Assessing the impact of societal issues: **A McKinsey Global Survey**

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Executives expect the environment, including climate change, to affect shareholder value far more than any other societal issue during the next five years. Their concern now exceeds that of consumers.

Most managers are personally worried about global warming. Only one in ten reports not worrying at all, and just 3 percent say they do not believe that it is happening. Corporate political influence and involvement, health care and other employee benefits, and job losses from offshoring also rank high on the sociopolitical agendas of business leaders.

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The McKinsey *Quarterly*

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Executives place the environment and climate change in a class of their own when evaluating the impact of societal issues on shareholder value. They also indicate that companies are getting a little better at managing sociopolitical issues and understanding what the public wants.

Environmental issues, including climate change, have soared to the top of the sociopolitical agenda in executive suites around the world, according to a new *McKinsey Quarterly* global survey on business and society.[1] Executives expect that the environment will attract more public and political attention and affect shareholder value far more than any other societal issue; almost nine out of ten respondents say that they themselves worry about global warming. By contrast, in a survey conducted in December 2005,[2] executives said that the most important sociopolitical issue was job losses from offshoring, with the environment and climate change in third place.

The respondents' views about the ideal contract between business and society are remarkably stable. Eighty-four percent still agree that making broader contributions to the public good should accompany generating high returns to investors; only 16 percent believe that high returns to investors should be a corporation's sole focus. A notable development: 88 percent of the executives based in China now endorse the "public-good" dimension, compared with 75 percent in the previous poll.

As for how companies deal with the sociopolitical issues they face, this survey suggests that they are getting a bit better at it. In 2005 we found a large gap between the tactics respondents said large corporations rely on the most, such as public relations and lobbying, and those they believed to be most effective, such as implementing policies on corporate-responsibility issues. In the current survey, respondents say that their companies are making greater use of the more effective tactics. Yet executives continue to see most sociopolitical issues as risks rather than opportunities, and only 14 percent say that companies in their industries do an "adequate" or "good" job of anticipating social pressures.

[1] *The McKinsey Quarterly* conducted the survey in September 2007 and received responses from 2,687 executives around the world—36 percent of them CEOs or other C-level executives. The data are weighted to reflect the proportional representation of segments in the total population.
[2] "The McKinsey Global Survey of Business Executives: Business and Society," mckinseyquarterly.com, Web exclusive, January 2006.

In the public eye

More than half of this survey's respondents pick the environment, including climate change, as one of three issues that will attract the most public and political attention during the next five years, compared with 31 percent in the previous survey (Exhibit 1). Only a third of the respondents picked the next most frequently chosen issue.

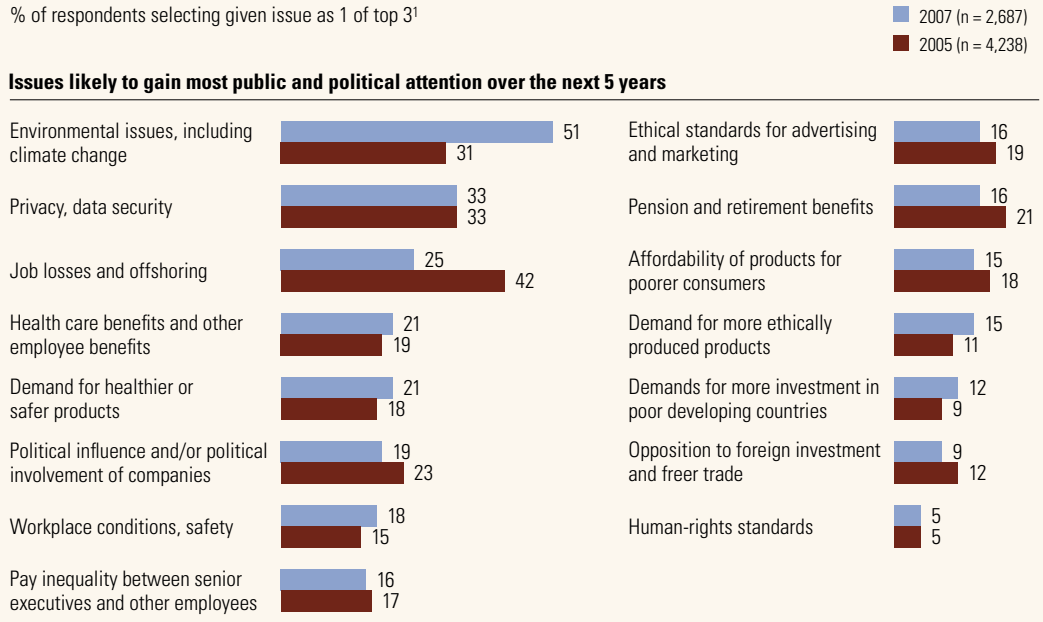
The rise to greater prominence of environmental issues probably reflects the increasingly intense global debate about greenhouse gases. When asked for personal feelings about global warming and climate change, 87 percent of the executives say they are somewhat or very worried about these issues. (Only 10 percent report that they are not at all worried about global warming, and just 3 percent say they do not believe that it is happening.) Who should be responsible for tackling climate change? A large majority (81 percent) see a role for government—which suggests that they expect more regulation to curb carbon dioxide emissions—as well as for business (67 percent) and consumers (64 percent).

