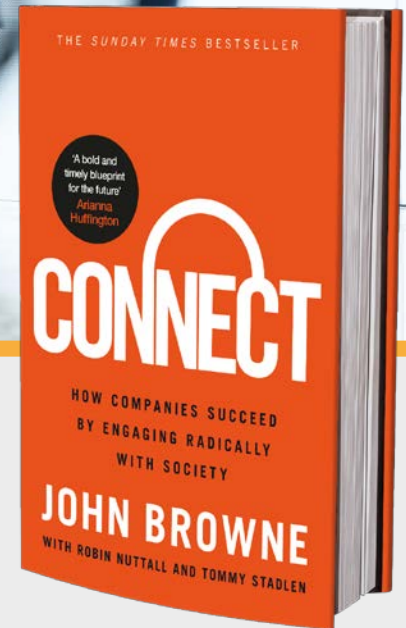


Connect: How companies succeed by engaging radically with Society



Ivey Business School panel event on stakeholder engagement
Toronto, 29 January 2019
Robin Nuttall, McKinsey

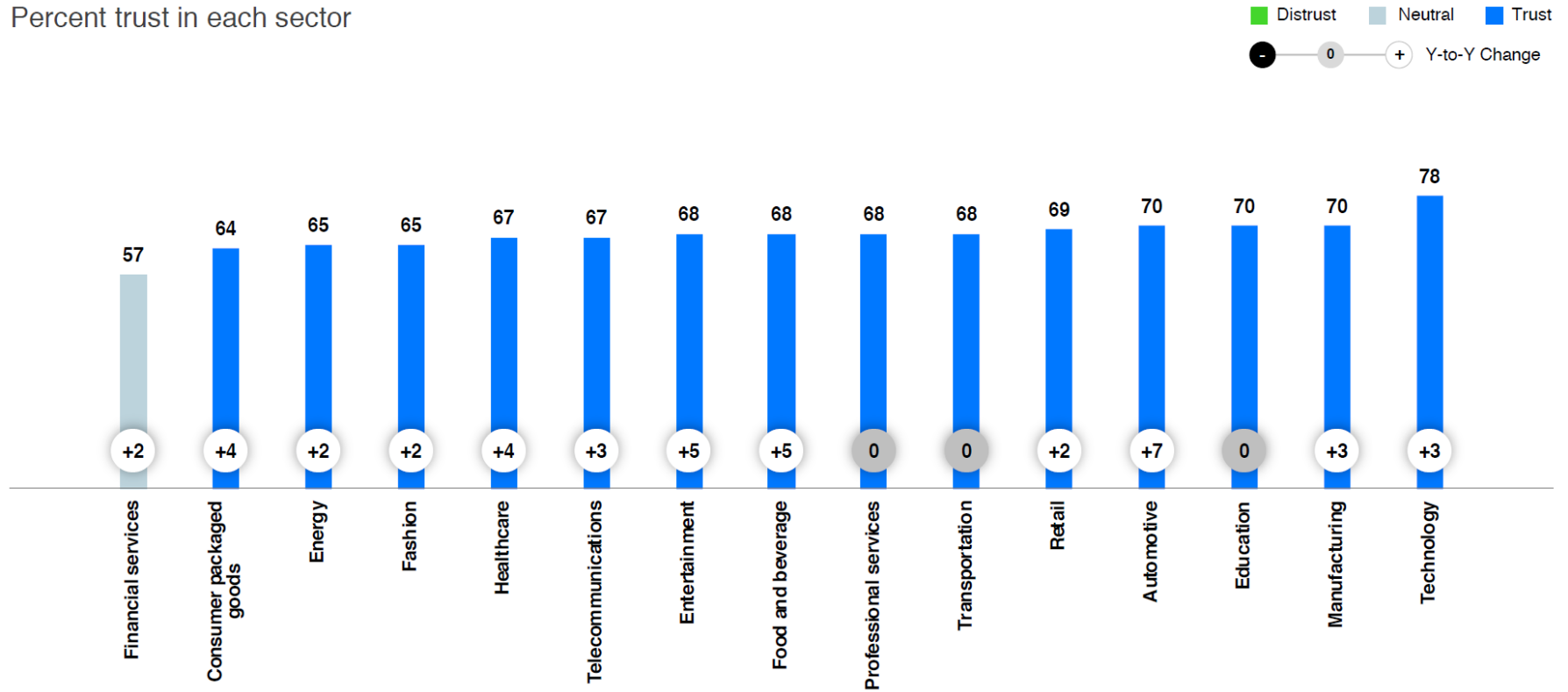
Cycles of anti-business sentiment extend back over 2,000 years



N.b. If between quasi-solitary, complaining of the oppressed and miserable state of the people, with reactionary or fascist movements in modern times. Neither side has the clue; both are opposing the only ultimately progressive force, the merchants!

