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SHAPING THE FUTURE:
Solving Social Problems through Business Strategy

Pathways to Sustainable Value Creation in 2020

Based on research by McKinsey & Company

COMMITTEE
ENCOURAGING
CORPORATE
PHILANTHROPY

ABOUT CECP

Based in New York, the Committee Encouraging Corporate Philanthropy is the only international forum of CEOs and chairpersons pursuing a mission exclusively focused on corporate philanthropy. The Committee's membership consists of more than 170 executives who lead the business community in raising the level and quality of corporate giving.

CECP hosts CEO conferences, publishes best-practice articles, conducts extensive research with corporate giving data, and offers corporate giving professionals tools to help refine and expand their strategic giving programs. A current membership list and information about CECP's events and research are available at CorporatePhilanthropy.org.

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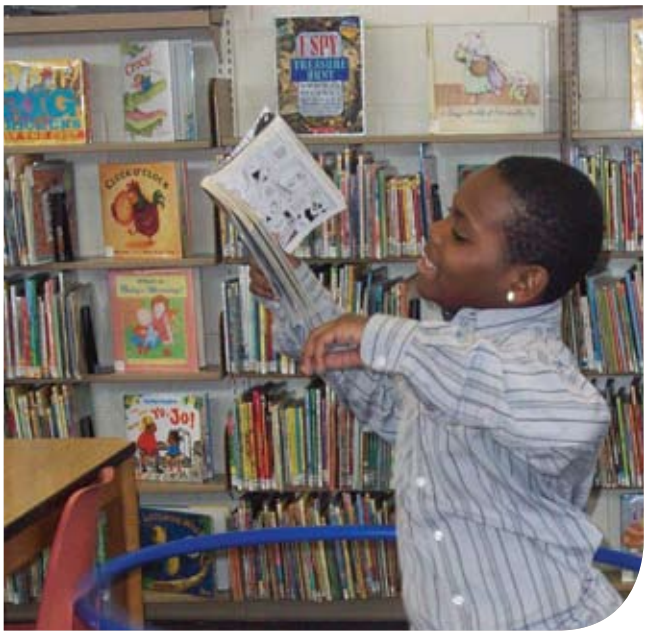

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PREFACE

At the Committee Encouraging Corporate Philanthropy, we chose to celebrate our ten-year anniversary not by looking backward, but instead by challenging ourselves and our membership to consider what the world—and the environment for corporate involvement in solving social problems—could look like in the year 2020 if we adopt a solutions-oriented mind-set on local and global issues.

Most organizations elect not to look so far into the future, because the pace of change for business is too rapid. Thinking even 18 months ahead can feel like a lifetime. Yet some risks and opportunities are best addressed now while a full range of options and actions is available. The longer companies wait, the narrower the choices become. This is true not only for today's multinational corporations, but also for every individual and organization with a passion for social change and justice.

In that light, the most important and inspiring trend CECP sees across its corporate membership is the commitment to engage in problem solving on tough issues. The walls and silos that separate funders, grantees, governments, multilaterals, activists, and others are falling away as each change agent instead focuses on bringing its unique skills and resources to bear on today's most difficult social challenges.

For companies, increased involvement is driven partly by a growing realization that they can take an active role in solving social problems in a way that simultaneously delivers tangible bottom-line results (either by reducing costs or increasing revenues). This model goes beyond simply aligning philanthropy with business objectives or creating smart signature programs in relevant funding areas; instead, it requires synthesizing core values and financial goals into a single corporate strategy.

With this report, CECP is encouraging its members to embrace the advice and models contained here as a means of taking ownership of the next decade. We hope those who share this ambition will join us in fostering the skill sets and mind-sets needed to make it work.

Charles Moore
Executive Director

Margaret Coady
Director

Committee Encouraging Corporate Philanthropy

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INTRODUCTION:
Shaping the Future

As companies look forward with an eye to 2020, there is a uniquely powerful opportunity to shape the evolving relationship between business and society. Doing so, however, requires taking an uncomfortable step that even today's most intrepid strategic planners infrequently take: making predictions as far as ten years into the future. To appreciate the difficulty of the task, one only needs to reflect on the many unexpected twists and turns of recent interactions between business and society. For example, a decade ago, who would have foreseen the worldwide explosion of cellular-telephone adoption, which increased from 738 million in 2000 to over 4.6 billion in 2010?[1] Yet this one technological advancement has equipped entrepreneurs in the remotest parts of the globe with instant access to mobile banking, remittance transfers, and tele-health services (while simultaneously boosting the revenues of pioneering telecommunications companies). Equally surprising are the transformations in relationships between companies and nonprofits that were once contentious and are now increasingly collaborative. For example, the nonprofit environmental advocacy organization Greenpeace, once best known for its confrontational approach, now works side-by-side with some of its former corporate adversaries toward the achievement of shared goals. Finally, even the most advanced financial models a decade ago could not have projected that investments in renewable energy technologies such as wind, solar, geothermal, and hydroelectric power would overtake investments in fossil fuel technologies, attracting over $140 billion in new investments in 2008.[2]

Yet as fraught with uncertainty as forecasting can be, significant costs are associated with planning cycles of only two or three years. Further, some trends are already beginning to take definite shape. In business, these trends—when spotted early—allow companies to change course with sufficient time for them to dodge potentially debilitating oncoming obstacles or to seize opportunities for expansion into new product lines and markets.

For these reasons, this report aims to address the following future-oriented questions:

1. What will the next decade look like, and what are the implications for corporate involvement in solving social issues?
2. How can corporations position themselves now to maximize their profitability and societal impact?

Chapter 1 of this report tackles the first question. Despite the difficulty of predicting in detail what the year 2020 will look like, it is already clear that several game-changing trends—such as the shift in economic activity from the Western to the Eastern Hemisphere and an increased stress on natural resources—will have an acute impact on the context in which large multinational companies compete ten years from now. Another reasonable prediction is that social problems will become increasingly complex and widespread over the next decade. At the same time, societal expectations that companies should take a substantial role in addressing those issues will escalate. The chief axes of uncertainty are how high those expectations will rise and how business will respond. The chapter concludes with four distinct visions of 2020 based on those two key uncertainties.

Chapter 2 turns its attention to the second question, investigating the steps that companies can take today to mitigate the risks and seize the opportunities for long-term value creation in the changed landscape of 2020. It presents specific recommendations for how individual companies can prepare, offers guidance on whether companies should act independently or seek collaborators, and provides ideas for new models of collaboration to meet the challenges of the next decade.

The reward for a company with a proactive mind-set is the ability to rework business strategy with the goal of shaping the future—capitalizing on the opportunities to devise win-win solutions that benefit communities and corporate bottom lines alike.

1. International Telecommunication Union (ITU), *Measuring the Information Society 2010* (ITU, 2010), www.itu.int; and ITU, World Telecommunication/ICT Indicators Database (ITU, 2000), www.itu.int.
2. United Nations Environment Programme (UNEP), Sustainable Energy Finance Initiative, *Global Trends in Sustainable Energy Investment 2009* (UNEP, 2009), www.unep.org.

CHAPTER 1:
Scenarios for Corporate Involvement in Solving Social Problems over the Next Decade

Of all of the global demographic, environmental, technological, and geopolitical forces that will shape the business landscape in 2020, McKinsey's in-depth research has surfaced a list of five trends most likely to be transformative in the coming decade:

- **The Great Rebalancing:** The rise of China and other emerging economies is shifting the locus of economic activity.
- **The Productivity Imperative:** Continued prosperity in developed countries will require an unprecedented step change in productivity to offset a shrinking labor force and global talent shortages.
- **The Global Grid:** Global integration—of capital markets, trade, and technology—will continue to drive market and societal restructuring.
- **Pricing the Planet:** Demand for natural resources outpaces supply, leading to resource scarcities that will constrain business.
- **The Market State:** Activist states will compete to capture jobs while struggling to provide for their populations.

This chapter outlines the essential dimensions of each of these trends, focused on the aspects that keep senior business executives awake at night, according to McKinsey's interviews of CECP's CEO members. It also investigates the implications of these trends for business's evolving relationship with society.

Two Major Uncertainties

While these five trends have clear trajectories, two major uncertainties will significantly affect their influence on the interplay between business and society:

- Whether society will have higher expectations for business across geographies
- Whether corporations will take a leadership role in addressing societal problems

These relative certainties (the five game-changing trends) and the two key uncertainties together provide a basis for answering the central question of this chapter: What will the next decade look like, and what are the implications for corporate involvement in solving social issues? Considering the possible combinations of the certainties and uncertainties yields four distinct, detailed visions for what the climate for business will be in 2020, listed here in order of their desirability:

1. Sustainable value creation
2. Dual capitalism
3. Dangerous mismatch
4. Vicious circle

These scenarios are covered in greater detail at the chapter's end.

How can business leaders shape the future to arrive at sustainable value creation and avoid the vicious circle? Leadership is essential, and Chapter 2 suggests how companies might take the first steps now to begin moving toward an optimal outcome.

FIVE GAME-CHANGING TRENDS

McKinsey's research on emerging global trends has identified five points of transformation that will reshape the environment for business over the next ten years (Exhibit 1).[3] While other anticipated forces, such as rising urbanization and growing income disparity, are highly likely to play an important role in sculpting the next decade, the discussion in this report focuses only on the forces that surfaced in McKinsey's interviews with internal and external experts and CECP's CEO members as likely to have the most significant effect on the way companies engage in solving social issues.

1. The Great Rebalancing: The Rise of China and Other Emerging Economies

Even today, the discussions taking place in the corporate boardrooms of large multinational companies around the world are centered on the strategic possibilities inherent in riding the wave of growth in the emerging economies of Brazil, Russia, India, and China (BRIC). After all, by 2020, developing countries will account for over 55 percent of worldwide GDP.[4] Another indication of the rise of emerging markets is that the number of Fortune Global 500 companies that are based in BRIC countries more than doubled from 27 in 2005 to 58 in 2009. Though companies from developed economies are likely to recover some ground in these metrics as the rebound from the economic downturn continues, the overall trend is clear.

As 2020 approaches, large corporations will increasingly compete with, and in some cases be dominated by, emerging-market leaders. Jim Rogers, Chairman, President and CEO of Duke Energy Corporation, reveals what these trend means for the energy industry, "China is where the growth is going to be in the next ten years. It has the potential to truly leap frog more developed countries in the use of smart grid technology." How will this shift of economic influence from the Western to the Eastern Hemisphere affect the way companies headquartered outside BRIC nations compete for bottom-line growth? What are the implications for Western companies if the number of employees and percentage of total corporate profits earned abroad exceed those figures in their home markets (as is already the case for many global players)? What implications will differing levels of social regulations and expectations have for companies operating in both Western and emerging economies?

Exhibit 1

Five transformative trends will shape the environment for business over the next decade

3. Peter Bisson, Rik Kirkland, Elizabeth Stephenson, and Patrick Viguerie, "What Happens Next? Five Crucibles of Innovation That Will Shape the Coming Decade," (McKinsey & Co., forthcoming), www.mckinsey.com.
4. IHS Global Insight, World Economic Service Forecast, updated January 15, 2010.

2. The Productivity Imperative: Talent Shortages in the Developed World

Global economic growth over the past few decades has come predominantly from employment growth (adding more people to the workforce) in high-income countries. However, with aging populations in these countries, productivity gains will instead be driven by gains in labor productivity (getting more output per worker). This trend is already evident in the United States: in the 1970s, 80 percent of overall economic growth came from a growing labor force, and 20 percent from gains in worker productivity. In the next decade, this relationship will invert due to a shrinking labor pool as the population "ages out" of the workforce: 30 percent of growth will come from adding new workers, with the rest needing to come from the remaining workers being more productive.[5] The situation will be even more severe in Western Europe, East Asia, and other economies with aging populations.

Exacerbating the situation, education systems in some developed nations, such as the United States, are struggling to create the talent pool needed to support productivity gains. This is already a pressing concern among Western CEOs as, despite high unemployment levels, companies struggle to fill technical positions.[6] In the United States, the number of graduates with degrees in science and engineering fields is rising at a slower annual pace (1.5 percent) than employment (4.5 percent).[7]

Many countries with continued population growth face a different problem. In those countries, there is a "youth bulge" in which more young workers with inadequate or insufficient skills are entering the labor market than the local economy can absorb, yielding high unemployment and potential unrest among many young workers.[8] Clearly, there is an impending mismatch between where the talent is needed and where it is likely to exist. Projecting this trend forward to the year 2020 highlights a grossly insufficient supply of well-equipped professionals to meet the growing demand for highly trained talent where it's needed most.

3. The Global Grid: Global Integration of Trade, Capital, and Technology

The widespread impact of the economic crisis that began in 2007 exemplifies the degree to which economic markets are already internationally integrated. Global trade in the first quarter of 2009 dropped 33 percent, with an unprecedented cross-border ripple effect.[9] This widespread decline was driven by the trade in securities and assets throughout global financial markets, as well as by increased trade in intermediate goods and of geographically distributed supply chains.

