

APRIL 2015

Business and society in the coming decades

Kathleen McLaughlin and Doug McMillon

In the long term, corporate and societal interests converge. Walmart CEO Doug McMillon and SVP of sustainability Kathleen McLaughlin argue companies have an opportunity to use their scale and expertise to reshape global systems and mitigate complex problems.

Business exists to serve society.

Over the past several decades, one of the great discussions within capitalism has centered on defining exactly what a business is and what its obligations are to society at large and to the many stakeholders participating in business systems, including customers, shareholders, employees, suppliers, and communities, to name a few.

The obligations to society have been defined in different ways at different points. For many retailers, including Walmart founder Sam Walton, the focus has been first and foremost on serving the customer. For others over the past couple of decades, the focus was myopically on the shareholder. With the advent of shared-value, double-bottom-line, triple-bottom-line, and related movements, we have seen a broadening of the discussion to recognize the importance of multiple stakeholders and the need to promote social, environmental, and financial value.

Long-term capitalism goes one step further, asking companies to actively reshape the systems in which they operate. Those systems could include the complex of logistical and shipping services that move goods around the globe, the web of overseas contract manufacturers on which companies rely, or the array of energy suppliers that fuel worldwide operations. Long-term capitalism takes a deeper view of business's role in society, recognizing that, in the long run, the

interests of stakeholders converge with the interests of the broader community. The actions of any one company may reverberate throughout the various systems in which it operates, generating second- and third-order benefits as well as negative externalities. Under long-term capitalism, companies recognize that fact and, through concerted action with others of sufficient scale, work to ensure constant improvements to those systems.

There are compelling reasons companies should seize the initiative to drive social and business benefits. First, in an interconnected world facing unprecedented environmental and social challenges, society will demand it. Increasingly, a basic expectation among customers, governments, and communities will be that the companies they do business with provide a significant net positive return for society at large, not just for investors. This will be a part of the implicit contract or license to operate.

Second, adding these other forms of positive return and improving systems will make the business more sustainable in the long term. Every company should be able to contribute value to society through its core businesses. By collaborating with other members of their networks and pursuing initiatives that draw on their particular capabilities, they can make society stronger in ways that also fortify their business. There is generally ample scope to do this, even for companies facing near-term earnings pressure, because the overlap between short-term, close-in interests and longer-term, societal interests is almost always large.

The basics: Add value for society as well as business

When it comes to serving society, a company's first task is to ensure that its core business is fundamentally value creating—not just for shareholders but also for customers, employees, suppliers, communities, and the environment.

This stakeholder-value principle may seem obvious, especially given the extent to which triple-bottom-line thinking has seeped into mainstream business discourse. Yet financial short-termism still drives day-to-day decision making for much of the corporate world. For many, shareholder value creation remains the driving force of business initiatives; creating value for stakeholders becomes a by-product or a means to an end. Even when faced with reputational challenges, companies sometimes launch social initiatives as side projects only tenuously linked to the core business, rather than strengthening and articulating the ways in which the core business adds value to society.

Taking a more expansive view of serving society means first ensuring the core business delivers value to the broader set of stakeholders. Is it adding value to the local community, for example, through taxes and engagement with local organizations? It also means addressing externalities related to the core business.

At Walmart, that includes trying to minimize the environmental footprint of our operations. Between 2010 and the end of 2013, we reduced our energy consumed per square foot by 7 percent, and we now source 24 percent of our global electricity needs from renewable sources—progress toward our long-term goal of 100 percent. By the end of 2014, we were diverting more than 81 percent of our waste in the United States from landfills through recycling and reuse, on our way to our goal of generating zero waste.

Go beyond the core to change the system

While it is important to operate the core business in a way that delivers value for society and the business, a healthy, high-performing company can and must go further. The world faces social, environmental, and financial challenges of unprecedented magnitude and complexity. No one actor can resolve these issues single-handedly. Governments and civil society are increasingly calling business to the table.

Meanwhile, globalization and technology have heightened interdependence in our social, environmental, and financial systems. Even seemingly small actions can have serious consequences for others far away in space and time. Globalization and technology have also greatly increased transparency. Actions and their consequences, however far removed, are much more visible to all.

These forces have increased the opportunities—and the responsibilities—of business. If in the past 20 years the discussion has been about the need for business to serve stakeholders beyond just the customer and the shareholder, the next 20 years will be about the need for companies to improve the networks and systems they depend on. Leading businesses are actively using their scale and their particular assets to accelerate progress on tough social and environmental issues.

So, how can companies define their unique contribution to making society stronger? At Walmart, we use five screens.

1. Prioritize issues that are relevant to the company mission

Like most companies, we look for those issues that sit at the convergence of our business interests and the interests of society. For example, as the world's largest grocer, we believe the sustainability of the world's food supply is one of the areas in which we can make a significant contribution.

The United Nations projects that food production must increase by roughly 70 percent to feed the estimated nine billion people who will inhabit the planet by 2050. We will need to meet that challenge in a way that is sustainable for the environment and equitable for consumers and

farmers (who make up two-thirds of the population in emerging markets). Our goal is to make the food system safer, more transparent, healthier, and more accessible—and to lower the “true cost” of food for the environment as well as customers and farmers.

2. Draw on the company’s particular capabilities

Even in purely philanthropic areas, companies can have greater impact by drawing on their unique business capabilities and applying those skills to complex societal problems. In our own efforts, we try to add value in ways that are different from—and ideally additive to—what others can do.