Trust varies by sector

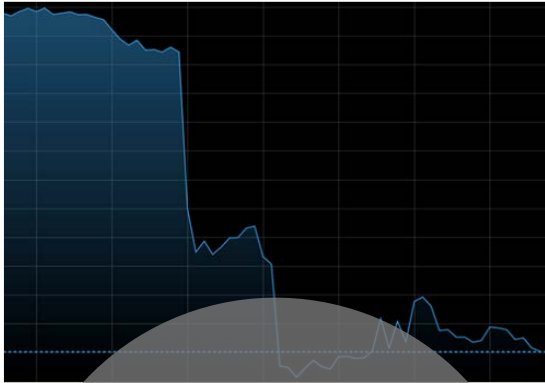
Percent trust in each sector



CSR has failed both companies and society because the initiatives are almost always **detached from the core commercial activities**



The “30-30-30” phenomenon



30

30% of value
is at stake



30

CEOs spend
30% of their time
on this issue











30

Less than
30% engage
successfully

One third of corporate profits are at stake

Value at stake globally is ~\$4 trillion p.a.

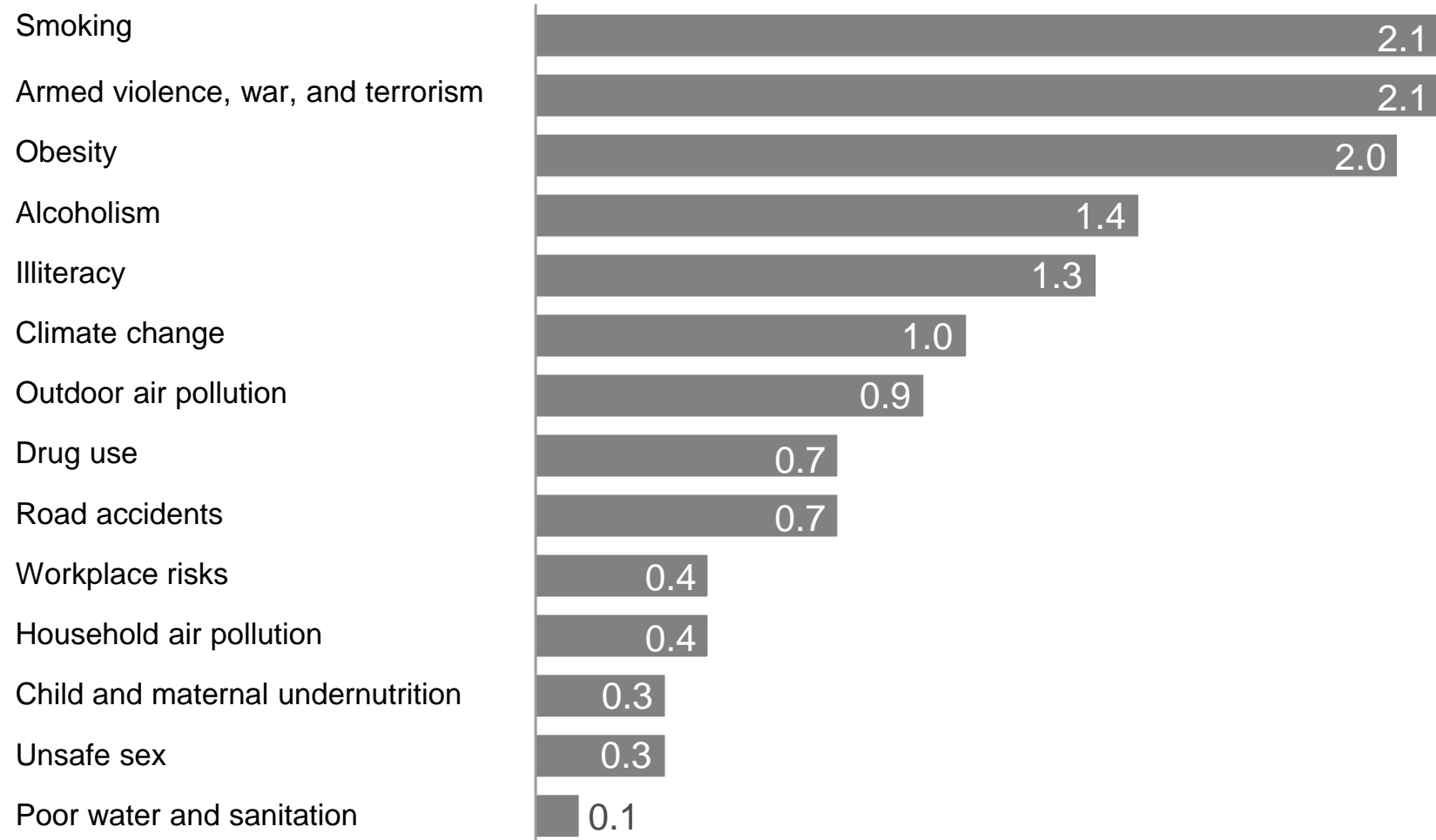
Estimated share
of EBITDA at stake
Percent

Banks		50–60	Capital requirements, systemic regulation ('too big to fail'), consumer protection
Consumer goods		25–30	Obesity, sustainability, food safety, health and wellness, labeling
Automotive, Aerospace and defense, Tech		50–60	Government subsidies, renewable regulation, carbon emission regulation
Pharma and Healthcare		25–30	Market access, generics regulation, pricing, funding of innovation, clinical trials
Telecom and Media		40–50	Tariff regulation, access to infrastructure, fiber deployment, licensing, spectrum
Transport, Logistics, Infrastructure		45–55	Pricing regulation, liberalization of sector
Energy and Materials		35–45	Tariff regulation, renewable subsidies, Interconnection, access rights
Resources		30–40	Land access rights, community engagement, reputation risks