A similar interconnectedness among individuals (and consumers) also is clearly on the rise. Today, two out of three people on the planet own a cell phone, compared with just one in ten people a decade ago, and one in four people has access to the Internet.[10] As one powerful example of the trend, membership in the social-networking Web site Facebook, which began in a Harvard dorm room in a much simpler form in 2003, has grown so large that by 2010 it would—if it were a country—have the third largest population in the world. Mike Duke, President and CEO of Wal-Mart Stores, notes the trend: "Technology will have dramatic effect on Wal-Mart's business. Not just e-commerce, but also information availability, price transparency, and the internal use of technology for managing the business."

4. Pricing the Planet: Natural-Resource Scarcities That Affect Business

Natural resources that in many countries may currently seem abundant—such as water, food, and energy—will be increasingly in short supply as global demand grows in the next ten years, fueled by increased demand in emerging-market economies. The net effect of this increased demand from the developing and developed world alike will be a strained global supply of related business inputs such as oil, metals, forests, and arable land. For example, global water consumption, if left unchecked, will grow to 40 percent above reliable supplies by 2030, leaving many regions with insufficient water for their populations, agriculture, or business.[11]

5. IHS Global Insight; Bureau of Labor Statistics; Bureau of Economic Analysis.
6. Manpower, "2009 Talent Shortage Survey Results" (Manpower, May 2009), www.manpower.com.
7. National Science Board, *Science and Engineering Indicators 2010* (National Science Foundation, January 2010), www.nsf.gov.
8. International Labor Organization (ILO), *Global Employment Trends for Youth* (ILO, October 2008), www.ilo.org.
9. Organisation for Economic Co-operation and Development (OECD), Statistics of International Trade database, http://stats.oecd.org/Index.aspx, accessed February 2010.
10. ITU, *Measuring the Information Society 2010*; ITU, World Telecommunication/ICT Indicators Database.
11. 2030 Water Resources Group, *Charting Our Water Future* (McKinsey & Company, 2009), http://www.mckinsey.com/clientservice/water/charting_our_water_future.aspx.

This trend is evident in China, where water shortages are estimated to have reduced industrial production by $28 billion a year.[12] Another example can be found in the fishing industry: An estimated 52 percent of the world's fisheries are now fished at their maximum limit, and 24 percent are overfished, depleted, or recovering, up from 10 percent in 1974. Although global fisheries have increased their production by an average annual growth rate of 2.6 percent from 1988 to 2004, production is projected to slow to an average of 2.1 percent annually between 2005 and 2030 due to limitations in the world's supply of fish. While this may seem like a small numerical shift, the magnified effect on associated businesses will be substantial.[13]

Case Study

Addressing Resource Constraints

Concerned about forecasts of declining global fish stocks, McDonald's Corporation, a leading global foodservice retailer with more than 32,000 local restaurants in 117 countries, partnered with Conservation International, a nonprofit organization focused on a sustainable approach to development, to develop a sourcing strategy consistent with the Marine Stewardship Council's principles of sustainable fishing. McDonald's evaluates the sources of the fish that it purchases against specific criteria that allow the company to determine which species of fish are sustainably sourced and which are not. By 2008, the company was sourcing 98 percent of its fish from fisheries with favorable sustainability ratings. McDonald's investment in sustainable fishing improves the chances that the company will have a lasting supply of fish to serve its customers in the future. McDonald's Corporation Vice Chairman and CEO Jim Skinner explains: "We pursued sustainably sourced fishing not only because it was good for the world and the environment, but also because it is of great importance to the company." The cross-sector partnerships have added value by contributing expert guidance and reinforcing the credibility of McDonald's sustainability efforts.

5. The Market State: A New Era of Government Activism

Government expenditures as a percentage of GDP have been growing around the world since the 1970s, and nations are increasingly trying to attract and support business. As this trend continues, governments will also continue to take on a much bigger regulatory and support role across industries as they face pressure to foster economic growth, both to ensure their economy recovers from crisis and to maintain the long-term health of public finances. Some companies—and industries—will have to manage wholly new sets of regulations.

However, it is important to note that an increased government role is not always a constraint on business; it can also be an opportunity. For example, in the United States, the federal government used stimulus funds in 2009 and 2010 to advance a green-technology agenda in its aspiration to be the clean-energy leader of the 21st century and to put Americans back to work. Similarly, the Indian government's five-year plan for 2007 to 2012 includes enlarging its science and engineering workforce and related infrastructure. McKinsey's research indicates that this trend toward more activist government will increase over the next ten years, changing the playing field for companies in their home countries and abroad.

Implications for the Relationship between Business and Society

These five trends have significant implications for the societal issues business will have to address in order to mitigate the risks associated with some of the forces (such as talent shortages in key markets and natural-resource scarcity) and to benefit from others (like the opportunity of new markets in Asia). Some of these issues are described in this section.

Covering New Territory. Large multinational companies have already worked aggressively to offer their products and services in previously underserved markets. However, a high-potential new customer base has yet to be fully activated: consumers at the bottom of the pyramid (the nearly four billion people who earn less than $3,000 per person annually at purchasing power parity), who represent a $5 trillion market globally for innovative low-cost products in food, housing, energy, transportation, and health.[14] Reaching these customers not only requires developing right-sized products at affordable prices, but given the often poor or nonexistent

12. Jeffrey Mazo, "Asian Environmental Concerns," *Adelphi Series* 48 (400) (October 2008): 133–146.
13. Organisation for Economic Co-operation and Development, *OECD Environmental Outlook to 2030* (OECD, March 5, 2008).
14. 2002 purchasing power parity (PPP). Allen Hammond, William J Kramer, Julia Tran, Rob Katz, and Courtland Walker, *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid* (World Resources Institute/International Finance Corporation, March 2007), www.wri.org.

logistical infrastructure and the needs for consumer education and consumer finance or microloans, also will likely require policies, incentives, and social-support services that government, multilateral, and nonprofit partners can provide.[15]

Achieving More with Less. In a world of increasing resource scarcity and climate change, businesses can respond by creating more efficient products and production techniques, investing in research that leverages raw materials that are less at risk of shortages, and finding ways to help companies and consumers achieve their goals more sustainably. An example of this mind-set comes through in the remarks of Ken Powell, Chairman and CEO of General Mills: "Arable land is a limited resource, so crop and food productivity are of vital importance. Solutions require improved technologies and modern farming." Jim Rohr, Chairman and CEO of The PNC Financial Services Group, shares his company's experience with environmentally sustainable construction across the company's local branch offices: "Since 2000, PNC has built 100 sites according to green design standards, and has more newly constructed LEED certified buildings than any company on earth. Our experience with LEED has shown that green buildings lower costs, increase efficiency and improve employee satisfaction—and, as a result, are a wise investment for our company and our communities."[16]

> *The leaders of tomorrow will be those who are flexible enough to work with different cultures around the world.*
>
> —Christina Gold, The Western Union Company

However, reworking business strategy to make the most of these possibilities requires creating the mechanisms within a company that solicit and respond to the concerns of other parties, such as governments and nonprofits, which can alert companies to trends (or aspects of trends) they might have missed. Jim Rogers of Duke Energy puts it best when he says, "Running a business from a stakeholder perspective allows for sustainable value creation."

Tapping Top Talent. Shifting demographics and demands for highly skilled workers, while causing problems for many companies with offices in countries experiencing talent shortages, can be managed proactively over the next decade. Christina Gold, President and CEO of The Western Union Company, is keenly aware of the way these trends are shaking up the manner in which companies recruit, train, and retain talent: "With globalization comes labor migration. Over 200 million migrants cross borders, and 300 million move within their own countries. We are seeing mass movements of people to jobs. This is a huge opportunity for business, but it changes the types of talent we need to manage our companies. The leaders of tomorrow will be those who are flexible enough to work with different cultures around the world."

As with expansion into new markets, new infrastructure and social services will need to grow up to support these population shifts. Companies have a vested interest in the success of efforts to close the talent gap, so they must look for ways both to reduce demand (for example by leveraging information and communication technologies) and to increase supply (for example, by employing older workers and investing in skill development). Some of these strategies will involve working together with public- and independent-sector stakeholders to ensure that mobilized workforces flourish rather than flounder, closing the talent mismatch.

Proactive companies may reconsider retirement policies, provide more flexible and culturally aware training programs, and create systems that optimize globally distributed workforces. Additionally, to protect their future talent pipelines, forward-thinking companies must advocate for public education systems that adequately prepare future workers to meet the requirements of business.

Engaging New Voices. In an increasingly technologically connected world, businesses have unprecedented direct lines of communication with their customers and employees. However, collecting information and putting it to use are two very different pieces of the same puzzle. Further, as companies design the tools to capture and implement findings from traditional constituencies, they also have an opportunity to build robust feedback loops with other stakeholders who will play an important role in shaping the business landscape in 2020. In the face of oncoming regulation and activism, companies have an incentive to bring more partners into the conversation. Chad Holliday, former Chairman and CEO of DuPont, explains the

15. Hammond et al., *The Next 4 Billion*.
16. LEED is an internationally recognized, voluntary green building certification developed by the U.S. Green Building Council. It holds buildings to specific standards for environmental sustainability.

unexpected benefits of open dialogues: "Inviting local leaders to provide feedback on business plans might at first seem to add unnecessary delays and complexity—but often it elicits an even better overall solution and, in my experience, is well worth the effort." Further, companies will need to be increasingly diligent about communicating proactively and transparently about the consequences (good and bad) of their actions and hold themselves to international standards such as the Global Reporting Initiative, a sustainability reporting framework that has been adopted by more than 1,500 companies worldwide.

Winning on an Uneven Playing Field. As large multinational companies establish operations and target consumers in increasingly dispersed regions, they are faced with having to reconcile differing standards for corporate social responsibility and community involvement. Given the prohibitive cost of tailoring practices to each local context, the world's biggest companies often craft company-wide policies that meet the requirements of the most rigorous market, thereby exceeding the standards in all of the other markets in which they do business. Abiding by the easier-to-maintain higher standards (while local competitors meet only the lower regional standard) puts multinationals at a competitive disadvantage. Thus, the world's largest companies often face the extra cost of leading by example.

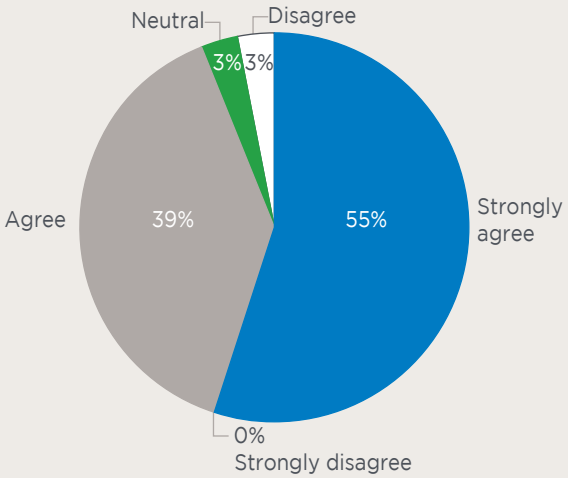
Further, 94 percent of CEOs polled at CECP's February 2010 Board of Boards conference agreed that they are increasingly being held responsible for their entire supply chain on social issues (Exhibit 2). Over the next decade, as corporate value chains become increasingly globalized and fractured, it seems likely that large multinational companies will need to enforce their high company-wide standards not just within their companies, but among all vendors and suppliers system-wide—or else incur the public-relations risks that occur when a supplier fails to enforce standards, triggering product recalls. Marilyn Carlson Nelson, Chairman of Carlson, describes the trend: "Business's role has always been to identify needs and to fulfill those needs in a competitive, efficient way. That role has been expanded to include the expectation that business will work in an environmentally and socially friendly manner, and to hold our suppliers to the same standards. It has become a competitive differentiator."

To overcome this challenge, business will need to green their supply chains, work in partnerships to establish voluntary industry standards for natural-resource

Exhibit 2

Companies are held responsible for their entire supply chain

"My company is increasingly held responsible not only for our own actions, but also for the actions of others in our value chain."



SOURCE: CECP Board of Boards CEO Conference, February 2010

use, and advocate for stronger and more universal government regulation of resources (such as a carbon emissions standard and water conservation measures). They will also have to cooperate significantly more with governments, communities, and society at large to secure access to scarce raw materials. It remains to be seen whether this will present a challenge in BRIC countries, which consistently ranked below the countries of the Organisation for Economic Co-operation and Development (OECD) on the World Bank's World Governance Indicator for regulatory quality, a measure of public perceptions of the government's ability "to formulate and implement sound policies and regulations that permit and promote private sector development."[17] The question is whether increased globalization will lead to a race to the bottom or a race to the top.

