	32,610	**225,729**
1967	24,300	49,900	18,500	34,100	43,200	**285,500**
1968	27,500	49,200	17,700	38,100	47,900	**284,500**
1969	29,200	60,200	20,100	38,900	50,800	**352,300**
1970	14,400	67,900	25,000	44,800	54,600	**381,100**
1971	17,500	72,600	31,700	45,000	62,000	**400,300**
1972	30,300	76,300	38,100	55,400	70,100	**431,300**
1973	33,700	67,500	55,200	87,500	105,100	**541,100**
1974	33,900	74,900	75,600	98,200	98,300	**654,600**
1975	63,300	101,300	101,900	105,200	116,200	**845,000**
1976	88,800	126,200	133,500	163,200	137,600	**1,148,400**
1977	60,100	150,200	174,900	180,800	147,000	**1,261,600**
1978	41,100	205,700	196,000	187,000	156,900	**1,376,700**
1979	27,400	207,400	124,500	212,600	160,600	**1,506,200**
1980	38,400	266,500	137,300	243,800	190,700	**1,821,200**

Pre-Tax Profits						
Years	Turkey	India	Brazil	South Africa	Australia	**Total OSC**
1965	942	3,435	26	2,158	1,838	**15,313**
1966	1,173	2,333	1,080	2,534	2,064	**18,483**
1967	1,317	2,095	1,278	2,858	2,761	**21,006**
1968	1,600	2,800	1,900	4,000	3,900	**27,900**
1969	2,300	2,600	1,200	3,400	2,700	**22,100**
1970	1,100	2,300	2,400	4,400	3,600	**26,500**
1971	700	2,800	3,000	4,300	4,400	**28,300**
1972	1,500	3,400	4,200	6,200	6,200	**39,300**
1973	1,600	1,900	7,200	9,900	8,100	**51,300**
1974	-700	-700	2,900	12,000	6,100	**38,700**
1975	1,100	7,600	4,800	12,400	7,500	**59,100**
1976	-400	12,000	6,300	17,900	8,300	**86,500**
1977	-3,700	9,700	11,500	12,200	7,000	**81,900**
1978	1,000	14,869	13,300	16,500	7,300	**114,400**
1979	-200	12,682	6,800	20,000	6,300	**110,600**
1980	3,400	15,814	7,300	27,100	8,200	**137,000**

Table 2 Overseas Committee Revenues and Pre-Tax Profits 1965-80 (₤ 1990 000)

Revenues						
Years	Turkey	India	Brazil	South Africa	Australia	**Total OSC**
1965	128,485	439,019	77,883	208,683	270,534	1,852,702
1966	140,241	319,095	105,656	216,105	270,847	1,874,826
1967	196,921	404,376	149,919	276,337	350,081	2,313,614
1968	210,567	376,723	135,528	291,730	366,769	2,178,407
1969	213,450	440,058	146,930	284,357	371,345	2,575,292
1970	97,561	460,027	169,377	303,523	369,919	2,581,978
1971	108,831	451,493	197,139	279,851	385,572	2,489,428
1972	175,043	440,786	220,104	320,046	404,968	2,491,623
1973	175,979	352,480	288,251	456,919	548,825	2,825,587
1974	148,554	328,221	331,288	430,324	430,762	2,868,536
1975	222,105	355,439	357,544	369,123	407,719	2,964,912
1976	270,814	384,873	407,136	497,713	419,640	3,502,287
1977	163,404	408,374	475,530	491,572	399,674	3,430,125
1978	103,111	516,056	491,721	469,142	393,628	3,453,838
1979	58,635	443,826	266,424	454,954	343,676	3,223,197
1980	71,375	495,353	255,204	453,160	354,461	3,385,130

Pre-Tax Profits						
Years	Turkey	India	Brazil	South Africa	Australia	**Total OSC**
1965	8,107	29,561	224	18,571	15,818	131,781
1966	9,743	19,377	8,970	21,047	17,143	153,513
1967	10,673	16,977	10,357	23,160	22,374	170,227
1968	12,251	21,440	14,548	30,628	29,862	213,629
1969	16,813	19,006	8,772	24,854	19,737	161,550
1970	7,453	15,583	16,260	29,810	24,390	179,539
1971	4,353	17,413	18,657	26,741	27,363	175,995
1972	8,666	19,642	24,263	35,817	35,817	227,036
1973	8,355	9,922	37,598	51,697	42,298	267,885
1974	-3,067	-3,067	12,708	52,585	26,731	169,588
1975	3,860	26,667	16,842	43,509	26,316	207,368
1976	-1,220	36,597	19,213	54,590	25,313	263,800
1977	-10,060	26,373	31,267	33,170	19,032	222,675
1978	2,509	37,303	33,367	41,395	18,314	287,005
1979	-428	27,139	14,552	42,799	13,482	236,679
1980	6,320	29,394	13,569	50,372	15,242	254,647

Table 3 Overseas Committee Dividends and Service Fees 1965-1979 (₤million)

Year	Turkey		India		Brazil		South Africa		Australia		Total	
	Div.	S.Fee	Div.	S.Fee	Div.	S.Fee	Div.	S.Fee	Div.	S.Fee	Div.	S.Fee
1965											5.2	1.8
1966											3.7	1.6
1967											5.4	1.5
1968											7.0	1.8
1969											8.5	2.0
1970											7.9	2.4
1971											na	na
1972											11.1	3.7
1973											15.6	5.0
1974	0.9	0.0	0.6	0.0	1.0	0.0	2.9	1.6	2.1	2.0	13.5	6.5
1975	0.8	0.0	0.8	0.0	1.0	0.0	2.0	1.8	2.1	2.2	16.4	7.3
1976	1.2	0.0	1.9	0.0	3.2	0.0	6.2	2.9	1.5	2.6	24.8	10.9
1977	0.0	0.0	2.0	0.0	2.8	0.0	3.5	3.5	1.3	2.8	25.0	12.7
1978	0.8	0.0	2.3	0.0	3.4	0.0	6.1	3.6	1.3	3.0	27.1	13.3
1979	0.2	0.0	2.0	0.0	0.0	0.0	8.9	4.2	2.3	3.0	32.5	14.0