Business will be asked to play a role in solving top social burdens

Estimated annual global direct economic impact and investment to mitigate selected global burdens, 2012

Selected global social burdens
\$ GDP trillion



SOURCE: McKinsey Global Institute

Investors also increasingly emphasise social license to operate

BLACKROCK™



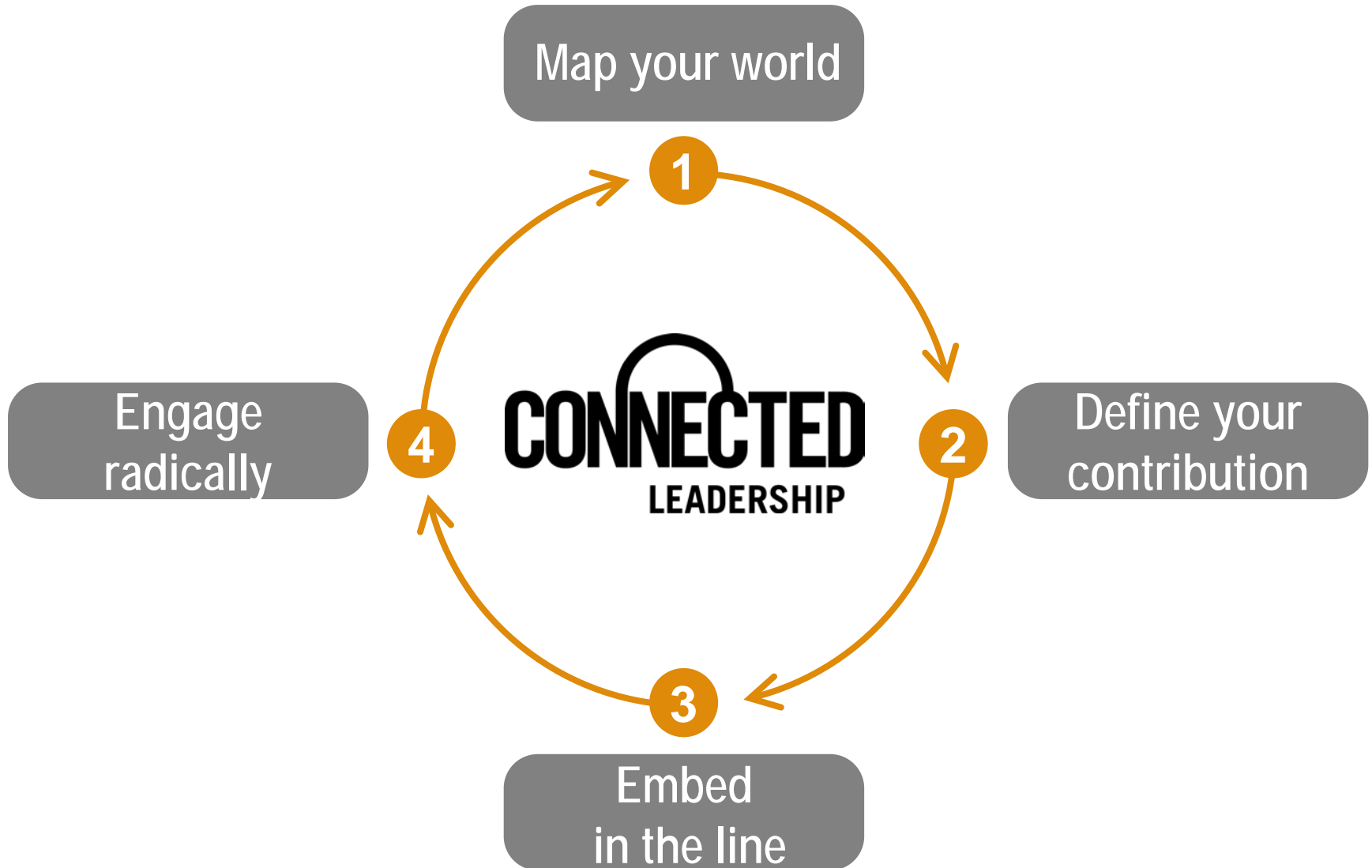
“Society is increasingly turning to the private sector and asking that companies respond to broader societal challenges [...] without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders”

Larry Fink

Chairman and Chief Executive Officer
Annual Letter to CEOs, January 2018

26% of total US assets under professional management (**\$12 trillion**) use ESG strategies in investment selection – a **38% increase** in 2 years

