

How companies succeed through radical engagement

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The authors of *Connect: How Companies Succeed by Engaging Radically with Society* explain why organizations must look beyond corporate-social-responsibility initiatives to truly engage with consumers and communities.

Antibusiness sentiment is nothing new. Yet mending the rift between big business and society isn't merely a worthy goal—it may represent a new frontier of competitive advantage, profitability, and longevity for today's organizations. In *Connect: How companies succeed by engaging radically with society* (PublicAffairs, March 2016), L1 Energy chairman and former BP chief executive officer John Browne, McKinsey's Robin Nuttall, and entrepreneur Tommy Stadlen offer a practical blueprint for reconciling companies and communities. Doing so, they argue, requires adopting a new way of thinking about commerce. In these interviews, the authors explain the value that is at stake for companies able to move beyond corporate social responsibility and radically engage with society. Edited transcripts of their remarks follow.

The new frontier of competitive advantage

Robin Nuttall, principal, McKinsey & Company: The research shows that superior performance, in the matter of engaging with your stakeholders, is worth about 2 percent per year of superior stock-market performance. That amounts to more than 20 percent over ten years. So this is now a massive new factor in driving corporate performance and corporate sustainability. In fact, we would say that this is the new frontier of competitive advantage.

John Browne, chairman of L1 Energy and former chief executive officer, BP: Value is a function of today's returns and how long can you keep them going. The more you eat into the goodwill that you have—by not refreshing it, by not topping it up—the more at risk you are, longer term, of being able to do what you set out to do. If everyone's against you, you cannot do something: governments against you, they'll stop you, they will eat into your market. If society's against you, it will affect government, it will eat into your market. Our analysis shows that there's

probably about 30 percent of the value in any company at risk through these sorts of effects. That is an extraordinary amount of value. It needs to be protected.

Robin Nuttall: Let's think of a few industries. Utilities and infrastructure businesses, they're subject to regulatory and government intervention. The stroke of a pen can either wipe off or add on billions of dollars of profitability in one short moment. Financial services, talking about banking or insurance, there's a whole regulatory framework of financial sustainability, of competition in the retail area. But then it's also industries that we previously thought were not regulated and now are coming under the scrutiny of governments. Let's take high tech. Big data is driving massive concerns about privacy. Governments worldwide want to know how they can protect their consumers from privacy risks.

Tommy Stadlen, entrepreneur: Uber's \$60 billion valuation is predicated on its ability to win highly localized political arguments all over the world, city by city. Airbnb is another great example. They have to navigate very complex rules and regulations, which were simply not designed to deal with their business model. These companies have to completely redefine the way cities and platforms coexist. Their valuations depend on it, but so does the viability of the sharing economy as a whole.

When you speak to tech founders, there is an overwhelming sense of purpose and a real desire to change the world. Technologies like driverless cars or robotic surgery are going to save millions of lives, and they're going to solve some of society's most pressing problems. But tech leaders need to think about how they communicate their contribution. They need to acknowledge and deal with the very real fears that people have about new technologies.

Moving beyond corporate social responsibility

John Browne: Corporate social responsibility was a valid attempt at saying, "There is something missing here." It's called engaging with all the affected parties, which are the stakeholders in your business. Over time, I think this valiant attempt became a little corrupted. It became isolated, separated from the business as a whole, and became a little bit less interesting to boards of directors, who really wanted to know where the money was being made. And, it was not coupled to the real value generation that was being created in the company.

Tommy Stadlen: There's the notion of win the game, and play the game. Companies can play the game on any number of issues. So, they should just be responsible and meet the basic standards that we expect of business, in areas that don't affect what they do as a company. But they can select a number of issues, one or two issues, where they can win the game, where they can adapt and lead the entire industry on a subject that is core to the company's operations. When companies define their contribution, it's very important to pick something that is right at the heart of what they do as a business.

Robin Nuttall: Unilever’s sustainable-living plan, which we talk about in the book, based on interviews—that’s a living plan which is aimed to double the size of the business but is equally aimed to improve the health and well-being of more than a billion people worldwide. That’s an example of mapping your contribution in a tangible way.

John Browne: It’s about strategy, value at stake, and making sure these things become aligned. You understand what’s going on, and you get it integrated in the business as a whole. Corporate social responsibility doesn’t do that in most cases.

Robin Nuttall: As we all know, from work and organization, what this is essentially about is getting the skills, processes, and metrics in place. It means applying them to an external environment. We found, for example, that only 21 percent of CEOs feel that they have the skills in their organization to manage externally. This is about upgrading that whole skill set. We say, for example, that in your corporate and government affairs department, at least 40 percent of that department should have direct line experience. The other test is—am I cycling top 20 percent talent through my corporate-affairs and regulatory- and government-affairs departments? It has to be a commitment to excellence and to success in the organization.

Being radically authentic

Tommy Stadlen: One of the big ideas in the book is that reputation is an outcome of who you are, who a company is. Reputation is not a construct to be managed. We interviewed Alastair Campbell, Tony Blair’s former director of communications. His view was that some of the spin, some of the tactics that worked in that era, would not have served his boss as well today. This is the era of transparency, and you have to be radically authentic to connect with society.

Robin Nuttall: This is about cutting through and reaching those audiences using direct means, and being extremely transparent in your purpose. One pharmaceutical company that we spoke to had a regulator who was concerned with a specific drug. Rather than simply battling it out through the courts with the regulator, it took all of the private information in the company, all of the research, and made it public on the web. That reestablished credibility and trust with the regulator and with the consumers.

John Browne: We learned a lot of lessons during my time with BP. I think industry is still learning these lessons about how to engage, how to really engage, with society and populations—now do it radically.

My first experience with how not to engage was in a very tough situation in Colombia. At the time, it was heavily controlled, the area that we were in, by the guerrilla groups working for the narcotics gangs. They were a parastate: they were not under the control of the government. We made a lot of errors from the very beginning. The first was—because it was out of control, there were no laws—and so we didn’t have to take very seriously all the environmental regulations. How wrong we were. That was the first problem.

The second problem was that, because it was unsafe, why didn't we just, when we developed, build everything we needed and put it behind rows and rows and rows of barbed wire and high fences. Now the problem with that is we locked ourselves in, and we couldn't actually speak to the people outside. So we immediately created an "us and them" situation.

The difference is our experience in West Papua, again, a very difficult place to work. We were not trusted because foreigners always cause trouble. So we struck upon a simple idea, which was to have an independent commission representing the affected parties, with distinguished and trusted people. We set about doing the following: asking them to appraise what the company was doing and to report their results out without showing them to the company first. In other words, to be independent.

Over time, they became trusted. By their examination of what was going on, they made both sides understand what both sides needed. That was an important step. It's about radical engagement. I'd go so far as to say that if you feel comfortable in the engagement, it's not radical enough. You have to get to the point where you are pushing the envelope. ▣

For more information and to order Connect: How Companies Succeed by Engaging Radically with Society (PublicAffairs, March 2016), visit the book page on mckinsey.com.

John Browne is the chairman of L1 Energy and a former CEO of BP. **Robin Nuttall** is a principal in McKinsey's London office. **Tommy Stadlen** is an entrepreneur and an alumnus of McKinsey's London office.