

Strategy & Corporate Finance Practice

Laxman Narasimhan, CEO of Reckitt Benckiser, on corporate purpose during a crisis

Reckitt Benckiser's CEO reflects on his experience transitioning into the leadership role and driving strategic change during the global pandemic.



Sean Brown: From McKinsey's Strategy and Corporate Finance practice, I'm Sean Brown and welcome to *Inside the Strategy Room*. As part of our exploration of corporate purpose and resilience through the COVID-19 crisis, senior partner Celia Huber recently held a discussion with Reckitt Benckiser CEO Laxman Narasimhan. Reckitt Benckiser is a UK-based global consumer products company with more than 40,000 employees. The majority of its products are in health, hygiene, and home categories, including such well-known brands as Lysol and Clearasil. We hope you enjoy the discussion. Here's Celia.

Celia Huber: Laxman, welcome. I've known you, gosh, almost a quarter of a century now. And just to introduce you to our listeners, prior to his current role, Laxman held several various senior roles at Pepsi, including global Chief Commercial Officer, CFO of PepsiCo Americas Foods, and the CEO of Latin America. Before joining PepsiCo, he was a senior partner at McKinsey. Laxman, I'd like to start off by talking a bit about corporate purpose. Can you tell us about Reckitt Benckiser's purpose and how you arrived at it?

Laxman Narasimhan: Sure. Thank you, Celia. I became CEO on the first of September last year. And there was a lot of buzz about the company, about questions about its future. And I decided that I would take six months to in effect lay out what I thought the company should be and where we should go. And so, as part of that, I actually spent a lot of time in markets. I sold with our salespeople. I was out meeting customers and, also importantly, immersed myself in our R&D labs. And I remember sitting in our R&D lab in Montclair, New Jersey, which is our big microbiology center, looking at the map of the world, and what you realize is there are more bugs; they're getting bigger, they're getting stronger, and they're getting more global.

And at that point in time, it became very clear to me, what we did was really we were in the business of protecting, healing, and nurturing our consumers. We thought, why do we exist as a company? And

that's really what our purpose was about. And we articulated why we exist: to protect, heal, and nurture in the relentless pursuit of a cleaner and healthier world. We did actually articulate that in October. We tested it with customers, and there were several of our employees and some of our younger people came back and said, "That's great. We love this purpose, we're extremely energized by it, but we also want to put on the table a fight." And they really articulated what we should stand for. It's a fight. A fight for access. A fight for access to high-quality products, or information that drives behavior change. And for availability. So, we articulated this fight. And at the end of February, we announced to the world that this was our purpose, and this was the fight. It actually brought more clarity to the strategy of the company, and where we would go.

Celia Huber: So this was right around the time when COVID-19 was starting to make the news around the world?

Laxman Narasimhan: January 15th. I remember getting a call from Wuhan, China. We have a factory 200 kilometers outside of Wuhan, China. It is the one of the largest Dettol factories, or in the US you could say Lysol. And we really went into hyperdrive around that point in time. And what became clear to us at the end of February when they announced this, was there was something happening clearly bigger than all of us. But we realized that this was actually a very important time for the company to embrace it. And so articulating the purpose, articulating this fight, energized the company to really stand up and be counted in a time that is very difficult.

Celia Huber: You created a series of social media interviews for the Dettol handwash challenge to spread awareness of handwashing in India as a way to combat the coronavirus. In aggregate, I understand these videos have been viewed over 120 billion times. How did this idea come about?

Laxman Narasimhan: The TikTok video came to me as a proposal. In all fairness, we thought we would get one billion views. That's what we thought. The

song is a bit of an earworm. But what's remarkable about it is that if you take a look and compare the viewership we got it's much larger than a lot of public health institutions were able to accomplish with their videos. We really brought in the consumer insights, our knowledge of behavior change, the way we see it as brand marketers, and we brought into the world of public health.

Celia Huber: Laxman, that's great. And so, as you think about how your purpose has evolved, and the fight has evolved, even during the COVID efforts, is there anything that you guys would have done in addition to the public awareness? How was your purpose guiding your approach to the COVID-19 crisis?

Laxman Narasimhan: You know, our purpose in fact has actually been further solidified. And you can see it in the factory floor in New Jersey, the people who make Lysol who feel really proud, that's what they're doing. You see it in the various factories in India. You see it in the salespeople of China, and they all feel really energized by it. So, there's no need for us to change the purpose. But one of the things the board and I talked a lot about was, how do we ensure that we actually make a real difference? And so, we have set aside one percent of our operating profit, and we're basically giving it away. We gave it to the frontline in Wuhan. To the CDC. To HIV–AIDS patients in Africa, and the NHS here in the US. We're giving away product in India. And we've also spent money with the public health institutions and various countries around the world, where they've done actually joint ads with us that we pay for.