The four tenets of **connected leadership**



Map your world

Percent of executives in our survey stating somewhat or very effective

54

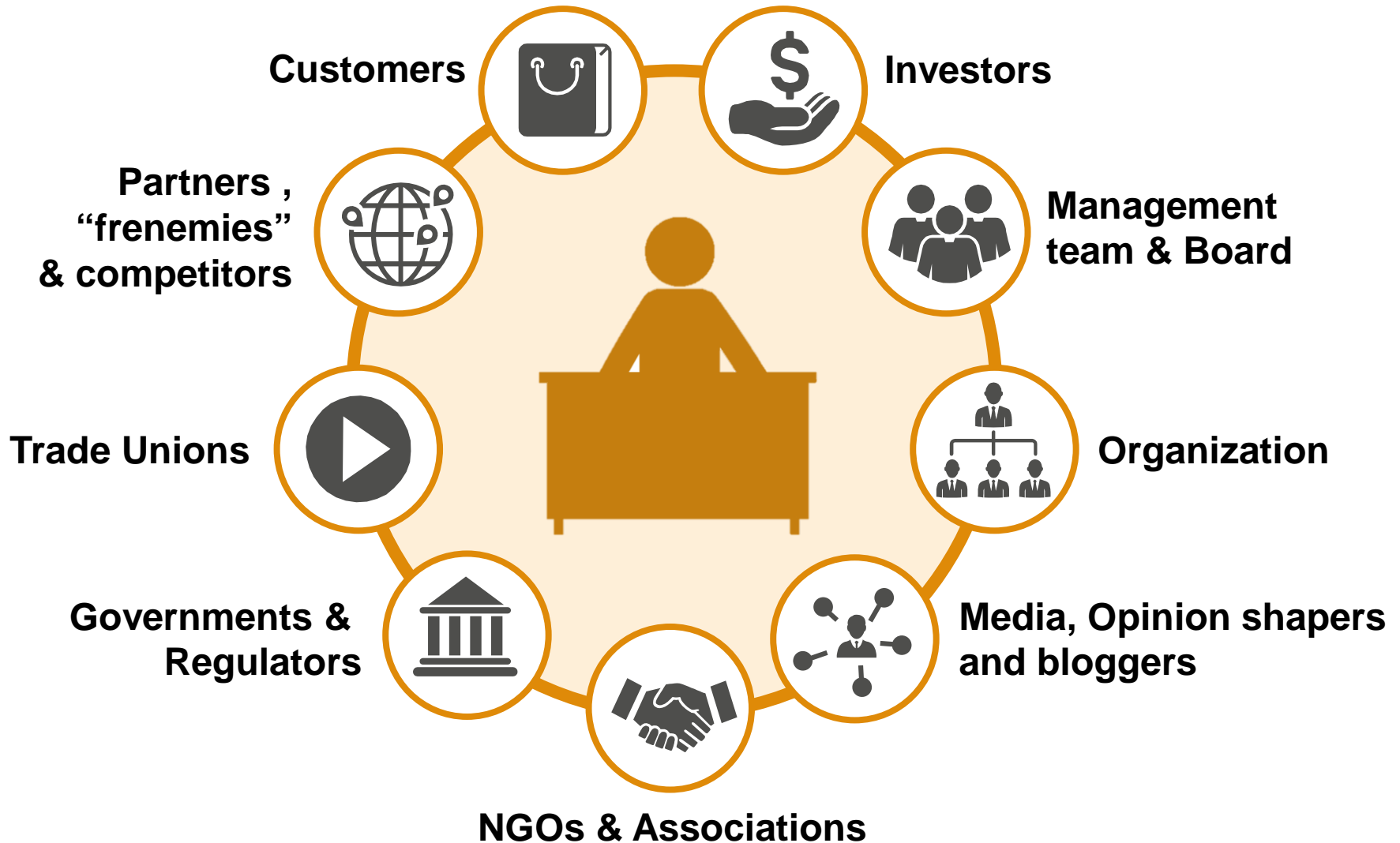
Quantifying the economic impact of external issues on our company

51

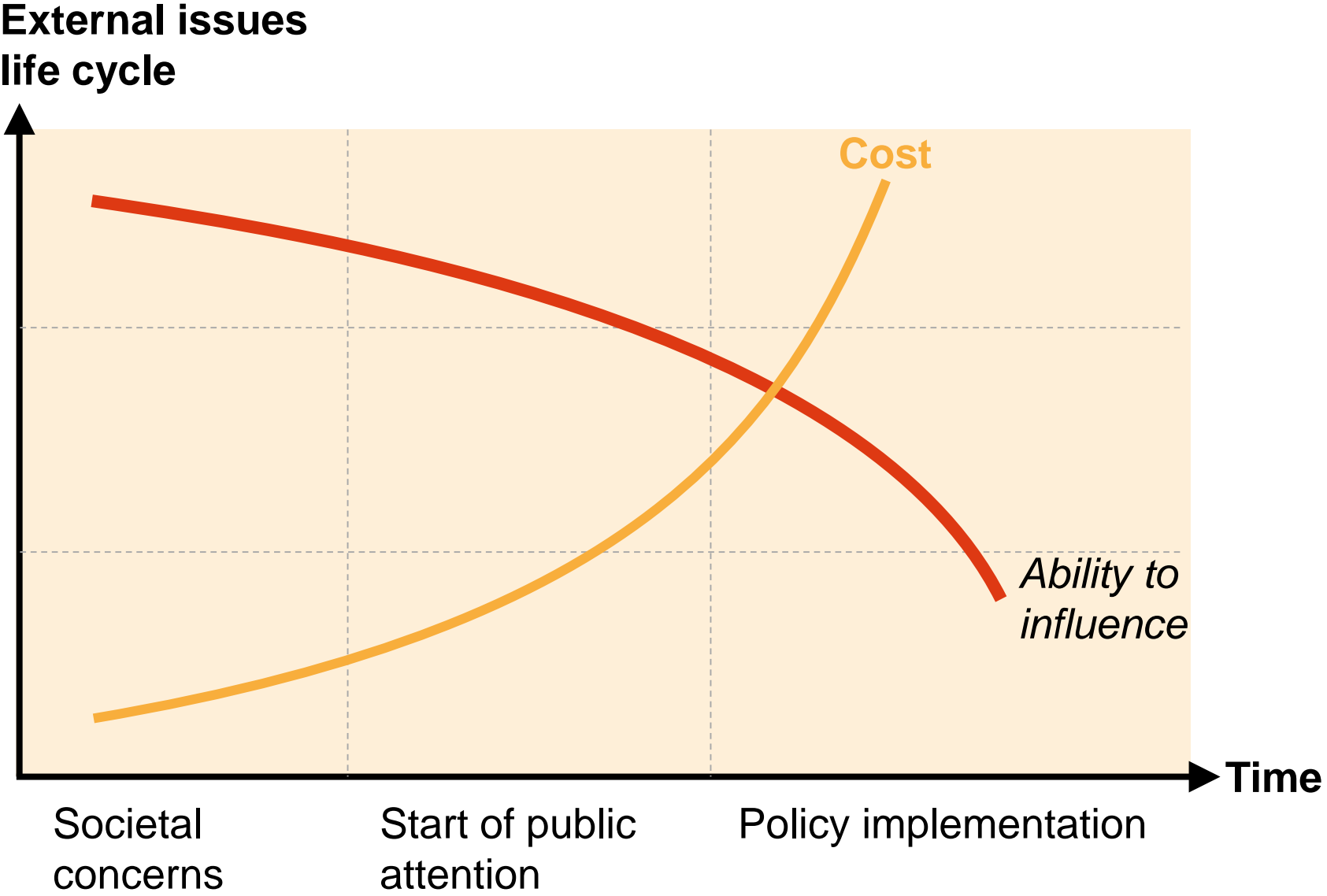
Quantifying the economic impact of external issues on stakeholders