Partnering on Regulation. Growing mistrust in business over the past decade has led to a public call for greater governmental regulation of business. In 2009, 65 percent of consumers surveyed across 20 countries agreed that government should impose stricter regulations and greater control over business across all industry sectors in the future.[18] Indeed, some countries have already taken steps in this direction, with European countries

17. World Bank, "Governance Matters 2009: Worldwide Governance Indicators, 1996–2008, World Bank Web site, http://info.worldbank.org/governance/wgi/index.asp, accessed February 2010.
18. Edelman, "2009 Trust Barometer," *Edelman Trust Barometer 2009: The Tenth Global Opinion Leaders Survey*, http://www.edelman.com/trust/2009/ (survey of informed public, ages 25–64 in 20 countries).

Case Study

Setting Ambitious Internal Policies

Walmart

Wal-Mart has demonstrated leadership by setting bold goals to be supplied 100 percent by renewable energy and to create zero waste. These initiatives not only safeguard the environment and the sustainability of Wal-Mart's products, but also reduce energy costs and help the company build deeper relationships with local communities. The company works with leaders from supplier companies, academia, government, and nonprofit organizations to develop solutions to challenging business and social problems, such as reducing the amount of packaging in its supply chain in order to be packaging neutral by 2025. In 2009, Wal-Mart also announced plans to help lead a worldwide sustainability index that will label products in such a way that consumers can make choices and consume in a more sustainable way. As a first mover in this initiative, Wal-Mart has the potential to lead the entire consumer packaged goods industry toward greater transparency in product sustainability. According to President and CEO Mike Duke, "Being involved in social issues in most cases causes us to be a better business."

taking the lead. For example, Denmark recently passed the Social Responsibility for Large Businesses law, which requires the country's largest companies to include data about environmental, social, and governance issues in their annual reports. Some emerging-market countries are following suit. In China, for example, the Assets Supervision and Administration Commission in 2008 issued a directive that encourages state-owned companies to report on corporate social responsibility, and India in 2009 released a set of voluntary guidelines on corporate governance and corporate social responsibility.

In regions where governments are increasingly involved in business oversight, companies will need to partner with government and with other companies to help shape regulation or develop voluntary standards to head off regulation. Chad Holliday, formerly of DuPont, says, "I get very concerned when countries say they will set all the rules. That doesn't seem like a workable model. I think you'll find company leadership will push regulation, because we have a vested interest in the strict enforcement of good regulation."

TWO MAJOR UNCERTAINTIES

Despite the relative certainty of the aforementioned five trends, two uncertainties will ultimately dictate the climate for business and society in 2020. The first is the level and consistency of society's expectations of business. The second is the extent to which corporations take a leadership role in addressing societal problems.

Each of the two uncertainties can be viewed along a continuum and can be combined to create a matrix showing four potential scenarios for 2020 (Exhibit 3). On the vertical axis, society's expectations of business on the global level may increase or stagnate, depending largely on the way expectations evolve in developing markets and how closely they converge with existing expectations in developed markets. On the horizontal axis, business behavior on social issues can be fundamentally proactive or reactive. The remainder of this chapter reviews the two uncertainties and the four visions of 2020 that they create.

Uncertainty 1: Level and Consistency of Societal Expectations

Society's expectations for business are driven by a combination of factors, including government regulation, NGO pressure, consumer demand, and the level of mistrust in business (often influenced by news headlines and corporate scandals). Possible expectations range from a belief that companies must simply avoid negative social and environmental impacts to demands that companies address broader societal issues. A survey administered early in 2010, in the wake of the financial crisis, showed that 76 percent of consumers believed companies should be more involved in addressing public issues, yet a majority worldwide believed companies would return to "business as usual."[19] Andrew Witty, CEO of GlaxoSmithKline, explains: "Enron and the credit crisis damaged public trust in the private sector—particularly toward large companies. Rebuilding trust is core to collaborating with governments and society." Ken Powell of General Mills confirms the point: "There is no doubt that consumer tolerance for corporate missteps has never been lower and at the same time, regulatory oversight continues to strengthen." Over the next decade, companies can expect to face the harsh glare of societal expectations and the call for greater competitive restrictions that accompany a climate of mistrust toward business.

19. Edelman, "2010 Edelman Trust Barometer: An Annual Global Opinion Leaders Survey," Executive Summary, http://www.edelman.com/trust/2010/ (survey of informed public ages 25–64).

Lower consumer trust creates a difficult dilemma companies will need to address in the next decade: corporations can't do more if society is antagonistic toward their business-motivated incentives for getting involved. Still, companies also can't ignore market pressures, so they need to see a direct connection between the bottom line and their involvement to justify expanding their role.

Further contributing to the trend of rising societal expectations is the fact that when regional socioeconomic conditions improve, consumer expectations of business rise concurrently. Mike Duke emphasizes the point: "As economies advance, there is a greater focus on social issues. For companies to be successful in emerging markets, they will have to be out in front of those issues. China is a big growth market with a growing middle class and a growing focus on sustainability and responsible product development. That trend will only increase."

Uncertainty 2: Leadership Role of Corporations

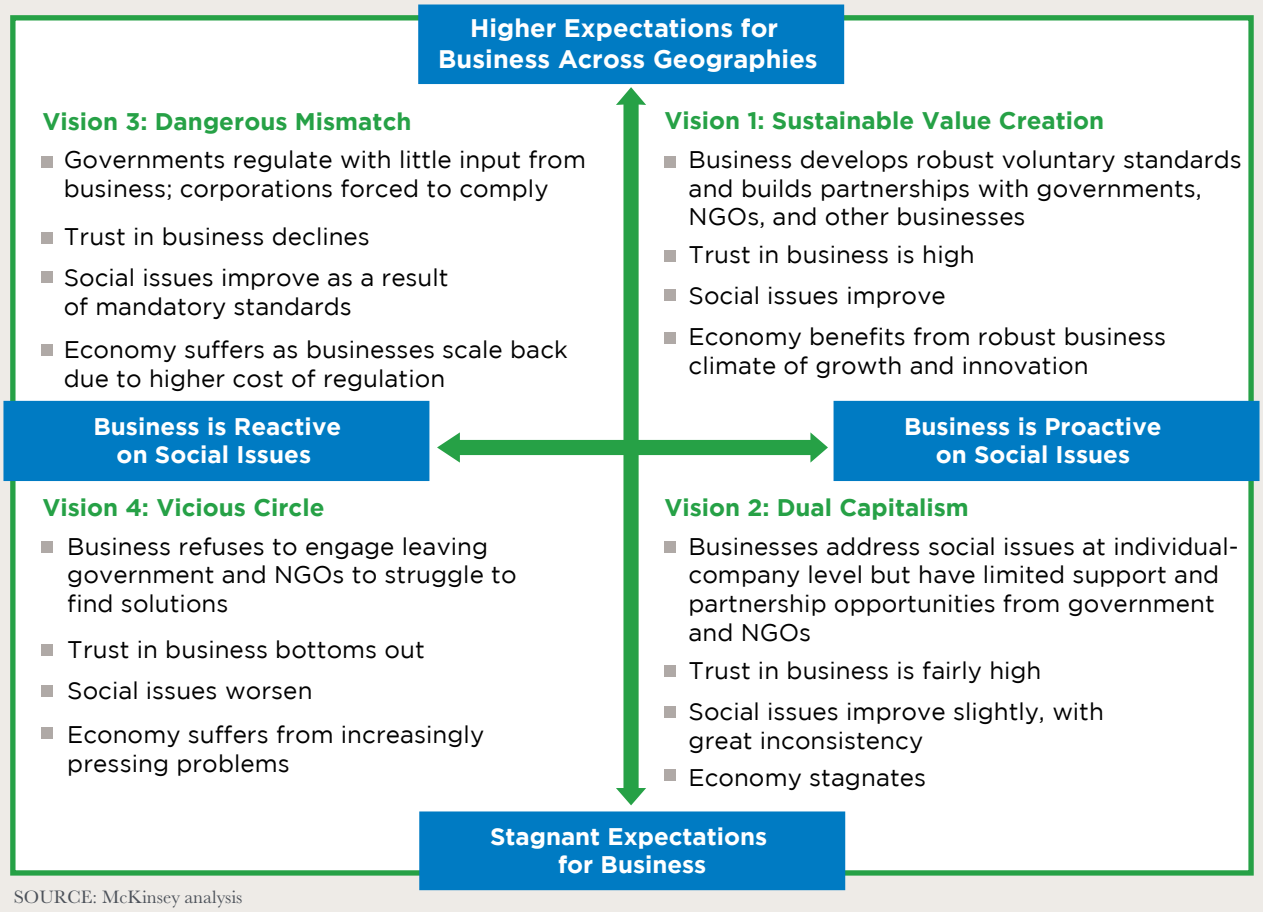
John Hammergren, Chairman, President and CEO of McKesson Corporation, highlights the fundamental tension today's leaders face in stepping forward on social issues: "A public company has a fiduciary responsibility to deliver the highest possible return to its investors. If social issues help us do that, then we can engage. If not, it is more difficult." Overall, however, trends suggest that companies will continue to integrate social values into their business strategies in the coming years.

Ultimately, the extent to which business takes a leadership role on social issues depends in large part on a few considerations:

- Business leaders' belief that doing so is critical to their bottom-line success (both in terms of creating opportunity and in mitigating risk)
- The extent to which stakeholders and shareholders support or demand such engagement
- The degree to which business expects it can uniquely achieve real impact on these issues

Exhibit 3

Four visions of business and society in 2020



SOURCE: McKinsey analysis

FOUR VISIONS OF BUSINESS AND SOCIETY IN 2020

To answer the question guiding this chapter (What will the next decade look like, and what are the implications for corporate involvement in solving social issues?), the relatively certain five game-changing trends were blended with the two key uncertainties to identify four distinct visions for what the climate for business will look like in 2020. These four scenarios are diagrammed in Exhibit 3. On the pages that follow, each quadrant is broken into its component elements. Ultimately, the optimal outcome for business and society lies in the upper-right quadrant: sustainable value creation.

In what quadrant do today's large multinational companies find themselves? Given consumers' level of mistrust in business and the wait-and-see attitude of many companies, they currently appear to be headed perilously toward the space between the dangerous mismatch and the vicious circle—a state of affairs that will require strong business leadership to improve.

Vision 1: Sustainable Value Creation

Exhibit 4 details the ideal scenario for 2020, which is achievable only if companies take steps today. In this scenario, society's expectations rise consistently and become more globally consistent, and consumer trust in business's motives rises, while business proactively engages in social issues, creating a win-win situation. A self-reinforcing cycle of trust in business and trustworthy and pro-social corporate behavior prevails. Collaboration drives positive change as corporations work with NGOs, governments, civil society, and other companies

Exhibit 4

Vision 1: Sustainable Value Creation

The Great Rebalancing	**Moving together:** Companies cooperate with watchdog agencies and consumers to enforce robust, voluntary standards across industries and geographies (e.g., product certifications, ISO standards), promoting greater international trade and greater opportunities for business to work and compete globally.
The Productivity Imperative	**Greater choice:** Business builds sustained partnerships with government and education institutions to advocate for appropriate training to meet future workforce demands. Industries help develop solutions to tackle long-term talent needs at a local and national level (e.g., training in math and sciences). Companies develop creative corporate programs to meet immediate talent needs, such as using retirees to train staff or teach at schools.
The Global Grid	**Mutual benefit:** Business views increased connectivity as an opportunity to better understand consumers and develop products and services to meet their needs, particularly consumers at the bottom of the pyramid. Companies actively use new social technologies to be transparent and receive recognition for proactive behavior.
Pricing the Planet	**Sustainable supply:** Businesses view sustainability as an opportunity and harness technology to develop innovative solutions to environmental and social issues (e.g., alternative energy, smart grids, desalination). Regulatory incentives guarantee markets for new sustainability innovations and encourage business to make long-term investments. Business and society together develop an enforceable strategy for protecting international resources.
The Market State	**Healthy economy:** Governments work collaboratively with business to compete to attract businesses that innovate for sustainable environmental and social solutions (e.g., stimulus funding for green job creation), and provide incentives to encourage the competitive global growth of successful companies.

SOURCE: McKinsey analysis

(perhaps including competitors) to invest strategically in forward-looking products, services, and social programs. Governmentally imposed regulation is largely replaced with self-imposed industry standards that simultaneously ameliorate social issues and create tangible financial results that support ongoing shareholder satisfaction. Scarcities of talent and of natural resources are transformed from threats to opportunities, social issues improve, and the economy sees robust advances due to a climate of continuous innovation.

Vision 2: Dual Capitalism

If large multinational companies step up to a leadership role while society's expectations and level of trust stagnate and remain inconsistent across geographies, a situation called dual capitalism emerges (Exhibit 5).

In this vision of 2020, companies are doing their part by engaging in social issues, yet they find themselves working without the benefit of governmental or nonprofit partnerships. Stagnant societal expectations feed uneven global regulatory standards (because self-imposed standards developed by business are not recognized), so there is great geographic disparity in the quality and consistency of efforts to address social issues. While there is some improvement on social issues, particularly when the problems pertain to a single company's operations, widespread social and business benefits are limited and sporadic. While trust in business is deservedly high, there is a lost opportunity for collaborative innovation and collective action on issues—such as talent and resource scarcities—that affect many players yet are dealt with individually.