Celia Huber: Laxman, that's really interesting. And then how did you think about from an internal perspective, embedding the purpose in the organization?

Laxman Narasimhan: I think you as CEO have to truly embody the purpose of the company. But 58 percent of my company is millennial, and for them to really embrace it is very important. I start every communication with it. And we're dialing our

decisions back to the values of the company, which we reset in February. We absolutely try and live that every single day. But it's not just me; it's my senior leadership team, how we hire, how we promote, the behaviors we have. One example of this: we made a decision as an executive team for the money we saved on travel—and there are a thousand people in the company who have travel budgets—we allow them to actually give the money away to organizations that were local, but that fit with what our purpose was. So even though the act of actually giving it away, sharing it with their colleagues about what they've done, in fact, reinforced and further embedded that purpose deep inside the organization in a much quicker time than we thought was possible.

Celia Huber: Just pushing on that a bit more, how do you see the company's purpose tying into the environment, social, and governance issues that are so much in the spotlight these days?

Laxman Narasimhan: I think people haven't been discriminating enough between E, S, and G. It's not just like one blob of things. Obviously, I came from a company that was a much larger size, take the issue of plastics, some of the big companies in the world, they have the ability to change plastics, supply chains. They literally do. I mean, they literally, they say, you know, we're going to process things differently, or whatever. And so, if there's a plastic supply chain question, we thought we will be part of the coalition, but there's no way that we can actually shape, because we're not big enough. Now having said that, there are certain commitments we've made, I mean, particularly on the environmental side, that will put us at a parity to the top third. But it won't be that we'll be the, you know, vanguard in that space.

On social, it's very different. If I look at Durex and what we do with HIV–AIDS and what we do with sexual wellness, we are absolutely going to lead. There's no question about it. And so, you look at work we're doing in South Africa, the work we're doing with HIV–AIDS and the UN. We'll be with Project Red and Bono's organization, and we will

make a big difference with that. If you look at what we're doing in hygiene, we're absolutely playing a role. Because from the 1900s, people essentially thought hygiene was some kind of a lesser science. But the reality is that as you get into moments of time like this, where you have a pandemic, you have these gaps, but the antivirals haven't kicked in, or frankly, there's no vaccine. The tools we have at our hand are really all around hygiene, and all around hygiene and the foundation of health. And that's a big deal for us.

Governance, you need to be absolutely on top. Our board, if you look at the nonexecutive directors, we have a majority women nonexecutive director board. If you count me as a, they would in the UK, as a minority, we have a majority minority board. And I'm very proud of that. And very proud of the board for having made all these calls to actually make that happen. And so, I think on the governance side, we will absolutely lead, but with "E" and "S" we will choose "S." Because clearly on "S," we have to lead because if we don't, who else will? You know, I remember speaking to the CDC, and I told them what we were about. And they said, 'Well, it's interesting, you know, our job is to protect and nurture as well.' I said, "You're right. The only difference is you're a public health institution. I'm a private public health company."

Celia Huber: Laxman, that's great. And now I wonder if we can switch gears and talk a little bit about your personal transition to the CEO role? You come to Reckitt Benckiser as an outside CEO from PepsiCo. What was that like for you?

Laxman Narasimhan: Well, when you come in as an outside CEO, you don't come in because the direction of the company is what the board wants. In this case, I'd been in PepsiCo for seven years. The PepsiCo experience gave me a very quick opportunity to learn how to be the CEO of a company because I ran Latin America and Latin America, Europe, and Africa for five years, before

taking on a commercial role. And there were a lot of things you learn about how you lead people, how you set direction, how you deliver performance. But becoming the public company CEO here meant there were a few more muscles that you have to exercise. You have to meet with investors. I have dealt with investors, but it was in a much more curated sort of fashion. You've got governance. You have learned about how to manage the board. And you're the final, you know, person who makes the call where it's warranted. So, there's clearly growth. There's clearly a step up from having been a CEO of a business about the same size. And so, the real thing to do here is to be humble about it. But recognize that there's lots of things you know, but there's several things you don't know. And so, you have to go through a process of giving yourself some time to set an agenda. I spent a lot of time with investors. They gave me their stories, and over the course of about four months or so we built a strategy, we built a plan. We got the board to align to that plan. And then we prepare for almost six weeks to announce it to the world outside, which is what we did the end of February. And one of the things I did as well was decide who I was going to appoint into these various roles. And that, by the way, it takes some time. In Europe, you have all these notice periods, and it takes time; even though you may have recruited them six months ago, there's notice periods and all of that. So the team has changed quite fundamentally over the course of the last year.