- Distinguishing secular trends from fads
- Quantify value at stake
 - Near term
 - NPV
 - Reputation



CEO needs to engage multiple types of stakeholders



Early issue spotting is critical



Example of value at stake upside and downside quantification

 Upside opportunities
 Downside risks

Policy area	Downside Risks – Examples	Value-at-stake for company % of annual EBITDA	Upside Opportunities – Examples
 Product taxation	<ul style="list-style-type: none"> Excise tax increases 		<ul style="list-style-type: none"> Tax structure
 Corporate taxation	<ul style="list-style-type: none"> General increases in corporate taxation rates Negative impact on reputation 		<ul style="list-style-type: none"> General reductions in corporate taxation rates Pro-business public narrative
 Regulatory restrictions	<ul style="list-style-type: none"> Restrictions on advertising Countermeasures against illicit alcohol Licensing restrictions – e.g., sales hours, POS, distribution 		<ul style="list-style-type: none"> Positive reputational impact from proactive stance Reduction in illicit alcohol consumption Reduced advertising restrictions in growth markets
 Investment incentives	<ul style="list-style-type: none"> Investment zones Import taxes 		<ul style="list-style-type: none"> Creation of investment zones Reduction in import taxes Green levies
Non-compliance	<ul style="list-style-type: none"> Fines, forced divestitures, sales bans, boycotts 		<ul style="list-style-type: none"> Reputational benefit from proactive engagement and strict compliance
TOTAL			

Define your contribution



“Purpose with performance”

RioTinto

Clearly articulated purpose

“As pioneers in mining and metals, we produce materials essential to human progress.”

Image from Rio Tinto 2016 results presentation



Focus on communities

- Focus on community issues at the highest levels of the company
- Company-wide standards on community engagement and social performance targets