Our executives' growing concern about the environment also significantly narrows a gap between their and consumers' views on important public issues. In a 2006 McKinsey Global Survey of consumers,[3] almost half chose the environment as one of the top three issues. On many sociopolitical questions, however, views still diverge. For executives the other most important issues are privacy and data security, as well as job losses from offshoring. Consumers saw retirement and health care benefits as more important.

[3] Sheila M. J. Bonini, Kerrin McKillop, and Lenny T. Mendonca, "The trust gap between consumers and corporations," *The McKinsey Quarterly*, 2007 Number 2, 7–10; and Sheila M. J. Bonini, Kerrin McKillop, and Lenny T. Mendonca, "What consumers expect from companies," *The McKinsey Quarterly*, 2007 Number 2, 11–7.

Exhibit 1

Eyes on the environment



[1] Respondents who answered "other" are not shown.

How social issues affect companies

When executives choose the three issues they expect to have the most impact, for better or worse, on shareholder value for companies in their industries, the environment remains at the top, selected by almost half of the respondents, up by 20 points from the previous survey (Exhibit 2). Also high on the agenda, picked by a quarter of the respondents, are corporate political influence and involvement, health care and other employee benefits, and job losses from offshoring—this last issue down by 17 points from 2005. Although executives believe that privacy and data security will be the second most prominent issue in the public and political debate, they rate it as significantly less important for shareholder value.

Exhibit 2

What issues drive shareholder value?