Exhibit 5

Vision 2: Dual Capitalism

The Great Rebalancing	**To each their own:** Leading multinational companies more consistently meet best-in-class standards and push for improved social standards across their sphere of influence. Some globally competitive companies in emerging markets meet voluntary global standards, while others meet only minimum required standards. This creates an uneven and unpredictable playing field for multinational corporations.
The Productivity Imperative	**Managing the pipeline:** Companies try to solve their own talent shortage by investing in intensive employee-training programs and partnering with educational institutions to develop their own pipeline of employees (e.g., local scholarships to community colleges, deployment of retirees in schools) yet do not work to solve the problem at a systemic level.
The Global Grid	**Uneven application:** While some businesses actively use social technologies to be transparent about their social engagement, expectations are uneven across geographies, making it hard for leading multinational companies to maintain competitive positioning vis-à-vis less transparent competitors.
Pricing the Planet	**First-mover disadvantages:** Some businesses develop innovative solutions to address social issues (e.g., alternative energy, smart grids, desalination). Without consistent government incentives, investments are riskier and more capital intensive, and companies must fiercely compete for market share.
The Market State	**Protectionist policy:** Although businesses increasingly engage in social and environmental issues, protectionist measures and unevenly enforced regulations and incentives prevent companies from investing consistently in long-term solutions to social issues.

SOURCE: McKinsey analysis

Enron and the credit crisis damaged public trust in the private sector—particularly toward large companies. Rebuilding trust is core to collaborating with governments and society.

—Andrew Witty, GlaxoSmithKline plc

Vision 3: Dangerous Mismatch

A third scenario occurs when society's expectations of business rise while companies take a reactive (rather than proactive) stance on addressing social issues. In this dangerous mismatch (Exhibit 6), governments set regulations after little consultation with business, so corporate compliance with these regulations is unnecessarily costly. One consequence is that less capital is available for more productive uses, making companies less apt to invest in innovation. Progress is made on social issues due to strict—and strictly enforced—rules, but trust in business declines because corporations are perceived as apathetic.

Exhibit 6

Vision 3: Dangerous Mismatch

The Great Rebalancing	**Blunt instrument:** More uniform, stricter social regulations are enforced at a country level. Because business does not engage, it has little input in the development of regulations, which are broad and often impede innovation and global business growth.
The Productivity Imperative	**Expensive solutions:** Businesses are required by regulation to invest in higher levels of employee training. Businesses do not take advantage of opportunities to tailor programs to their specific needs. Protectionist regulation around immigration prevents companies from bringing in the talent they need. Businesses that lack sufficient access to talent become less competitive.
The Global Grid	**Watchdogs unleashed:** Increased connectivity between customers and greater expectations for businesses to address social issues combined with low business standards contributes to a wave of consumer backlash against the private sector. Business responds reactively to public protests and struggles to stay on top of the most salient issues. Public trust in business hits an all-time low, and consumer activism increases.
Pricing the Planet	**Quotas:** Stringent regulation on environmental issues constrains business growth and impedes business investment in innovative sustainability solutions. Business develops new products and services to comply with regulatory requirements rather than to seize new business opportunities.
The Market State	**Best of intentions:** Governments provide incentives for innovation around social issues. But because business is not engaged in developing the incentives, they are often misaligned with business needs.

SOURCE: McKinsey analysis

Vision 4: Vicious Circle

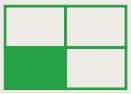
Lurking in the lower-left quadrant is the worst of all scenarios, the vicious circle (Exhibit 7). Inconsistent societal expectations and a disengaged business community combine to create a toxic downward spiral that is difficult to reverse. Businesses, governments, and civil society know they cannot solve social problems alone, but they lack the trust in each other that is necessary to spark productive collaborations. Without an effective and coordinated approach in place to resolve social problems, these problems escalate. Society's trust in business plummets, and the economy suffers as businesses struggle with the side effects of a deteriorating social fabric.

We all have to contribute to sustainable solutions over time—not any one group can do it alone. You cannot assume that everyone else will address the problem and that you do not have to engage. If we do not align ourselves and work in a collective way on these social issues, everybody will be worse off.

—Bill Weldon, Johnson & Johnson

Exhibit 7

Vision 4: Vicious Circle



The Great Rebalancing	**Race to the bottom:** Corporate standards and regulation are unevenly enforced across geographies. Leading multinational companies maintain status quo standards across all operating locations; companies based in emerging markets maintain lower standards. Leading multinational companies are faced with losing market share or lowering their standards in order to compete.
The Productivity Imperative	**Not enough, not where you need it:** Companies face increasing difficulty in finding qualified employees in the geographies where they are most needed. Business does not engage in education policy but bears a high expense for buying talent and needs to provide extensive employee training to make up the skills gap.
The Global Grid	**Whiplash:** Consumers in some geographies demand greater transparency of companies than consumers in other geographies. Global businesses are unable to plan for unpredictable/uneven consumer expectations and reactions.
Pricing the Planet	**Implosion:** Companies take a reactive stance to addressing resource scarcity, and they compete over access to limited supplies. Some resources (e.g., oil) are depleted irreversibly, while others (e.g., water) can be acquired only at prohibitively high costs. Business growth suffers globally as essential resources are constrained.
The Market State	**No help here:** Governments take a dominant role in global economies and do not engage with businesses to spur economic development. Governments become protectionist and apply regulations unevenly across geographies, limiting business growth and innovation.

SOURCE: McKinsey analysis

TOWARD SUSTAINABLE VALUE CREATION

The status quo is to remain caught between the dangerous-mismatch and vicious-circle quadrants, with the associated costs and missed opportunities that those scenarios entail. How can companies begin to move decisively toward sustainable value creation? As Duncan Niederauer, CEO of NYSE Euronext, observes, "You can't just snap your fingers and be socially responsible." Strong executive leadership is needed to jump-start a proactive approach to social engagement.

Progressive CEOs already recognize the importance of this kind of engagement. As shown in Exhibit 8, 100 percent of the CECP-member CEOs polled believe they should engage on social problems that are important to their businesses, with most of them split between whether the best approach is to drive the solution or to collaborate (a decision that ultimately depends on the specific situation).

Addressing complex global challenges will take significant effort, time, and innovation. Although this may seem daunting, companies can adapt their business models to respond to social trends in much the same way they address any other business problem. The skills and aptitudes are already present in all companies. The next chapter addresses how to begin this strategic planning process and take the first step.

Exhibit 8

CEOs agree that engagement in social issues is critical

What do you think is the appropriate role of a company in solving a social problem that is important to its business?

SOURCE: CECP Board of Boards CEO Conference, February 2010

More will be expected from market leaders and globally successful companies, and those companies who are most involved will be most successful, creating an upward spiral.

—Mike Duke, Wal-Mart Stores, Inc.

CHAPTER 2:
Maximizing Profitability and Societal Impact

Of the four distinct visions for 2020 laid out at the end of Chapter 1, arriving in the optimal win-win quadrant, sustainable value creation, requires that companies overcome the longstanding tension between delivering shareholder value and engaging in social issues. This tension and its relationship to traditional corporate philanthropy are outlined in the first section of this chapter.

The next section discusses the importance of identifying the oncoming social issues that fall most directly in a company's strategic field of vision—not just the philanthropic vision, but the larger ambitions of the company as a whole. The section also provides a diagnostic tool to help companies assess their degree of readiness for sustainable value creation. Companies must then ensure that their ambitions don't suffer at the hand of poor execution. Creating the right corporate structure and measuring and communicating results are key aspects of this part of the process, as outlined in the third section, "Delivering Win-Win Solutions."

Finally, this chapter delves into the topic of collaboration. Oncoming social issues are projected to require much deeper and broad-based coalitions. Large-scale collaboration is complex, and the chapter finishes by suggesting new frameworks to consider in the drive toward breakthrough results.

PREPARING FOR LEADERSHIP

Companies have historically been able to justify a fair amount of corporate community involvement without spreadsheets and calculations of return on investment. In the United States, hard-to-quantify business benefits such as improved employee recruitment and retention, strong corporate reputation, and maintaining society's permission to carry out business activities—known as the "license to operate"—have created an environment in which businesses annually contribute roughly 1 percent of their pretax profit to charitable purposes.[20]

However, reaching the scenario of sustainable value creation in 2020 requires that companies far exceed traditional business-as-usual community investment strategies. But how can they? To go beyond their current levels of engagement, publicly held and privately held companies alike need substantive proof of tangible returns to the business.

Not a Zero-Sum Game

Many of the CEOs interviewed for this research cited the difficulty of reconciling the market's constant pressure to deliver quarterly earnings with the longer-term time frames required to achieve social impact (and the associated business benefits). Ivan Seidenberg, Chairman and CEO of Verizon Communications, explains: "Globalization brings with it intensifying competition, putting more earnings pressure on companies. There is less room for allocating resources to initiatives that do not result in quarterly returns. This has always been an issue, but it becomes more prevalent in a hyper-competitive world."

In the eyes of many business leaders, this tension appears irreconcilable: the more resources dedicated to social issues, the less money there is to put to work in the service of shareholder returns. Yet freezing corporate involvement at its historical levels potentially leaves significant unrealized potential on the table, because it restrains companies from applying the full scope and scale of their resources to society's most pressing ills. Marilyn Carlson Nelson of Carlson argues, "Some of the issues we are facing, like rising gas prices, which are already causing

20. Committee Encouraging Corporate Philanthropy, Benchmarking Tables, "Giving in Numbers," Editions 2006-2009 (CECP, 2009), http://www.corporatephilanthropy.org/resources/benchmarking-reports/giving-in-numbers.html

Case Study

Building on Core Competencies to Address Social Challenges

The Dow Chemical Company, an industry leader in the specialty chemical, advanced-materials, agrosciences and plastics businesses with sales of $45 billion annually, has encouraged innovation through its Breakthroughs to World Challenges program. The goal of the program is that by 2015, Dow will achieve at least three breakthroughs that significantly improve the world's ability to solve the challenges of affordable and adequate food supply, decent housing, sustainable water supplies, or improved personal health and safety. The breakthroughs are to meet these global needs by building on Dow's ability to develop new technologies with innovative chemistry, manufacturing processes, or delivery mechanisms in a manner that supports the company's future revenue streams. In one such initiative, the company has applied Dow's understanding of plastics and water purification to invest in a new, inexpensive water filtration system and has created a partnership with a social entrepreneur in India to collaborate on distribution and sales mechanisms. The end result will be the development of an innovative business model for selling these products at market-appropriate prices to communities without a safe water supply, thus meeting a social need while contributing to Dow's bottom line.

geopolitical unrest, take longer to address. I don't think that many companies think generationally, but increasingly we're going to have to." For this reason, judiciously choosing the social issues on which a company will take a leadership role is paramount.

Opportunity for Value Creation

For a company to achieve sustainable value creation, the selected social issue must offer a potential source of real competitive advantage either by increasing revenues or by reducing risks and operating costs. In this way, social issues that support sustainable value creation resolve the tension between societal and business pressures because society and the business simultaneously enjoy tangible benefits. Applying this strict criterion to the social issues in which a company chooses to get involved narrows the list of relevant social issues considerably. But the remaining issues are those on which a company might take an active leadership role, given the inherent competitive potential.

Beyond Philanthropy?

Social issues that meet the standard of sustainable value creation bump up against longstanding definitions of philanthropy and community involvement, and raise important questions: If the business is explicitly enhancing its profit along the way, is it really altruism? Isn't that just good business? In light of the explicit profit motive, it's easy for external stakeholders to be cynical about companies taking action of this kind. But seen from the opposite point of view, satisfying the financial expectations of the company's owners (shareholders, for public companies) is paramount—unless you don't mind being fired. The crux of the issue, then, is execution, as discussed later in this chapter.

Unique Assets

A further benefit of companies extending themselves beyond the traditional boundaries of philanthropy by aiming for sustainable value creation is that they can apply distinctive capabilities and resources to social issues that individuals, governments, and independent-sector contributors cannot. While many companies already put these resources in service to the public good, pursuing sustainable value creation opens up the opportunity to leverage these assets in a manner that is more deeply intertwined with corporate strategy.

As Exhibit 9 shows, 60 percent of surveyed CEOs say it is necessary to take a proactive approach to solving social problems important to their business because they are in a unique position to make a difference. When assessing a company's potential for leadership on issues associated with sustainable value creation, it is important to remember assets such as marketing channels, project management skills, in-kind resources (product, physical assets, and intellectual property), financing expertise, legal expertise, negotiating skills, international reach, vendor relationships, and logistics infrastructure. Duncan Niederauer of NYSE Euronext confirms this view: "There are more ways to make a difference than just writing a check. We can also move the needle on important social issues through involving our time, brand, and resources."