Proactive reporting

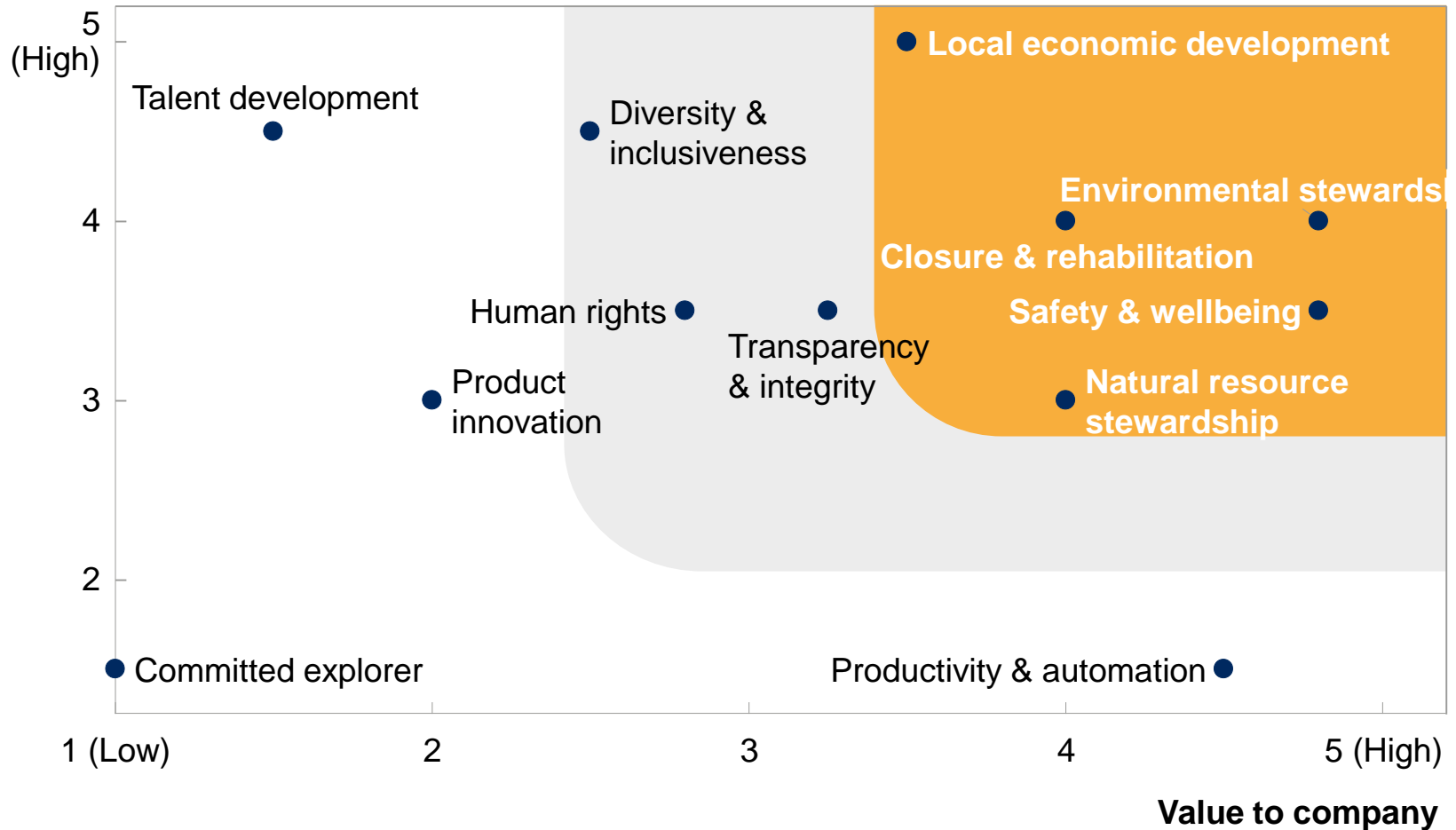
- Leads the mining industry on tax transparency reporting, documenting contributions at local, state, and national levels in all countries of operation (20 countries)
- Measures and reports sustainable development metrics



Purpose matrix informs “win the game” vs. “play the game” – Example

Win the Game Play the Game

Value to society
(communities, governments, civil society)



Embed in the line

Percent of executives



Public affairs digital dashboard

EXAMPLE DASHBOARD

Reporting date: 15 Mar 2017, Reported by: Global Policy & Public Affairs

LIVE SITUATIONS¹

Change from last period: ↑ Improving ↔ Same ↓ Deteriorating

	Positive developments	Negative developments	Value-at-stake
Situation 1 ↑	✓ ... ✓ ... ✓ ...	✗ ... ✗ ... ✗ ...	TBC
Situation 2 ↑	✓ ... ✓ ...	✗ ... ✗ ...	TBC
Situation 3 ↓	✓ ... ✓ ...	✗ ... ✗ ...	TBC
Situation 4 ↔	✓ ... ✓ ...	✗ ... ✗ ...	TBC
Situation 5 ↑	✓ ... ✓ ...	✗ ... ✗ ...	TBC
Situation 6 ↓	✓ ... ✓ ...	✗ ... ✗ ...	TBC
...	✓ ... ✓ ...	✗ ... ✗

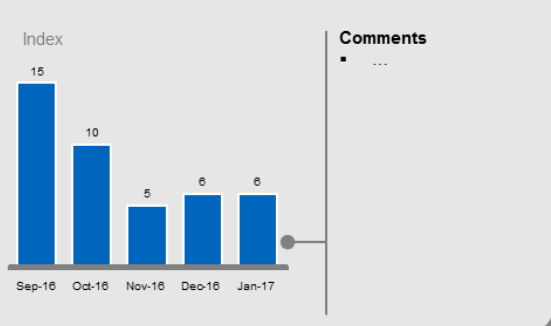
YTD VALUE-AT-STAKE

	Description	Date
Victories	✓ [Corporate tax lowered to XX%]	Jan-17
	✓
	✓
Setbacks	✗ ...	Jan-17
	✗
	✗