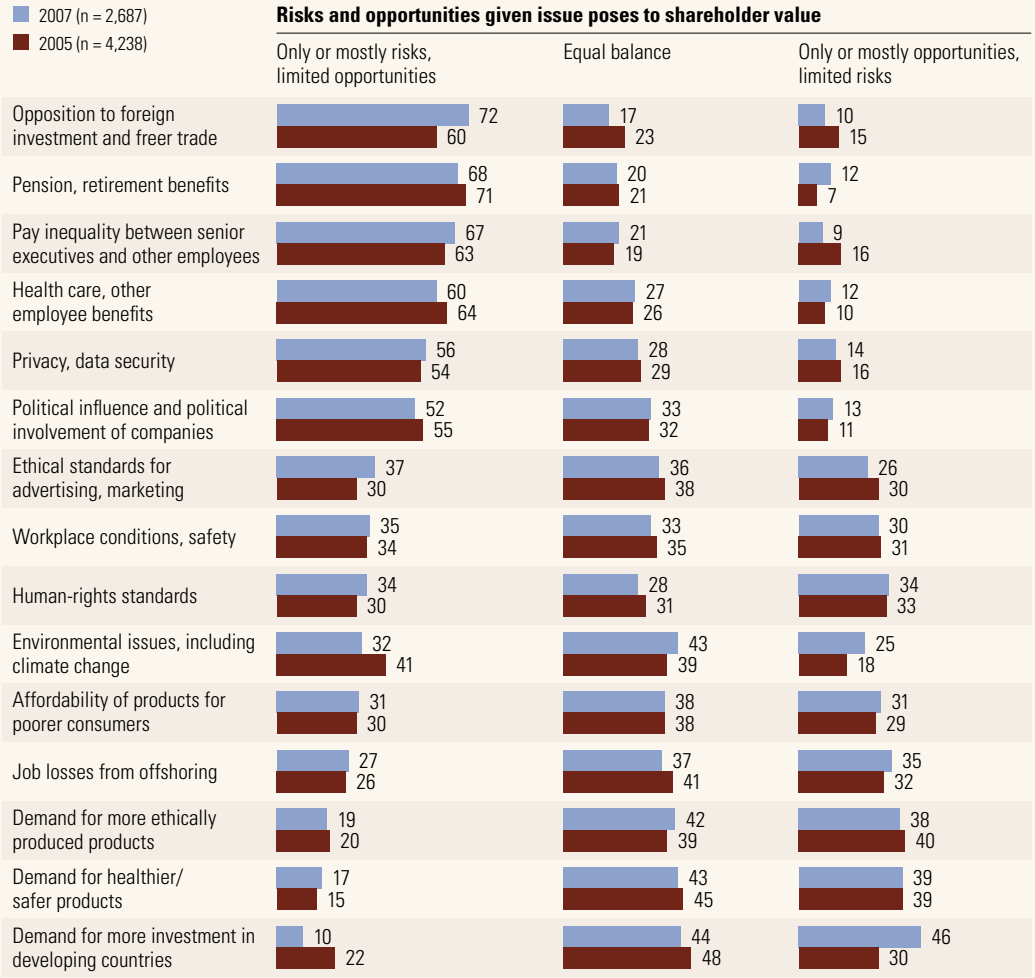
[1]Respondents who answered "other" are not shown.

Executives see most sociopolitical issues more as risks than opportunities, and the environment, including climate change, is no exception. But on this issue, they are more optimistic than they were in the previous survey, even as global concern mounts. The share of respondents viewing the environment mainly as an opportunity has risen from 18 percent in 2005 to 25 percent in 2007, while the proportion seeing it mainly as a risk has dropped to 32 percent, from 41 (Exhibit 3).

Exhibit 3

More risk than opportunity

% of respondents who chose given issue as 1 of top 3 affecting shareholder value[1]



[1]Respondents who answered "other" or "don't know" are not shown.

There are also significant regional differences in the way executives assess sociopolitical issues (Exhibit 4). These variations show that corporations must adapt their strategies to the geographies where they operate.

Executives in Europe, for example, choose the environment (including climate change) more frequently than the global average, both for prominence in the public debate and for impact on shareholder value. Twenty-eight percent of the executives there see the issue mainly as an opportunity.

North American executives choose health care and other employee benefits as one of the three issues that will most affect shareholder value; 45 percent (almost two times the global average) took that position. Two-thirds see this issue as a risk—higher than the global average. The environment, at 41 percent, comes second for this region's executives. What's more, a significantly smaller share of North American (20 percent) than European executives see it as an opportunity.

In India the issue of privacy and data security, at 34 percent, edges out the environment by one percentage point for impact on shareholder value. That finding may be influenced by the importance of IT outsourcing and offshoring to the country's economy. Among executives based in China, 34 percent of the respondents (nine points more than the global average) chose corporate political influence, which holds second place, and the demand for healthier or safer products comes third, at 27 percent, compared with a global average of 20 percent. These results in China may well reflect the current global debate on the health, safety, and regulation of its products.