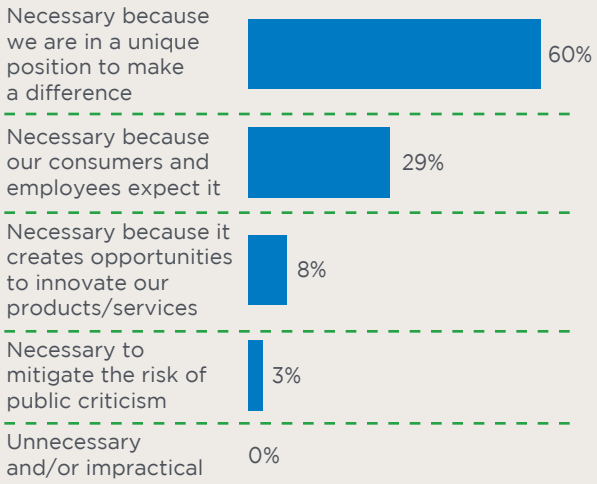
Although intangible, a unique asset of business is its ability to take small financial risks that other stakeholders

> *I don't think that many companies think generationally, but increasingly we're going to have to.*
>
> —Marilyn Carlson Nelson, Carlson

Exhibit 9

CEOs recognize that business has a unique role to play in addressing social problems

Complete this sentence:
"Taking a proactive approach in solving social problems that are important to my business is . . ."



SOURCE: CECP Board of Boards CEO Conference, February 2010

might not be at liberty to take. Small investments in pilot programs—made either directly or through philanthropic foundations—can be useful in uncovering innovative proof-of-concept solutions that governments and foundations can then carry forward. In these situations, the company is playing a catalytic role in an issue area that is important to the business. This approach benefits all parties: the company does not need to remain involved over an unwieldy time horizon, and the government and other stakeholders benefit from proven solutions that are more easily communicated to their constituencies. Further, all parties share in the ultimate benefit: an improvement in the social issue originally targeted. Verizon's Ivan Seidenberg explains: "Our belief is that corporate philanthropy expands the business. If you do the right thing over time, you expand the capabilities of your customer base, business and society." Sharing his own positive experience, Aetna's Chairman and CEO Ron Williams says, "Through philanthropy, we can help develop new models and programs that can be brought to scale by the government."

MOBILIZING THE ORGANIZATION TO LEAD

"If you want to maximize your achievement and investment, you can't simply be reactive. You must lead, and that requires you to be ready, well informed, and proactive. You can't make an impact on something that you don't understand," says Stanley S. Litow, Vice President of IBM Corporate Citizenship and Corporate Affairs and President of the IBM International Foundation. Indeed, as shown in Exhibit 10, a resounding 77 percent of CEOs surveyed agree with this sentiment and believe that embedding social engagement into the company's overall business strategy is the best way to embark on a path toward sustainable value creation. The recommendations, tools, and case studies in this section provide concrete steps for seizing opportunities to create competitive advantage.

Selecting the Right Social Issues

Social issues that yield an unambiguous business gain are at the heart of the concept of sustainable value creation. In its most basic form, when companies are evaluating potential social issues on which the company might take a leadership role, the question they must ask themselves is this: Will working to help address this social issue also help my firm create a tangible competitive advantage?

How does a company identify such issues? At a practical level, there are a number of systems companies can implement to

Exhibit 10

Embedding social engagement into business strategy is seen as the most important action that a CEO can take to prepare for 2020

Which one of the following actions could you, as CEO, initiate today to best prepare your company to address the social problems that will affect your business in 2020?

SOURCE: CECP Board of Boards CEO Conference, February 2010

scan for issues and opportunities. Corporations can gather information about evolving trends by tracking legislative agendas, examining media trends, and interviewing internal and external stakeholders to gather their views on what issues are taking shape. Shelly Esque, Intel's Director of Corporate Affairs and President of the Intel Foundation, advises, "Broaden your view of a problem by reaching out to your partners for their input. Then be disciplined, and actually spend the time necessary to plan for the future in all aspects of your business so that you can implement against long-term goals." While the investment in establishing this expertise may seem expensive, these commitments are analogous to venture capital investments or R&D projects.

Exhibit 11 provides a tool that companies can use to determine whether a social issue is truly integral to the success of the business. Companies will need to address many relevant issues where there are stakeholder expectations, but they should take the lead on issues that are integral—where societal expectations are high and there is a significant impact on the business's profitability.

For manufacturing companies, a sound beginning when using Exhibit 11 might entail a careful analysis of the supply chain: raw-material acquisition, production, distribution, sales, product use, and recycling/disposal. A company might outsource many of these steps, sometimes to thousands of vendors, but that does not preclude them from consideration. The aim of this exercise is to challenge the tacit assumptions that underpin the functioning of the supply chain. Following are two examples of such assumptions, along with countervailing questions that encourage a sustainable value creation approach:

Assumption #1: "Local manufacturing facilities are necessary to compete in our business, but our company cannot establish one in rural India, because the high-quality inputs we need cannot be sourced locally."

Sustainable Value Creation Approach: "Can we partner with the local government and NGOs to develop infrastructure and training programs to foster a local market for the inputs we need?"

Assumption #2: "Employee turnover rates in some of our factories cannot be improved, because the malaria epidemic is simply intractable in those areas."

Sustainable Value Creation Approach: "Can we work with our competitors, who are similarly affected, to craft a public treatment program that local NGOs can help design and administer locally?"

Case Study

Incorporating Social Issues into Business Strategy

GlaxoSmithKline, a global pharmaceutical company with an estimated 7 percent of the world's pharmaceutical market, announced a new strategy to transform the company's approach to diseases that disproportionately affect the world's poorest countries. The strategy builds on commitments to decrease the prices of, and improve access to, its medicines in the Least Developed Countries (LDCs). According to CEO Andrew Witty, "We recognized that we have a number of resources that would be helpful to these countries. For me, this was an area of social failure that we could begin to make small inroads on."

As part of this initiative, GSK adopted a range of flexible pricing models for its patented medicines and vaccines so that these essential products are affordable for customers in LDCs yet still profitable for the company. Through innovative cost-cutting measures and a tiered pricing model for countries at different levels of development, GSK has cut the cost of its medicines in LDCs to no higher than 25 percent of the price in the developed world. GSK also took the bold move to be flexible with its intellectual property rights on its patents, medicines and knowledge to stimulate new research into neglected tropical diseases. The company believes these initiatives will not only provide greater access to essential medicines, but also expand the customer base for GSK products into low- and middle-income markets that could not afford them previously.

GSK also provides philanthropic support for issues outside the company's core business that are integral to the success of its global health goals. In 2009, the company committed to reinvest 20 percent of the profits made from medicines sold in LDCs back into projects that widen access to health care and strengthen the health care infrastructure in these countries.

Structured questioning along the value chain is apt to produce a list of issues for further investigation; these issues can be prioritized based on their potential gains/losses to the business. Leadership is required if the cost of inaction exceeds the cost of action.

As one final hurdle, companies are advised to forecast how the social issues under consideration will evolve over time. Will they change in ways that bring them closer to or further from the trajectory of the business?

Exhibit 11

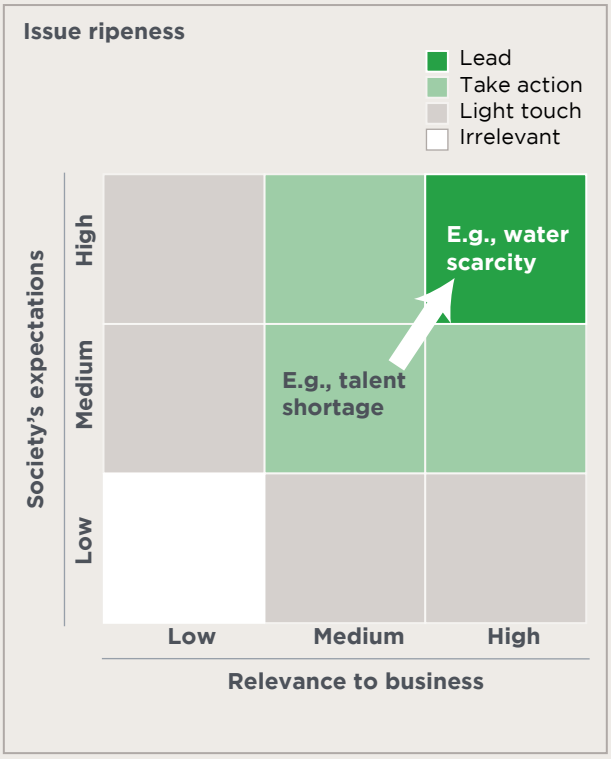
Issue ripeness, a tool for picking where to get involved

Society's expectations

- Perception of the severity of the issue to current or future generations
- Perception of company's capacity to affect the issue
- Perception of company's responsibility for the issue
- Potential to push for regulatory change
- Potential for consumer/employee backlash
- Willingness of stakeholders to collaborate

Relevance to business

- Evidence of gravity or magnitude of issue on the company, now or in the near future
- Core competency of the business to address the issue
- Legitimacy of the company as a leader on addressing the issue
- Potential for new business opportunities
- Resonance of issue with company values and core competencies



SOURCE: McKinsey analysis, expert interviews

Scoping the Issues

As with any potential opportunity, a company needs to begin with a clear-eyed appraisal of its ability to succeed. In light of the specific issue and the time horizon needed to make a difference, how prepared is the business to get involved? As comes naturally to corporations, the first step is building a fact base around the issue—taking a deep dive into understanding the landscape of others already participating, the current state of research, predictions as to how the problem will evolve over time (which greatly influences the strategy), the problem's cost to the company, and the root causes or interconnected social issues at play.

Although wild-card issues will catch even well-prepared companies by surprise, companies can establish systems that allow them to respond to critical issues quickly and effectively. Tools such as scenario and contingency planning, flexible decision-making structures, and preapproved budgetary and resource authorizations are just as important when dealing with social issues as they are in other departments throughout the company. Often, however, social issues that appear to have surfaced abruptly might actually have been predicted if the company had actively listened to key stakeholders and employees. Aetna's Ron Williams stresses the importance of preparing employees to deal with emerging issues: "Use your talent development and management programs to give people the experiences they need to prepare for future trends. Also, educate your board of directors so they appreciate the importance of social issues in the context of business strategy."

Getting Started

Exhibit 12 presents a diagnostic tool that can be helpful for assessing how well prepared a company is to meet the challenge of sustainable value creation. The exhibit's questions are not comprehensive but capture the types of questions a company might ask at this stage. For example, a company facing a talent shortage in a community in which it has substantial fixed assets might target dropout rates at local vocational schools as one means of solving its human resources problem. In researching the issue, however, the company may discover that the vocational schools are unsuccessful due to larger, entrenched social issues that the company is less equipped to combat on its own. In that case, strategic analysis must begin in earnest.

Exhibit 12

Assessing preparation for chosen social issues

	Does the company understand the issue?	Is the company prepared to act?
The Great Rebalancing	■ What are the specific social issues that will arise from the shift to emerging markets? ■ What risks and opportunities does this shift create for your business? ■ In which geographies will business be at an advantage/disadvantage due to unequally applied regulation?	■ Do you know for which issues you are willing to fight, make concessions, or leave a country? ■ Are you involved with shaping the voluntary regulations for your industry?
The Productivity Imperative	■ What skill set will your future workforce need? ■ Will there be sufficient talent for your industry in the future in all of the geographies in which it operates?	■ Do you have a plan to educate and retain talent (e.g., employee-training programs, flexible work for retirees)? ■ Do you have a strategy in place to assure a pipeline of future employees (e.g., partnerships, advocacy for education, immigration reform)?
The Global Grid	■ What social issues are top of mind for your consumers and could create risks or opportunities for your business? ■ What is the effect of increased transparency in your business (e.g., changes in consumers' expectations of business and associated purchasing behaviors)? ■ Does new media give you new opportunities to utilize your business to solve social and environmental problems?	■ Does your organization use technology to maintain a dialogue with civil society and the public sector, as part of its corporate reputation strategy? ■ Does your company use new technology to solve social and environmental issues?
Pricing the Planet	■ What are the resources that your company and its supply chain require for operation, and which of these are at risk of scarcity? ■ How does impending scarcity of essential resources affect the growth of your business? ■ What factors are contributing to resource scarcity?	■ Are you looking for opportunities to reduce your corporate environmental footprint? ■ Are you pursuing business opportunities that alleviate resource scarcity?
The Market State	■ What is the government's position on social issues in the geographies that you operate in? ■ What are the risks and opportunities associated with the government's position? ■ Are there specific government incentives, regulations, contracts, or purchasing trends that will affect your business? ■ How open is government to collaborating with business in each of your company's geographies?	■ Have you planned for different scenarios that will be affected by government behavior?