Net value **+US \$X mn**



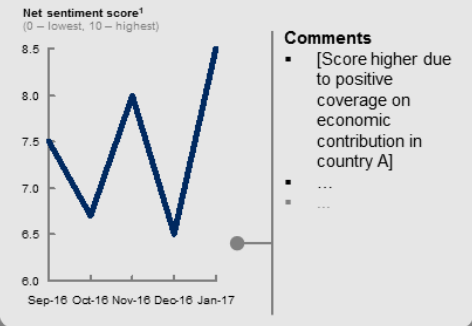
LOCAL INCIDENTS



COUNTRY SENTIMENT



STAKEHOLDER HEAT



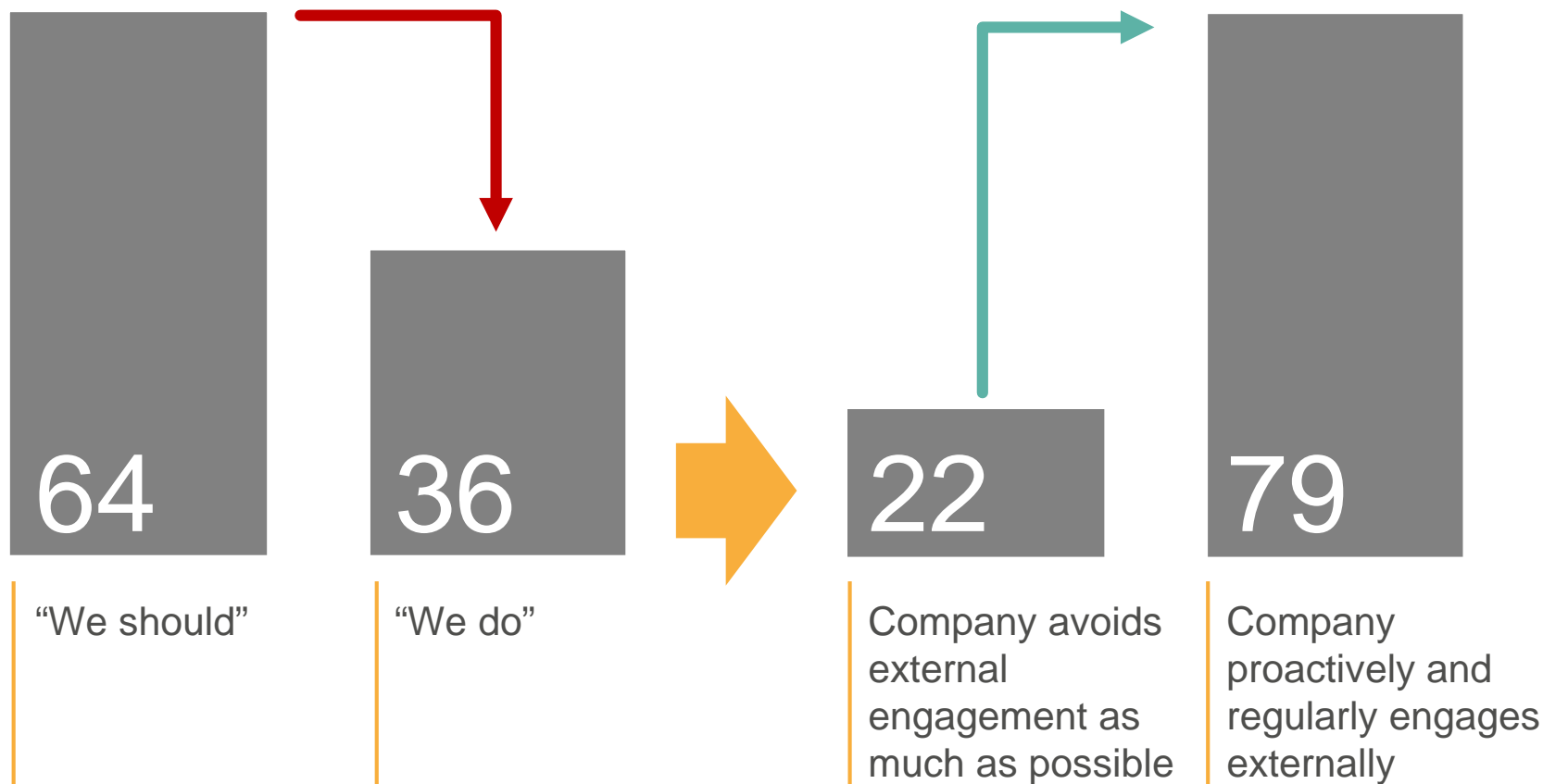
¹ Positive media mentions minus negative mentions