For example, to address hunger in the United States, we make use of our particular assets. Over the past several years, we have donated nearly 1.5 billion pounds of food to food banks across the United States, including an increasing amount of fresh food nearing the end of its shelf life. This improves nutrition among those most in need, while reducing the amount of food we send to landfills as waste. We also donated more than 180 trucks and refrigerated trucks, as well as time and expertise in logistics (since this is an area we understand well), to help strengthen the country’s charitable cold chain.

3. Aim for a triple bottom line

In tackling priority issues, we design our initiatives to promote benefits for society as well as business. We set ambitious targets, and we track progress rigorously.

In food sourcing, for example, we pursue initiatives that lower the environmental and financial cost of food production. One of these initiatives, agriculture optimization, aims to reduce greenhouse-gas emissions by eight million metric tons across ten million acres of row crops such as oats and rice by 2020. Similar initiatives in the food chain and our own operations have allowed us to reduce our greenhouse-gas emissions by approximately 18 million metric tons since 2010. To do so, we are working with the Environmental Defense Fund, as well as other large food companies, including Cargill and General Mills, to adjust the use of fertilizer and other inputs. We measure progress by tracking improvements in greenhouse-gas emissions, water, yields, and other critical factors per ton of food produced, by supplier and by category.

Such initiatives provide classic triple-bottom-line results. Besides the important reduction in greenhouse-gas emissions, they helped us to cut the price of fruits and vegetables in the United States by a total of \$3.5 billion through 2012 and 2013, offering important benefits for our customers and improving the world’s food supply.

4. Reshape the system for lasting improvement

In the era of long-term capitalism, companies can and must go beyond the kinds of improvements described above. They can do this by harnessing their expertise and scale and by joining with other organizations to reshape global systems for lasting improvement.

The global food system is essential to our business. For it and for us to succeed, the system must evolve in a way that is sustainable for the environment and smallholder farmers around the world; the system also must be high-enough yielding to feed a growing world population. Walmart is working to enable that evolution. For more than a decade, we have been collaborating with the US Agency for International Development to improve the lives of smallholder farmers and women in the agriculture supply chain. Through our direct farm initiative in Central America, USAID and its implementing agencies have provided agricultural expertise, training, and capital for infrastructure to smallholder farmers, preparing them to sell into the organized retail sector. Walmart provides specifications based on consumer preferences, guidance on timing for different crops and varieties, and regular purchase orders for offtake of farm production. Smallholders gain a better price and more stable income, as well as the skills to improve yields and profitability. Local customers gain a wider variety of better-tasting fruits and vegetables at the time of year when they want to buy. The agriculture sector gains productivity and becomes more viable. In Argentina, for example, more than two-thirds of our fruit and vegetable supply now comes from such direct-farm programs. In our U.S. private-label supply chain alone, we depend upon roughly \$4 billion per year in agricultural products from small and midsize farmers.

Now we are exploring opportunities to collaborate with others to strengthen transportation and processing infrastructure in emerging markets. This will help develop local economies, feed local populations, and support local farming families, all while providing a secure supply of high-quality food products for Walmart customers.

5. Engage partners in transforming systems

To achieve lasting solutions to complex social and environmental challenges, we have learned that it is essential to engage and collaborate with other leaders of the systems we seek to strengthen.

The difficult challenges facing the world today are well beyond the scope of any single player to address. Solutions will depend on cooperation among leading organizations in all sectors.

To achieve the magnitude of change the United Nations, World Wildlife Fund, CDP and others have called for in food, such as a reduction in water usage, a 3 percent annual decrease in private-sector greenhouse-gas emissions, and a 15 percent increase in yield in the next ten years, leaders of the food system must take concerted, coordinated action. In recent years, there has been an explosion in the number of multistakeholder collaborations in the food system, including the Consumer Goods Forum, which aligns retailers and manufacturers in achieving global food commitments such as sourcing 100 percent sustainable palm oil and soy; the World Economic Forum, with its Grow Africa and related initiatives; USAID's Global Development Lab, to harness the power of the private sector and others in addressing development challenges; and the Clinton Global Initiative, with its innovative approach to sparking collaborative commitments from corporations, to name just a few.

Embed the values in the business


The commitment to address social and environmental issues should be a “whole company” undertaking, woven into day-to-day business activities; it's not just a matter of corporate philanthropy.

Many companies, including Walmart, develop social and environmental priorities as part of annual business-planning efforts. We have made bold, public commitments—for example, to help train one million farmers by 2015 and to source 100 percent sustainable palm oil by 2015. These commitments focus our efforts and force innovation. Many of these commitments are made jointly with suppliers and our partners at nongovernmental organizations.

Leaders in the company, including the heads of business units and functions, set the social and environmental agenda for their respective parts of the operation. They set targets and cascade those down the line into the individual performance evaluations and business reviews of their team members. The capital-planning process explicitly addresses the social and environmental agenda.



In the long term, a company's business interests and the interests of society converge. Companies, communities, individuals, and governments: we are all interdependent. Every healthy, high-performing company has an obligation to use its strengths to help society, and each can do so in ways that enhance the viability of the business, too. From how products are grown and made to how they're transported and sold, companies can pursue innovative new

methods and processes that provide lasting benefits to their stakeholders and to the communities in which they operate. Large-scale change does not happen overnight, but the stakes and potential benefits are immense. 

This essay is from *Perspectives on the Long Term: Building a Stronger Foundation for Tomorrow*, a book published by Focusing Capital on the Long Term. For more information about FCLT, an initiative cofounded by McKinsey & Company and the Canada Pension Plan Investment Board, visit www.fclt.org.

Kathleen McLaughlin is president of the Walmart Foundation and senior vice president of sustainability at Walmart Stores. **Doug McMillon** is president and CEO of Walmart Stores.

Copyright © 2015 McKinsey & Company. All rights reserved.