Exhibit 4

Issues affecting shareholder value by region

% of respondents selecting given issue as 1 of top 3

Top 5 issues likely to have the most impact, positive or negative, on shareholder value over the next 5 years			Percentage point difference 2005–07
Europe n = 1,057	Environmental issues, including climate change	53	+24
	Job losses from offshoring	27	–22
	Political influence and/or political involvement of companies	26	–4
	Pension, retirement benefits	23	–12
	Demand for healthier or safer products	18	0
China n = 98	Environmental issues, including climate change	45	+11
	Political influence and/or political involvement of companies	34	+1
	Demand for healthier or safer products	27	–2
	Demand for more investment in developing countries	23	+17
	Opposition to foreign investment and freer trade	21	0
North America n = 780	Health care, other employee benefits	45	–2
	Environmental issues, including climate change	41	+18
	Privacy, data security	28	–4
	Pension, retirement benefits	26	–7
	Job losses from offshoring	25	–19
India n = 146	Privacy, data security	34	+2
	Environmental issues, including climate change	33	+3
	Political influence and/or political involvement of companies	27	+4
	Job losses from offshoring	27	–7
	Affordability of products for poor consumers	26	–7

Doing good and doing harm

In 2005 almost seven out of ten of all respondents said that corporations have a positive impact on society, a proportion that increases to almost eight out of ten in the 2007 survey. When asked which three industries make the greatest positive contribution to the public good, almost half of all respondents still select health care, and an unchanged three in ten pick pharmaceuticals. Interestingly, IT replaces agriculture for third place in the latest survey.

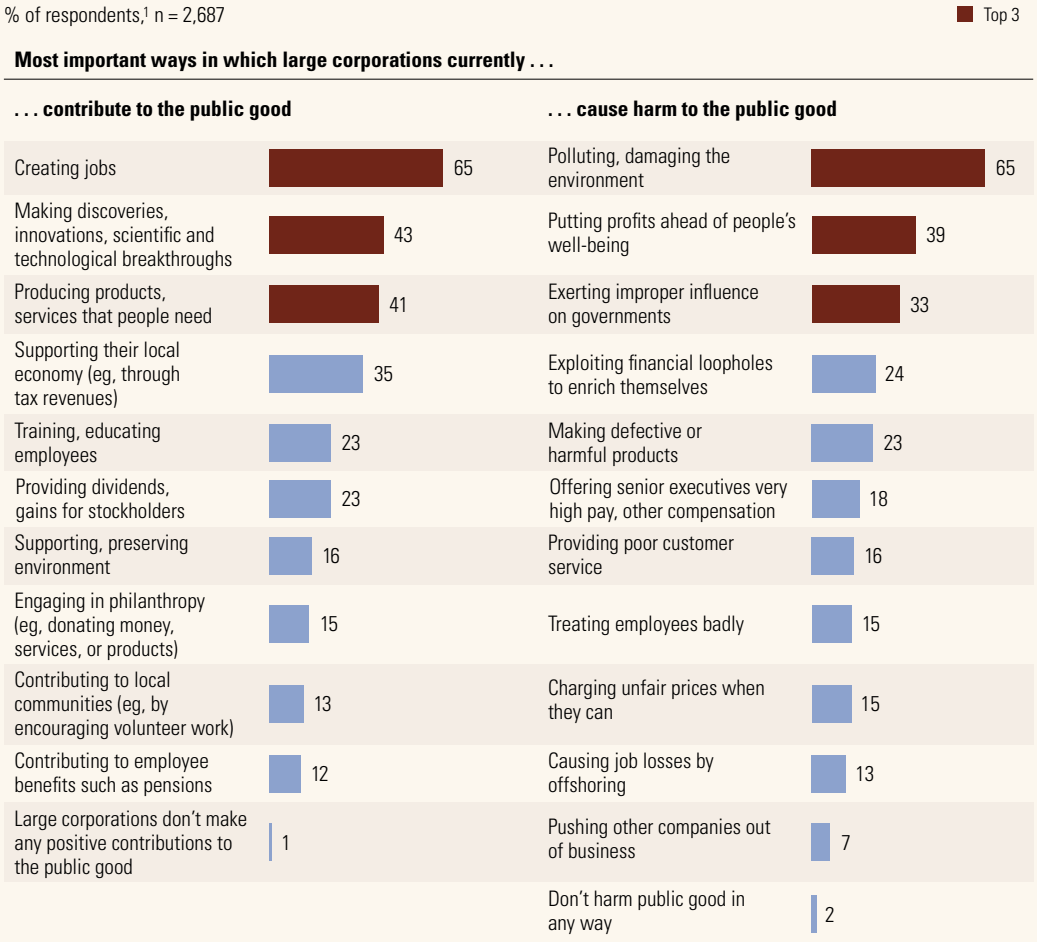
Executives seem well aware that action on the environment will be important for many companies if they are to earn the public's trust.[4] When asked about the three most important ways, if any, in which large corporations harm the public good, 65 percent name polluting and damaging the environment. Almost four in ten choose putting profits ahead of the people's well-being; three in ten, exerting improper influence on governments.