SOURCE: McKinsey analysis, expert interviews

Case Study

Managing Supply Chain Risks for Sustainable Value

Beyond simply managing the risks of suppliers' day-to-day practices, some companies also consider suppliers' long-term viability. Nestlé, the world's leading nutrition, health and wellness company with factories or operations in almost every country in the world, is following a strategy it calls Creating Shared Value. This way of approaching the company's core business activities is built on the idea that for the business to be successful in the long run, it must consider the needs of two primary stakeholders at the same time: the people in the countries where it operates and its shareholders. As an example, for about 40 percent of its supply of milk and 10 percent of its coffee, Nestlé goes beyond simply purchasing from farmers and agricultural communities to taking an active role in ensuring their long-term success. Nestlé promotes agricultural development by building infrastructure, training farmers (with no obligation to sell to Nestlé), and paying producers directly, rather than middlemen. In addition, Nestlé, which deals with 540,000 farmers around the world, made microfinance loans to the value of CHF 48 million available to farmers in 2009. Nestlé's involvement in building the capacity of local farmers creates higher-quality agricultural output of the commodities that become inputs to Nestlé products. The strong relationships also safeguard a reliable supply to Nestlé factories, even when the overall market may experience shortages. In 2007, for example, the price of milk powder on the world market soared, but through its direct links to farmers, Nestlé was able to mitigate the supply and price risks in certain parts of the world while garnering reliable value for all stakeholders from farmers to consumers.[21]

DELIVERING WIN-WIN SOLUTIONS

A handful of cutting-edge companies have already taken the first steps toward sustainable value creation and, in doing so, have discovered that choosing the right social issue and assessing their preparedness to tackle the issue are only important beginnings. As mentioned previously, execution makes a big difference not only in the company's success in reaching its business and social goals, but also in the broader community's perception of the progress being made. If companies collectively hope to reach sustainable value creation, as outlined in the scenarios presented in Chapter 1, the first step is to embed the mind-set of value creation internally. Once programs are under way, measuring and communicating the results are the cornerstones of continuous improvement.

Value Creation Mind-Set

In a 2009 McKinsey & Company survey, two-thirds of chief financial officers and three-quarters of investors agreed that environmental, social, and governance activities drive value for shareholders (and solid majorities of both groups said they expected to add more value in the next five years).[22] Further, a McKinsey analysis of individual corporate case studies across a range of industries provides further evidence that in each of the dimensions of value the market typically assesses—growth, return on capital, risk management, and management quality—social programs can make a significant contribution.[23] For example, a well-crafted strategy on social problems can lead to the opening of new markets, the development of new products, opportunities for increased operational or workforce efficiency, and leadership development (among a host of other benefits). This and similar research can be used to foster a deeper understanding throughout the company and help ensure that the social benefits and the tangible financial impact for the business are considered in program design and execution.

Adapting the Corporate Structure

As with any other new venture, progress on sustainable value creation will not succeed if execution responsibility is relegated to a small team hidden within a larger department or, worse yet, individual contributors scattered around the globe. While it might be appropriate for a small, dedicated group to lead the analysis and build stakeholder relationships, eventually the rest of the company needs to be positioned to act on the insights that surface from this process. Conversely, essential strategic information is likely to be tucked away throughout the major divisions of a company, and the members of the group focused on sustainable value creation would be well served to gain access to their peers across the firm. For example, human resources, customer support, sales, R&D, and other departments each have a window into a slice of the business that may provide information highly relevant to this type of challenge. As with any major strategy-setting program, company-wide access is important for ensuring the plan is sound.

21. For more information about Nestlé's commitment to Creating Shared Value, please visit www.creatingsharedvalue.org.
22. "Valuing Social Responsibility Programs," *McKinsey Quarterly*, (December 2008).
23. "Valuing Corporate Social Responsibility: McKinsey Global Survey Results," *McKinsey Quarterly* (February 2009).

Case Study

Preparing Employees for Leadership

IBM takes a proactive approach with its Corporate Service Corps program, which it often refers to as a "corporate version of the Peace Corps." This initiative sends teams of its best emerging leaders, 500 a year, to perform community-driven economic-development projects of significant value in Africa, Asia, Eastern Europe, and Latin America. The completion of these job-creating projects not only prepares the company for growth in pre-emerging markets and helps develop high-potential employees and executives to lead, but also ensures that IBM's next generation of leaders has well-honed teaming skills, global awareness, and cultural intelligence—critical ingredients for leadership and for capturing opportunities for sustainable value creation.

Credibility and Empowerment

Those tasked with leadership on strategic social issues must have clear credibility in the corporate hierarchy. But as everyone with experience in large corporations knows, not every senior job title carries with it commensurate power and influence. The position requires the right person with the sufficient authority in the company to enact real change. Performing well in this new position—and maintaining credibility—will likely require a higher-order skill set than is typically expected from someone managing this area of operations (perhaps including profit and loss experience, deep industry knowledge, government relations aptitude, and demonstrated strategic planning). In a McKinsey & Company sustainability survey conducted in 2010, only 27 percent of companies reported that a C-level person held this responsibility—a situation that will need to change if business is to capitalize on the opportunity for sustainable value creation by 2020.[24]

Measuring Results

"Be really obsessed with reality," advises Chad Holliday. He adds, "I get very concerned about senior executives at any organization who are not in touch with how things are really done, and the problems their employees and suppliers are dealing with. Set up systems to stay in touch with reality, or you might be missing important information." This call to action around measuring and monitoring the external environment—and the effect the company's programs are having on that environment—is widely shared by the other CEOs interviewed for this research. Mike Duke corroborates this notion: "There is definitely a need for measurement. Evaluation can be one of the most challenging aspects of engaging in a social and environmental issue, yet if our activities are not measured, they lose their importance." As stated previously, social issues also evolve over time, making ongoing measurement a clear priority.

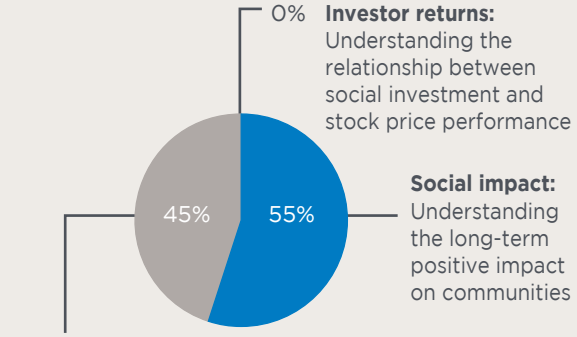
However, CEOs polled are split in their opinions when asked which side of the equation is most important to measure: 55 percent name social impact, and 45 percent choose business benefits (Exhibit 13). Alcoa's Chairman and CEO Klaus Kleinfeld advocates both: "First you measure the direct impact of what you do: the social impact. Then you measure the indirect impact: business impact. In the end, investors do see a return."

CECP's recent monograph, *Measuring the Value of Corporate Philanthropy: Social Impact, Business Benefits, and Investor Returns*, available as a free download from the CECP Web site, provides deeper guidance on these issues, including tools, frameworks, and case studies.

Exhibit 13

CEOs focus on social impact and business benefits

Which aspect of measuring the results of corporate community engagement is most valuable to your company?



SOURCE: CECP Board of Boards CEO Conference, February 2010

24. "How Companies Manage Sustainability: McKinsey Quarterly Global Survey," *McKinsey Quarterly*, (March 2010).

Communication

Given that the first uncertainty highlighted in Chapter 1 is the level and consistency of society's expectations of business, the degree of public mistrust toward business is central to understanding which vision of 2020 will prevail. Thus, open and transparent communication is fundamental to the success of a strategy aimed at shared value creation. While communication is important, it needs to be built on transparency and action, not spin. Andrew Witty notes, "The minute you start to spin your message, you risk unraveling. Communication is about speaking in a language society understands. I suspect that business has lost touch with that language over the years, which has something to do with the erosion of trust in companies."

Under the intense pressure of the market, companies also need to improve in communicating the financial value creation of social activities. While reporting on corporate social responsibility (CSR) and community involvement programs has increased, a McKinsey survey from 2010 showed that 62 percent of companies do not communicate their sustainability activities to investors.[25] Companies will need to improve how well they measure and communicate the value of their social activities, both to society and to their investors.

Case Study

Engaging in the Policy Debate

Bringing together thought leaders around a policy issue can generate real returns for companies and communities. The Western Union Company, a global leader in money transfer services with agent locations in over 200 countries and territories, convenes forums among policy makers, businesses, civil-society organizations, and academic institutions to advance the debate about immigration and migrant rights. With over 200 million people working outside of their country of birth, sending billions of dollars to their families back home every year in the form of remittances, Western Union sees a clear business benefit from engaging in the immigration debate to help these potential customers succeed in their new communities. Western Union's Christina Gold confirms, "We feel that it is our obligation to be a voice for our customers." Supportive of the effort is leading edge research that helps drive dialogue on the issue, which can promote positive effects on customers' quality of life, which in turn is good for business.

COLLABORATING TO CREATE SUSTAINABLE VALUE

One crucial conclusion of this report is that the five forces and two critical uncertainties described in Chapter 1 point to a need for increasingly sophisticated collaborations as 2020 approaches. Depending on the scope and scale of the issue and the ambitions of the company, social issues that are ripe for sustainable value creation may require the company to take part in reconciling incentives and work flows for institutions spread across multiple sectors and geographies and performance management systems.

In addition to already-familiar types of collaborations, over the next decade companies will increasingly participate in collaborations with a problem-solving focus, including joint product development, pooled financing structures, voluntary standard creation, and asset sharing. Tomorrow's collaborations are also predicted to involve a more diverse group of partners, such as think tanks, sovereign wealth funds, multilateral banks, and private philanthropic foundations. Even familiar collaborative structures, such as research collaborations and open-source consortia, may create new possibilities, depending on how they are approached and the diverse partnerships they bring together.

This section offers insight into several decisions: when to partner versus collaborate, how to decide whom to work with, how to sidestep the most common collaboration pitfalls, and what new ideas on the institutions and collaborative models are likely to become more prevalent. Early examples of these models are highlighted throughout this section to provide insight into how companies might prepare now for the changes ahead.

Deciding When to Collaborate

The poll results in Exhibit 14 capture the conundrum in which many large multinational companies find themselves as they think about the best way to prepare for the decade ahead: social issues are overwhelmingly complex, but collaborating with other stakeholders is similarly daunting. In essence, these results say, "We know that most social issues are too big for us to tackle alone, but we also know that establishing and managing successful partnerships is extremely difficult."

Given this dilemma, each company needs to analyze the dynamics of its situation to determine whether to embark on complex collaborative arrangements:

25. "Rebuilding Corporate Reputations," *McKinsey Quarterly* (June 2009).

Exhibit 14

Barriers to advanced preparation

What is the biggest barrier your company faces today in preparing to address the oncoming social problems that are important to your business?

SOURCE: CECP Board of Boards CEO Conference, February 2010.

Companies ought to minimize the number of partners they engage with when they:

- Derive a competitive advantage from being the first among their peers to get involved;
- Have an opportunity to play a unique catalytic role; or
- Must respond immediately to protect the company from an impending threat.

By contrast, it makes more sense to collaborate broadly when:

- Doing so creates gains that no single player could achieve individually;
- The complexity of the targeted social issue requires broad skills and experience; or
- A large constituency (of which the company is a member) benefits from unified action.

Many companies find that targeted partnerships are the most effective means through which they can address social issues that affect their business, in evidence throughout several corporate case studies featured in this chapter. Conversely, the escalating problem of water scarcity provides a prime example of a social value creation issue that requires broad collective action: in water-stressed communities, no single actor can assure that there will be sufficient supplies of potable water for future generations. While companies are individually accountable for their own water efficiency and that of their suppliers (an issue that typically falls under the aegis of a corporate social responsibility officer), coordinated cross-sector efforts are needed to protect and renew fresh water supplies.

Collaborations of this type might involve creating voluntary standards on water usage; co-investing in research for more environmentally friendly and cost-effective desalination plants; working with NGOs and government agencies to safeguard public water resources; and participating in voluntary corporate policies and operations such as the CEO Water Mandate. Over the next decade, many companies are likely to face challenges of this "higher collaborative order," suggesting that there are steps to take now to adapt to new ways of working with other stakeholders.

Managing the Complexity of Social Issues

Companies are inherently equipped with the tools and resources to make seemingly overwhelming social issues more manageable. Core competencies of any business include the ability to establish a fact base, deconstruct the issue, perform an analysis of root causes, identify potential partners, empower talented people with the job titles and associated credibility to get results, and develop an action plan to achieve quick wins to prove/disprove the model. This is why internal company preparation is a necessary prerequisite to any large-scale collaborative effort.

Affirming the model, Alcoa's Klaus Kleinfeld states, "If you break issues down into digestible chunks, natural owners will emerge. Companies can come together to analyze the components of the project and prioritize its component pieces." As the facts become clearer, the members of the collaborative group can begin to identify natural owners for each facet of the problem. In the example of regional water scarcities, technical solutions may more naturally fall to business, whereas pricing, regulation, and monitoring may more naturally go to multilateral institutions, governments, or independent sector actors.

In some cases, the same group that identified the problem may be the right group to solve it, but it is more likely that there are two distinct stages to collective action: defining the problem and enacting solutions. Partners should ensure that the partnership stays relevant and focused on its goals, and that it disbands when action by another group becomes more appropriate.