Celia Huber: And, Laxman, the lockdowns came in shortly after you announced this new strategy. So how did you handle the crisis as a CEO transitioning into this new role? And how did you build relationships with your team?

Laxman Narasimhan: In all honestly, you know, from those two weeks of roadshow, I've been in lockdown. While I recruited my CFO and brought him on board, I've never been in the room with him. We've operated remotely. We have a new transformation lead; he will be remote for several

months. Our supply chain lead is operating remotely. So I think that COVID has driven a very different dynamic around, not just seeing composition, but also how you build a team. And now I'm putting a lot of effort into that. Because I think my job at this point in time is that I've got to have great people. I've got to ensure they're molded into a team. One of the things I learned in my time at Tesco is I, literally, I talked to my head of HR four times a day. I speak with my CFO and my head of Human Resources once a week together. There is no agenda. We spend an hour. Literally, we're calibrating, "What are we hearing? What's the holistic picture that we are forming about where the business is, where people are, where the challenges are?" I've found this sort of informal, unstructured time to be a way for us to begin to understand how each of us operates. And so, you know, I haven't taken them out to dinner or something like that, but what you begin to realize is that, you know, the bar goes down a bit, then I'm finding that over time we're beginning to read each other pretty well.

Celia Huber: And what have you found to be most challenging then about leading the company remotely over the past few months?

Laxman Narasimhan: The hardest thing as a CEO is you traditionally have two things going for you. One thing is your pattern recognizer. So you go to a market; you see what's happening in a store. Some customer said something to you. Some employees said something to you in the roundtable, and you saw something in the newspaper one day, you put all that together and say, "You know what, I think that's an issue and opportunity." In a very similar way, when you judge someone who puts a proposal in front of you, particularly for a capital request or something like that, you actually do make a judgment. The judgment is based on what you see in front of you, what the person was saying; you're connected to the patterns. And there's a little bit of a chemistry that goes into making a decision. The hardest part in operating remotely is that you

actually have a smaller set of patterns to recognize. And your judgment is based on a smallest set of qualitative bits of information that you have. So you are making bets. Some of those, obviously, you need to have multiple people calibrating how it's going. So it's very important that you're getting different groups.

Celia Huber: Laxman, you're talking about some of the constraints around pattern recognition during this time, so how do you go about identifying and reacting to new consumer trends that are popping up?

Laxman Narasimhan: You know, we obviously do a lot of listening, social listening. We've got consumer insights capabilities. I'm watching daily sales. I'm talking to customers, you know, a large number that they're giving me helpful an input stream. I'm also talking to other CEOs in ancillary industries, and they're also the ones who will also give me a bit of a read as to what's going on. The behavior changes you're seeing, they're not rocket science really. With this kind of a world, the level of anxiety about hygiene is up. And I think you're seeing people behave that way. You're seeing both penetration changes as well as frequency changes, and you see that in the numbers that we get too with all the data that we're looking at. You also have brands that people at the start of the pandemic, they had no idea what to do. So they went off and bought a bunch of them, and it stayed with them. And what you're seeing now is you're seeing the unloading of that. The first set of things that consumers are doing is they're nesting at home. Because they're nesting at home, they're cooking more, or they're cleaning more in the house. That's driving a lot of this behavior change. There has been a big shift in e-commerce. You look at the seniors in China, and the fact is that they have made a move to ordering things online. And, over time, as the economy gets even more tough and tougher, and the furlough money goes way, you're going to see greater sensitivity of pricing.

Celia Huber: And, Laxman, maybe let's shift a little bit to talent. Are you seeing any changes in talent recruitment and retention at Reckitt Benckiser?

Laxman Narasimhan: When I started, there was so much uncertainty about where we were going. There was sort of speculation in the press and people writing all kinds of things. And then it was actually very hard to attract people at first. Because people are saying, "Well, what am I joining?" I had dinner with somebody every night, every single night, some candidate or breakfast, so there was calls whatever. And you go through the first part—you have to sell them the vision. Today it's a bit different. I'm not selling them the vision. They're interested. And when they're interested, our conversation is very much around, "What's the role? What's the fit?" And fit is really a big deal for me and for the rest. So, it's actually made it a little bit easier for me, even if it's remote. Partly because people know what the company is about. They know what it stands for. We've elevated a reason to exist, and because of that, it makes it a much easier sell.