Engage radically

Percent of executives

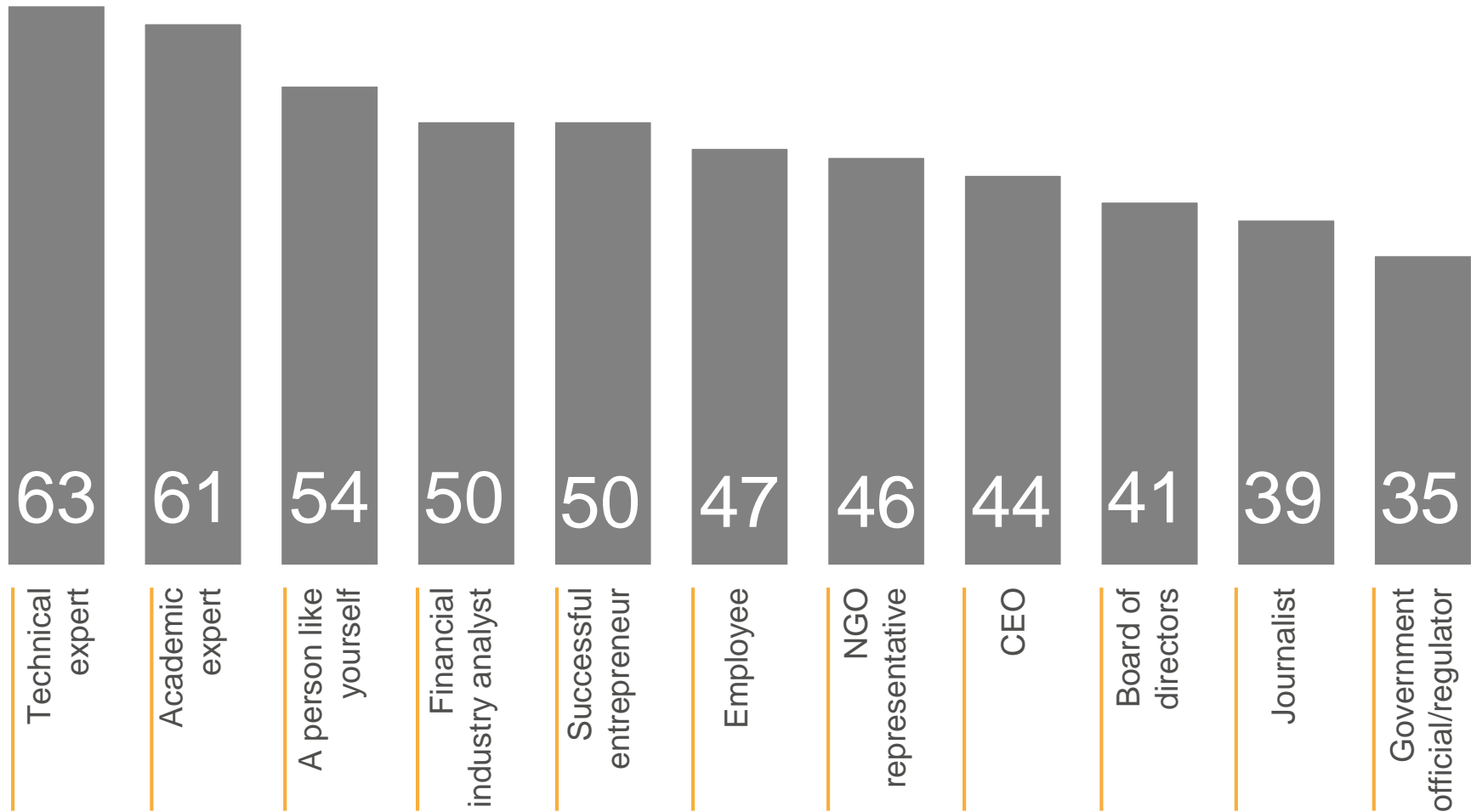
Proactively and regularly engage, regardless of immediate interest

Companies which succeed in engaging externally



Engage radically: Peers, employees more credible than leaders

Percent who rate each spokesperson as very/extremely credible, and change to 2018



Connected leadership will define competitive advantage in the future



Disruptive technologies










New theatres of engagement



More demanding global population

Finally: Is your public affairs organization at “gold standard”?

			
<p>I Map your world</p> 	<ul style="list-style-type: none"> Value-at-stake not explicitly quantified, or only for selected issues (e.g. taxation) No formal monitoring of issues as they arise Issues prioritised with limited input from top mgmt and BUs 	<ul style="list-style-type: none"> Value-at-stake calculated for most issues related to current strategy (2-3 year) Limited issue monitoring Limited integration of views (across BUs/countries) on prioritisation of issues 	<ul style="list-style-type: none"> Clear view of megatrends Value-at-stake quantified both upside and downside Deep understanding of key stakeholder needs Prioritised agenda for external engagement
<p>II Define your contribution</p> 	<ul style="list-style-type: none"> Value proposition mainly defined towards shareholders, less so towards other stakeholders <i>Ad hoc</i> success stories of positive contribution 	<ul style="list-style-type: none"> Contribution to external stakeholders (e.g., communities, NGOs, governments) clear in some countries but no systematic alignment at Group level 	<ul style="list-style-type: none"> Contribution sized to relevant stakeholders (e.g. jobs, economic contribution) Clearly articulated value proposition to society (“win the game” vs. “play the game”)
<p>III Embed in the business</p> 	<ul style="list-style-type: none"> External Affairs not a high profile group in the company Mainly seen as “nay-sayer” and only involved when compliance/risk arise Seldom participates in joint teams w/ Finance, Strategy 	<ul style="list-style-type: none"> Seen as emerging function that generates value for business and shareholders Limited input to Group strategy processes Performance assessment not credibly linked to value 	<ul style="list-style-type: none"> Visible, attractive function that gets CEO attention Active role in key business processes Metrics and targets linked to business objectives High-quality training
<p>IV Engage radically</p> 	<ul style="list-style-type: none"> No formal stakeholder mapping Engagement of stakeholders left to country discretion 	<ul style="list-style-type: none"> <i>Ad hoc</i> stakeholder action plan, mainly focusing on current set of stakeholders Some coordination and sharing of best practices across countries 	<ul style="list-style-type: none"> Compelling narrative to internal and external stakeholders Influencers / challengers identified and mapped systematically Structured action plan (influence, partner, invest, communicate) for key stakeholders

A blurred photograph of a crowd of people walking in a modern, brightly lit interior space, possibly a lobby or hallway. The people are out of focus, creating a sense of movement and activity. The background features large glass panels and a polished floor that reflects the scene.

Q&A