New Frameworks for Collaboration

As a company prepares to act on an issue it has decided has the potential for sustainable value creation, it should think creatively about which new organizations might sensibly be brought into the fold, and what novel types of activities the company might undertake itself. At present, when CEOs think about identifying the most important collaborators in solving social problems important to their business, they are evenly divided between nonprofits and companies in their industry or supply chain (Exhibit 15). In the near future, however, the full list of answer

choices in Exhibit 15 might begin to look like a relic from a simpler time. Exhibit 16 identifies a diverse group of potential partners likely to be relevant for companies with a serious bent toward sustainable value creation, as well as a variety of organization structures and activities for the collaboration. The three lists in the exhibit function as a reminder of the differing structures and institutions that may allow for new collaborative breakthroughs in the future.

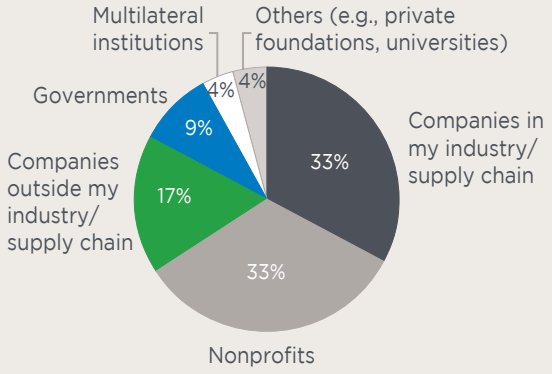
When choosing a partner, organizations should consider the following questions, which are likely to help identify promising opportunities for collaboration: Is the other organization credible? What are its motivations, and how might those shift over the life cycle of the project? Are the goals of that organization truly aligned with those of the initiative? Does it contribute unique assets? Are your contacts at that institution empowered to make decisions and marshal resources?

As Johnson & Johnson's Chairman and CEO Bill Weldon summarizes his experience in complex collaborations, "As long as we're aligned around our objectives—and there is trust and transparency— it is not hard to get organizations to work together to develop better solutions to the world's problems." This advice is captured in the five high-level requirements for successful collaboration detailed in Exhibit 17. These requirements offer guidance for laying the groundwork for successful alliances.

Exhibit 15

CEOs report that a range of partnerships is important

Who is it most important for your company to collaborate with in solving social problems important to your business?

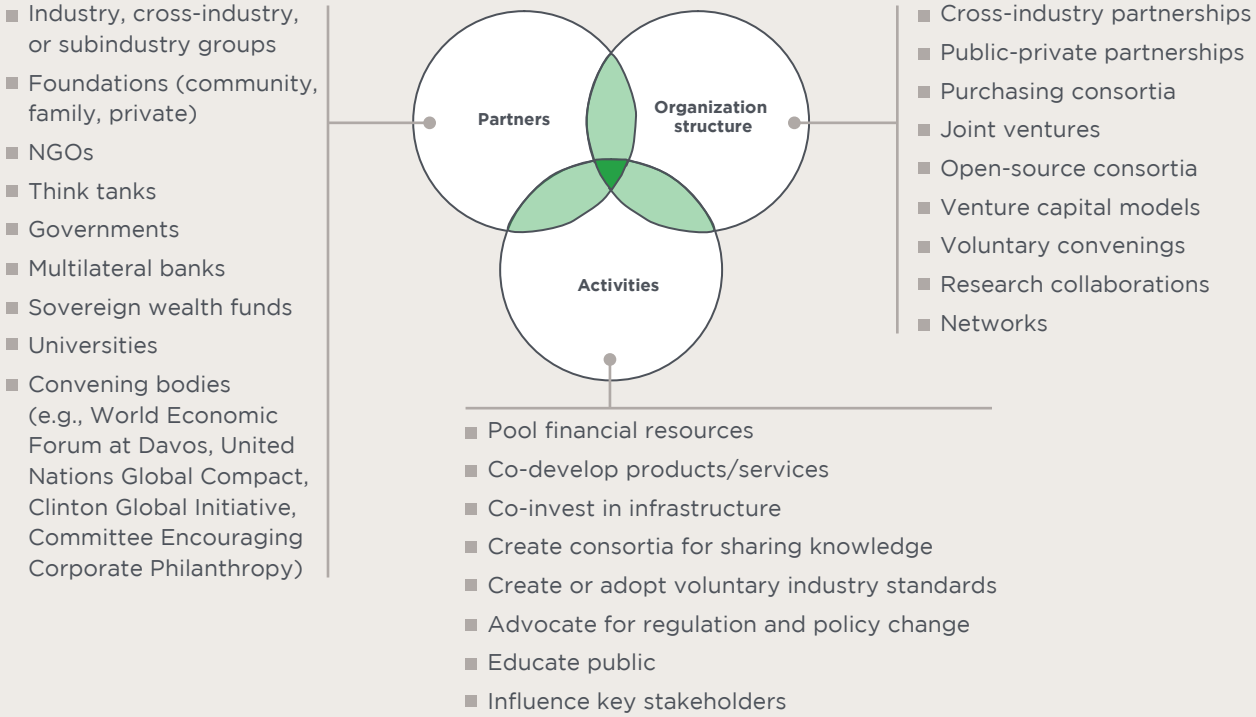


SOURCE: CECP Board of Boards CEO Conference, February 2010.

While these prescriptions may seem elementary, many promising partnerships have stumbled as a result of a failure to ensure that each requirement in Exhibit 17 was met. The FutureGen Alliance provides an example of the importance of the need for motivated partners and effective governance. FutureGen is a public-private partnership created in 2005 to design, build, and operate the world's first near-zero-

Exhibit 16

Essential elements of new collaborative models



SOURCE: McKinsey analysis, expert interviews

emission coal-fueled power plant (with the hope that the new technology not only can reduce domestic emissions, but also can be replicated by private industry in the developing world to increase access to electricity in an environmentally neutral manner). The project, supported by 11 leading international energy companies, was nearly disbanded when the primary funder, the United States Department of Energy (DOE), pulled out of the partnership in 2008. Rising project costs due to the rapid price inflation of global raw materials exposed a misalignment in commitment levels between the governments and the private-sector participants.[26] The alliance partners spent more than a year in negotiations to get the project moving again in 2009, when U.S. government stimulus funding favored green-energy projects. FutureGen lost four private-sector partners along the way but gained two when plans moved forward again in 2010.[27]

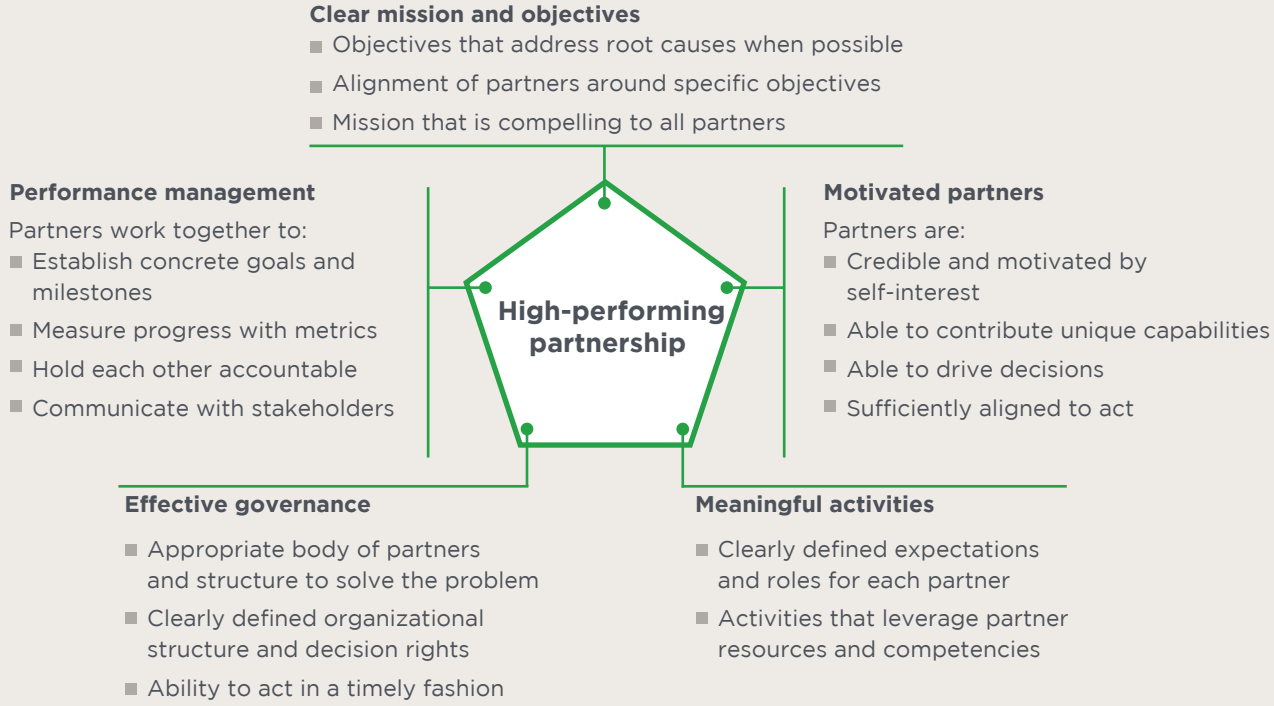
Real-World Examples of Sustainable Value Creation

Many corporations around the world have already established robust and well-designed community involvement programs that deliver much-needed support to nonprofit and other public-service organizations, filling vital community needs and delivering many valuable (although sometimes abstract) benefits to the business. However, few companies have fully adopted the approach to sustainable value creation, although the challenges of the upcoming decade compel it.

Nonetheless, promising new approaches toward sustainable value creation have already begun to emerge that foreshadow the types of partnerships needed to tackle the social issues that the next decade will bring. Whether it's the pooled funding model of The Global Fund, the region-specific partnership of the Itasca Project, or the convening power of the Clinton Global Initiative, these examples provide inspiration to companies seeking to take action on the recommendations in this report.

Exhibit 17

Requirements for successful collaboration



SOURCE: McKinsey analysis, expert interviews

26. U.S. Government Accountability Office (GAO), *Clean Coal: DOE's Decision to Restructure FutureGen Should Be Based on a Comprehensive Analysis of Costs, Benefits, and Risks*, GAO 09-248 (GAO, February 2009), http://www.gao.gov/new.items/d09248.pdf.
27. U.S. Department of Energy (DOE), "Record of Decision, FutureGen Project," DOE Clean Coal and Natural Gas Power Systems Web page (July 14, 2009), http://www.fossil.energy.gov/programs/powersystems/futuregen/futuregen_rod_071409.pdf.

Case Study

Establishing Voluntary Industry Standards

While various industries have adopted voluntary standards, in the future standards will need to involve greater collaborative problem-solving and stakeholder engagement. The Extractive Industry Transparency Initiative (EITI), a public-private initiative that promotes a global voluntary anticorruption standard for the oil, gas, and mining sectors, provides an example. Under this initiative, participating companies disclose material government payments, and signatory countries qualify for and maintain their EITI certification. Companies benefit from the improved investment climate that follows from government accountability. By holding themselves to EITI standards even in non-signatory countries, businesses indirectly pressure noncompliant governments to follow their example. To date, 46 of the world's largest oil, gas, and mining companies, 80 global investment institutions, and 32 resource-rich countries around the world, the World Bank, and the International Finance Corporation have endorsed the principles, which are credited for improving transparency in the extractives industry worldwide.

Case Study

Setting Up Region-Specific Partnerships

Regional collaborations focused on solving local problems provide a promising model, as with the Itasca Project, an employer-led alliance that drives economic development in Minneapolis and St. Paul. Itasca was started by corporate leaders concerned that issues of mutual concern like transportation and education were not being addressed sufficiently to protect the region's competitiveness and quality of life. Itasca is a "virtual organization" run by volunteer task forces of community leaders. CEOs drive the agenda and lead the task forces, which address concrete goals on specific time lines. As an example, General Mills CEO Ken Powell and Carlson's Marilyn Carlson Nelson co-chair a 26-member task force of business, academic and civic leaders to promote regional job growth. Their task force spent five months studying the problem and identifying solutions, later assigning each member to a subcommittee to work on specific drivers of job growth and rally public support for the recommended initiatives.

Case Study

Aligning Competencies in Public-Private Partnerships

The Global Fund to Fight AIDS, Tuberculosis and Malaria is an example of a next generation cross-sector partnership between government, civil society, and private-sector organizations dedicated to attracting and disbursing resources to prevent and treat these global diseases. The Fund engages the private sector's core competencies to achieve mutually beneficial goals. Companies that sign onto Product (RED) contribute a percentage of revenues from co-branded products to the Global Fund, creating a funding stream that leverages the marketing power of corporate partners. In turn, corporate partners benefit from increased sales and positive association with the organization's work. In another example, the Global Fund launched the Affordable Medicines Facility in 2009 to negotiate bulk purchasing deals for malaria treatments with pharmaceutical companies. Pharmaceutical companies benefit from increased, predictable demand for products that were previously less profitable, and the Global Fund assures that patients in developing countries have access to inexpensive, effective medicines.