Celia Huber: Laxman, how about we turn a little bit to resilience. With so much uncertainty about the future, how are you planning inventory, staffing, and other elements of your business?

Laxman Narasimhan: You know the first thing you want to do is take away the continuity risk and ensure that you're well capitalized. So, you know, we did the bond issue around May. I mean, there was a good rate, good duration. I feel good about it. So we actually did that. So, from a balance-sheet standpoint, we felt generally a lot better. Planning is much more complicated. Because when you have demand—in some ways soaring at the level in some parts, and not at all in others—you've got to really manage in a very flattened map. Flexibility and agility are really at the heart of this. So we absolutely have a plan. But my real focus has been on flexibility. This month in July, we will produce 20 times the amount of sanitizer than we did last year. Twenty times. It's just a massive increase. And

we've been very ruthless about the elimination of complexity. In some factories, we've taken away 80 percent of the complexity. Because part of the way to deal with uncertainty is also to simplify. And so, our operations have simplified to the point where we have the ability to move very quickly. I've been amazed. This is a company that moves very fast. And my big deal here is really how do I ensure we get out of the way and give them the ability and the tools to be able to respond to things, because this is a very sort of localized response in a fast-moving kind of a world.

Celia Huber: Well that actually leads me to my next question: How do you think about managing a global supply chain these days?

Laxman Narasimhan: You know, we do have in some categories a global supply chain; in other categories we don't. And so, in the ones that we don't, it's more about how do you ensure you have the right capacity and the right flexibility. You know, part of capital allocation and the role of the CEO also is you've got to assume certain risks that you have to manage, and sometimes individual manager's country cannot take on that kind of a risk. You have to decide what kind of risk profile you want as a company; what kind of demand are you willing to give up if nothing really happens? And how do you essentially manage that in a way that is pretty simple for people to deal with? We have been looking a lot at possible scenarios. How do we ensure we have the right capacity investments to both meet the volume demand while at the same time to have the flexibility to respond to demand where we need it all the way through its multiple levels of the supply chain? It isn't just what happens; you know in a manufacturing plant what happens in inventory all the way down to raw materials at the source; you work at multiple levels. And the level of risk in each of them is actually quite different. So we are thinking like that.

Celia Huber: Laxman, I now want to change from thinking about the business to thinking about you.

What about your personal resilience? You described how your working life has changed. What did you do to keep your energy up during the lockdown?

Laxman Narasimhan: You know, I was in the middle of a move to the UK. I have my 80-year-old mother here. So I'm hyper-careful about exposure, so I've got to ensure that there's nobody who comes in so she gets exposed. I mean, I consider it a blessing that I've got a chance to have dinner with her every single day, over the last 100 days. There are days that have been taxing. I have to confess, you know, when there's a board meeting, and, you know, she might just choose to come in and say, you know, there's rubbish, you've got to essentially, you know, take it out of here. I put it on hold and go and do this and come back. I remember I was in an investor call, and she had a point of view that she was choosing to express right at that moment. And, you know, it was a, let's just say, an interesting choice about who I was going to respond to. But the investor was kind.

Celia Huber: I'm sure. I'm sure it's been a fun experience for your mom to get to see you at work. Has the experience of leading through the COVID crisis changed you in any way, both personally, or as a CEO?

Laxman Narasimhan: You learn a lot, and you get much more effective. It's really helped me understand what's going on inside the lives of a lot of people that work with me. You know, we have this thing where we open up the camera; I do these Zoom ins with young talent. And I've told them, you know, just do it at home and I turn it around; they sit in my living room, and, you know, and they love that. I've been to people's homes in Saudi Arabia and Pakistan, and in a Brazil, which I have never been to, and they take me around the house; they introduce me to their family. And it's actually quite telling, because I've learned a lot about our people. And, particularly, as we're going through all these, you know, massive social changes, not just in the US, pretty much around the world, being connected with people and understanding what they're really going through has actually been really helpful.

I've also learned to walk. London is a great city to walk. And so, I, you know, the other day, I did a 21 kilometer walk from here to Wimbledon and back. And physically, it's, you know, it's been a way for me to really enjoy this great city and learn the history of the space and see all the monuments with nobody on the road.

Celia Huber: And so as you think about history, I want to turn towards the future as well and think about what the post-COVID period might look like. What organizational capabilities do you think will become most important?