Nevertheless, executives stress that corporations contribute to the public good in the regular course of business by creating jobs, making scientific and technological breakthroughs, producing necessary products and services, and paying taxes (Exhibit 5). Those are real benefits, but our research indicates that consumers, particularly in developed countries, clearly see them as the minimum contribution and expect to get them without side effects such as pollution.

[4]In the 2006 McKinsey Global Survey of consumers, only 33 percent of European and 40 percent of US consumers said they believed that large global companies act in the best interest of society at least some of the time.

Exhibit 5

Doing good



[1]Respondents could select up to 3 responses; those who answered "other" are not shown.

Narrowing the tactics gap

Companies appear to be closing a gap, identified in the 2005 survey, between the tactics their executives say they rely on most frequently to manage sociopolitical issues and those the executives regard as most effective. Twenty-nine percent of the respondents, compared with 20 percent in the previous survey, say that one of the three most frequently used tactics is the development and implementation of policies on corporate-responsibility issues such as the environment (Exhibit 6). Companies still use this tactic less frequently than executives think they should, but the gap has narrowed from 15 points in 2005 to 6 points. Executives also report that companies are putting less effort into media and public relations and into lobbying regulators and governments. However, those two tactics, which continue to be the most common, are used much more than their perceived effectiveness warrants.

Exhibit 6

Narrowing the tactics gap

% of respondents selecting tactic as 1 of top 3,[1] n = 2,687

Tactics for managing sociopolitical issues	Tactics used most frequently	Tactics believed to be most effective	Change in gap between tactics most used and those believed most effective, percentage points: From 2005	To 2007
Media, public relations	44	35	14	9
Lobbying regulators, governments	44	28	23	16
Improving compliance with laws, regulations	32	29	6	3
Developing, implementing policies on ethics, other corporate-responsibility issues	29	35	15	6
Using industry coalitions to develop joint responses to these issues	28	27	No change	
Advertising, marketing	23	15	10	8
Speeches, other public actions taken by the CEO	21	14	10	7
Publishing sustainability or corporate-citizenship reports	18	12	4	6
Engaging stakeholders (eg, nongovernmental organizations)	15	28	18	13
Increasing transparency about the risks of products or processes	12	33	24	21
Philanthropy	12	10	3	2
Changing product lines, processes	8	16	4	8
Entering new markets or exiting old ones	7	6	No change	

[1]Respondents who answered "other" or "don't know" are not shown.

Our survey results still offer no sign that executives are applying the most underused tactics, increasing transparency about the risks of products or processes, more frequently. This finding is particularly odd given the response to a separate question about the single action most effective for large corporations in the respondents' industries to improve a company's overall reputation—38 percent, by far the highest percentage, opt for making business practices more transparent in a broad sense. Seventeen percent of the respondents chose the second-place tactic: acting to become more environmentally friendly.

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The contributors to the development and analysis of this survey include Sheila Bonini, a consultant in McKinsey's Silicon Valley office; Jieh Greeney, a consultant in the New York office; and Lenny Mendonca, a director in the San Francisco office.