Case Study

Convening Diverse Groups to Solve Problems

Forums that provide a neutral space for leaders of different sectors to discuss global issues will become increasingly important for sparking breakthrough initiatives. Gatherings like the World Economic Forum annual meeting at Davos, the Clinton Global Initiative (CGI) annual meeting, CECP's CEO conferences, and the Technology, Entertainment, Design (TED) conference series set the stage for fresh thinking and collaboration. For instance, the global leaders who attend the CGI meeting make "Commitments to Action" with specific, measurable goals published on the CGI Web site. This not only creates a diverse forum for networking and brainstorming, but also improves transparency and accountability on social and environmental commitments. Perhaps most importantly, CGI has developed excitement among world business and social-sector leaders: the 2009 meeting attracted more CEO speakers from top companies than any other major conference that year. Since 2005, participants have announced over 1,700 specific "Commitments to Action" for global development, valued at $57 billion.

CONCLUSION: *Pathways to 2020*

What makes the next ten years of evolution in the relationship between business and society different from previous decades is an escalating predicament for corporate leaders: determining how best to adapt to the social issues raised by the game-changing trends identified in this report (talent shortages, shifting centers of economic activity, a new era of government action, increased scarcity of natural resources, and new levels of technological interconnectivity) at the same time that accelerating global competition exerts heavy downward pressure on profit margins and global financial markets show an insatiable appetite for performance data in ever-smaller time increments.

In this context, what should corporate involvement in solving social issues look like? How might companies prepare now to maximize their impact and profitability over the next decade? These questions drove several months of joint research undertaken by CECP and McKinsey & Company, which tapped the minds of CEOs, academics, strategists, and nonprofit leaders through in-depth interviews and polling.

The urgent vision that emerged from this work is sustainable value creation—a self-reinforcing state of trustworthy, pro-social corporate behavior that simultaneously delivers bottom-line results and community benefits. Rather than following generic advice, companies that achieve sustainable value creation develop a customized strategy tailored to their own business ambitions. To bring about sustainable value creation in their firms, companies must challenge the tacit assumptions that underpin the functioning of their value chains, seeking to understand where social issues impede progress, and then work to engage others in ameliorating those issues for the good of business and society alike. Corporate involvement is required whenever the cost of inaction exceeds the cost of action.

To reach a state of sustainable value creation, companies must begin by rigorously selecting the social issues on which they lead and engage—ensuring that the issues are integral to the achievement of larger business goals. In its most basic form, the question companies must ask themselves is this: Will working to help address this social issue also help my firm create a tangible competitive advantage? Corporate community engagement of this type raises the bar from choosing social issues that "resonate" or "make sense" to instead selecting issues that drive growth or reduce costs, all while demonstrably helping local communities and broader societies address their own development priorities.

Aiming for sustainable value creation is not intended to supplant a company's ongoing community engagement initiatives, such as employee matching-gift programs, signature philanthropic initiatives, corporate foundation giving, product donations, pro bono service, and employee engagement campaigns. The power of this concept is that it enables companies to go beyond historical levels of corporate community involvement. Companies are able to do more because the model of sustainable value creation dissolves the longstanding zero-sum tension faced by corporate executives: to increase shareholder returns or do the right thing for society. Sustainable value creation is founded on the idea that one strategy can achieve both goals. Mike Duke sums it up best: "More will be expected from market leaders and globally successful companies, and those companies who are most involved will be most successful, creating an upward spiral."

Naturally, the question arises: Is this breed of corporate social engagement genuinely altruistic? After all, there is an explicit profit motive at play. Capitalist purists may think sustainable value creation is simply business as usual. The evidence that it is not is apparent from the current state of affairs. Looking at the four scenarios presented for 2020 outlined in Chapter 1, companies currently are caught between the quadrants labeled "dangerous mismatch" and "vicious circle." If companies were already implementing models of sustainable value creation, there would be less distance to travel between today's reality and tomorrow's ideal.

Those who mistrust business are likely to label sustainable value creation as corporate greed in sheep's clothing. In fact, this is one of the major uncertainties of the "Four Visions of Business and Society in 2020" diagram shown in Exhibit 3. Will society's expectations

for business stagnate, or will they increase? Increasing expectations—and commensurate increased trust when business meets them—are good for companies, and they support sustainable value creation. Only a warmer climate toward corporate engagement in social problems (motivated by enlightened self-interest) leads to the ideal scenario.

Ultimately, the level of trust in business is not wholly within the control of companies, but the integrity with which companies execute their strategies for sustainable value creation is of the utmost importance in earning public confidence. When companies collaborate effectively with external stakeholders, measure progress, and communicate transparently about their successes and failures, less room remains for misinterpreting corporate intentions and results.

According to the CEOs and thought leaders interviewed for this research, shaping the future through sustainable value creation is a mandate, with 100 percent of CEOs citing the need to take an active or leadership role (Exhibit 18). Their view is demonstrated in the call to leadership made by J&J's Bill Weldon: "We all have to contribute to sustainable solutions over time—not any one group can do it alone. You cannot assume that everyone else will address the problem and that you do not have to engage. If we do not align ourselves and work in a collective way on these social issues, everybody will be worse off."

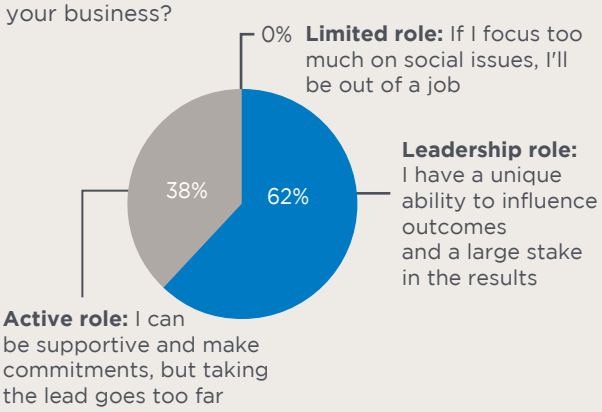
However, leadership toward sustainable value creation requires stepping outside typical business planning cycles and acknowledging the need for (and growth possibilities inherent in) new ways of thinking. It also entails embarking on new forms of collaborations, as reviewed in Chapter 2. These changes are more difficult than they might first appear, which is why CEO leadership is crucial. Ken Powell of General Mills elaborates: "Done right, social engagement is incorporated into the mission of the company, which means that the CEO must be the person who shapes the agenda and communicates the message around it."

The payoff is the ability to shape the future, seizing the opportunities and mitigating the risks on the pathway to 2020.

Exhibit 18

CEOs view shaping the future as a mandate

What role would you like to play, as CEO, in addressing social problems important to your business?



SOURCE: CECP Board of Boards CEO Conference, February 2010

Done right, social engagement is incorporated into the mission of the company, which means that the CEO must be the person who shapes the agenda and communicates the message around it.

—Ken Powell, General Mills

APPENDIX: Research Methodology and Acknowledgments

Research for this report began with an inquiry into which forces are most likely to shape the context for business over the next decade. A team of researchers from McKinsey & Company contributed and adapted their findings from McKinsey research into the global forces that will shape the next decade and beyond. A full report of that research will be available in the forthcoming report, "What Happens Next? Five Crucibles of Innovation That Will Shape the Coming Decade."

The poll results used throughout this report are taken from CECP's fifth annual Board of Boards CEO conference, held in February 2010, which brought together 39 CEOs and chairpersons for a candid peer-to-peer dialogue on "Solving Social Problems through Business Strategy." A summary report from that meeting, with a complete list of those in attendance, is available as a free download from the CECP website: CorporatePhilanthropy.org.

CEO Interviews

McKinsey & Company conducted a series of in-depth interviews with the following CEOs, who generously added their unique perspective regarding the challenges and opportunities of the next decade and the steps that leading companies will need to take to arrive at an optimal outcome:

- **Dominic Barton**, Managing Director, McKinsey & Company
- **Michael T. Duke**, President and Chief Executive Officer, Wal-Mart Stores, Inc.
- **Christina A. Gold**, President and Chief Executive Officer, The Western Union Company
- **John H. Hammergren**, Chairman, President and Chief Executive Officer, McKesson Corporation
- **Charles O. Holliday Jr.**, Former Chairman and Chief Executive Officer, DuPont
- **Klaus Kleinfeld**, Ph.D., Chairman and Chief Executive Officer, Alcoa Inc.
- **Marilyn Carlson Nelson**, Chairman, Carlson
- **Duncan L. Niederauer**, Chief Executive Officer, NYSE Euronext
- **Kendall J. Powell**, Chairman and Chief Executive Officer, General Mills, Inc.
- **James E. Rogers**, Chairman, President and Chief Executive Officer, Duke Energy Corporation
- **James E. Rohr**, Chairman and Chief Executive Officer, The PNC Financial Services Group, Inc.
- **Ivan G. Seidenberg**, Chairman and Chief Executive Officer, Verizon Communications Inc.
- **James A. Skinner**, Vice Chairman and Chief Executive Officer, McDonald's Corporation
- **William C. Weldon**, Chairman and Chief Executive Officer, Johnson & Johnson
- **Ronald A. Williams**, Chairman and Chief Executive Officer, Aetna Inc.
- **Andrew Witty**, Chief Executive Officer, GlaxoSmithKline plc

Thought Leader Interviews

Further, this report would not have been possible without the invaluable insights gained through interviews with the following thought leaders throughout the course of this project:

- **Diana Aviv**, President and CEO, Independent Sector
- **Will Ball**, VP, Caterpillar Foundation
- **Matt Bannick**, Managing Partner, Omidyar Network
- **Tzeporah Berman**, Co-head Global Climate and Energy Program, Greenpeace International
- **David Blood**, Senior Partner, Generation Investment Management
- **John Campbell**, VP of Social Responsibility and CEO, Minnesota Operations, Wells Fargo
- **Bob Corcoran**, President and Chairman, GE Foundation
- **Kimberly Davis**, President, JPMorgan Chase Foundation
- **Shelley Esque**, Director of Corporate Affairs, Intel, and President, Intel Foundation
- **Eric Fernald**, Director of Research, KLD Research & Analytics, Inc.
- **Henrietta H. Fore**, former Administrator, USAID
- **Gina Glantz**, Retired, Founder, Martin & Glantz, Senior Adviser, SEIU

- **Steve Gunderson**, President and CEO, Council on Foundations
- **Robert Harrison**, CEO, Clinton Global Initiative
- **Megan Hoot**, Assistant Director, Independent Sector
- **Stephen Jordan**, Senior VP and Executive Director, Business Civic Leadership Center
- **Georg Kell**, Executive Director, United Nations Global Compact
- **Michael Klein**, former Vice Chairman, Citigroup
- **Peter T. Knight**, President, Context America, Inc.
- **Mark Kramer**, Founder and Managing Director, FSG Social Impact Advisors
- **Stanley S. Litow**, VP for Corporate Citizenship and Corporate Affairs, IBM, and President, IBM International Foundation
- **Daniel Litvin**, Director, Critical Resource
- **Mindy S. Lubber**, President, Ceres
- **Kellie McElhaney**, Co-Faculty Director, Center for Responsible Business, Haas School of Business, UC Berkeley
- **Bill Meehan**, Director Emeritus, McKinsey & Company, and Lecturer, Stanford University Graduate School of Business
- **Noa Meyer**, Program Manager, Office of Corporate Engagement, Goldman Sachs
- **Bo Miller**, Director of Corporate Citizenship, Dow Chemicals, and President, Dow Chemical Company Foundation
- **Jane Nelson**, Senior Fellow and Director, Corporate Social Responsibility Initiative, John F. Kennedy School of Government, Harvard University
- **Arata Onoguchi**, Business Development Officer, International Finance Corporation
- **Howard Paster**, former Chair and CEO of Hill & Knowlton, a PR firm owned by the WPP Group Plc.
- **Michael Porter**, Bishop William Lawrence University Professor, Harvard Business School
- **Steve Rochlin**, Senior Partner and Director, AccountAbility
- **Daniel Runde**, Head of Partnership Development, IFC
- **Thomas Schick**, Executive VP Corporate and External Affairs, American Express Company, Chairman, American Express Foundation
- **Sonal Shah**, Director, White House Office of Social Innovation and Civic Participation
- **Dave Stangis**, VP of Corporate Social Responsibility, Campbell Soup Company
- **Dafna Tapiero**, Manager of The Oil, Gas and Mining Sustainable Community Development Fund (CommDev), International Finance Corporation
- **Becky Tarbotton**, Global Finance Campaign Director, Rainforest Action Network
- **Luis Ubiñas**, President, The Ford Foundation
- **Stephen B. Young**, Global Executive Director, Caux Round Table

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Photography credits:

Above: Abbas Hussain, GSK's President of Emerging Markets, visiting with a patient with lymphatic filariasis (LF)

Photo courtesy of GlaxoSmithKline plc

Inside front cover: A multi-talented participant at the Humana Healthy Kids Zone program sponsored by The Humana Foundation.

Photo courtesy of the Public Library of Cincinnati and Hamilton County

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