Laxman Narasimhan: I think we're seeing a massive digitization at a level we never quite had. I think the pace at which we are moving is quite remarkable. And it's worldwide; it's all happening simultaneously, not just the way we work, but also the way we sell and the way we buy and the way we operate at this. So that is a huge area of change. With consumers, what we are, you know, clearly it's about how you then learn more about them. And I think the interaction with the digital is giving us the ability to, to create capabilities that will also help us be far more responsive to what they need—how we deal their needs both stated and unstated.

Celia Huber: That's very interesting. So has that caused any major changes to your strategy as a result of the crisis?

Laxman Narasimhan: First of all, we have a growth model. It's very straightforward. I'm looking a lot at penetration. What's happening in each of the households. What's happening with individual consumers and the like. We clearly look at market share, which is the other element of, you know, where some other competitors are also benefiting from this. And so, we're looking at new places our brand will go—to countries, particularly where we're not in. And the last is new spaces. We did this deal with Hilton in the US, along with the Mayo Clinic, which is largely around communicating a standard of care for hotels. And that gives you another sense of where things might go. We have a good

sense of what the base business is doing. And it's actually doing better, which is good. Obviously, you understand that this list gives you a bit of a benefit in some cases, but frankly, not a benefit analysis. We wrote off five billion pounds on a business we had bought. That was not easy. The portfolio that we have, we're obviously well placed in a world like this. The big question really for me is how do we ensure there's no safety issue, there's no quality issue, and there are certain balls we're going to pick up and take them way down the line in time knowing fully well that we cannot make them come back. The choices about those balls—and some of them are pretty hard because, you know, you are taking money from some things, you are allowing some capabilities not to get built while you build something else—some of the hard choices are also around expectations you set. So it's not that we didn't have any tough calls. We did.

Celia Huber: Yeah, Laxman, maybe related to that, one of the questions that comes to mind is what keeps you up at night from your vantage point around those tough calls?

Laxman Narasimhan: You know, to be very frank, I sleep pretty well, but what keeps me up at night is I think that the safety of my people is a huge concern for me. And it started right from Wuhan, because if I told you the experience we had there, where the first time it had happened, we have to learn a few things, and we clearly had a lot of help from the government, local and otherwise, on how we might do this. So the thing that keeps me up at night is a call that says this, you know, there could be a call that says something has gone wrong. It hasn't happened, by the way, but it's a thing that I worry about a lot.

Celia Huber: Laxman, let's end on an optimistic note. We've talked about some of the challenges. So now let me ask you, what excites you about the future?

Laxman Narasimhan: You know, what I'm really excited about is the power of possibility. You know,

so many rules are getting thrown out. There's no way you can go online in six days, and in six days we were online. There's no way we can work remotely for more than two months. Well, here we are. I always try and do this every single day, is I try and find one idea somewhere in the world that has actually emerged, either in art or in culture, or in science, or in business, that is super positive. Because we've been inspired by what's really happening, and we're at the cusp. I think that when all this ends, and we step back and look at it, we're going to see things emerge that we never thought were possible. There is a renaissance on the way; it's just not visible. And I feel blessed that I had the opportunity to be in this position.

Celia Huber: That's great. I'm an optimist as well, Laxman. And this conversation with you has only made me more so. Thank you so much for taking the time to talk with us today. And, Sean, now back over to you.

Sean Brown: Many thanks, Celia, and thank you also to Laxman for sharing his insights with us today. A transcript of this conversation will soon be made available on the *Inside the Strategy Room* page on McKinsey.com, where you may also find links to our previous episodes. For the most current information on the implications of COVID-19 for your business, we encourage you to visit [McKinsey.com/coronavirus](https://www.mckinsey.com/coronavirus). There you'll find regularly updated briefing notes featuring our latest perspectives on the crisis. If you'd like to share feedback or an idea for a future podcast episode, please email us at insidethestrategyroom@McKinsey.com. If you'd like to receive email alerts on our latest insights, you can sign up on the Strategy and Corporate Finance Practice page on McKinsey.com. You can also follow us on Twitter @McKStrategy and connect with us on LinkedIn by searching for "McKinsey Strategy and Corporate Finance." Thanks again for listening. We look forward to having you join us again soon inside the strategy room.

Sean Brown is global director of communications for strategy and corporate finance based in McKinsey's Boston office, **Celia Huber** is a senior partner in the Silicon Valley office, and **Laxman Narasimhan** is CEO of Reckitt Benckiser.

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