

Economic empowerment made-to-measure: How companies can benefit more people

Connections, contexts, and capabilities can guide corporate efforts to create empowerment impact efficiently.

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At a glance

- **The “empowerment line” measures progress toward a world where everyone’s essential needs are met.** About 40 percent of the global population lives above the empowerment line—they can afford a standard basket of essential goods and services and begin to save. The rest live below the line, mostly in lower- and middle-income economies where GDP growth is the main driver of empowerment. At higher GDP levels, income inequality and the cost of essentials become increasingly important barriers to empowerment.
- **Different populations face different combinations of empowerment challenges.** Even in economies at similar GDP levels, the share of people living below the line varies widely, because costs and income opportunities vary. Empowerment may be out of reach for context-specific reasons, including, for example, the affordability of housing or food, or the availability of stable jobs with sufficient wages.
- **The private sector is pivotal to achieving empowerment and has a wide array of options.** As the employers of most of the global workforce, companies have a natural role in empowering employees, customers, suppliers, and communities. An analysis of the initiatives of 100 large companies finds about 70 types of initiatives for empowerment, from subsidized employee healthcare and food-bank donations to make essentials more affordable, to training programs to enhance income-earning potential.
- **Connections, contexts, and capabilities can guide initiatives.** Companies could design made-to-measure initiatives with three considerations: (1) connections: taking stock of which stakeholders within reach cannot afford basics and what their needs are; (2) contexts: identifying major barriers to empowerment in particular locations; and (3) capabilities: understanding what advantages a company’s core products and services, as well as its assets and operations, offer to empower its stakeholders.
- **Companies can use “empowerment impact” as a unifying metric to measure benefits to people in need.** By also considering the costs borne by the company, initiatives can be ranked from highest to lowest efficiency along an empowerment cost curve. To guide their actions, companies can then assess and prioritize initiatives that are otherwise difficult to compare. Tracking the number of people empowered is an effective tool to communicate their efforts.

The empowerment line sets a global standard for economic inclusion

Full economic empowerment is achieved when a household can afford basic goods and services, go to work, contribute to economic growth, and focus on more than mere survival. To measure empowerment, we use the empowerment line, a metric developed by the McKinsey Global Institute (MGI) that estimates the cost of a basket of essential goods and services—including housing, healthcare, food, and transportation—for a frugal yet decent quality of life.¹ (See the technical appendix for a fuller description of the empowerment concept.)

Empowerment thresholds vary widely from economy to economy, increasing from a global floor of \$12 per person per day in purchasing power parity terms. In nominal terms, economic empowerment in Egypt, India, or Indonesia is \$4 to \$5 per person per day, for example. In Brazil, China, Mexico, or South Africa, the threshold is about twice as high, at \$8 to \$13 a day.² In Australia, Italy, or Japan, it’s \$20 to \$40 a day. And in the United States and Switzerland, empowerment requires \$55 to \$70 per person per day.³ Establishing each economy’s threshold makes it possible to size its empowerment gap, which is the boost in spending power needed for everyone to reach the empowerment line (see sidebar “Estimating the empowerment share”).

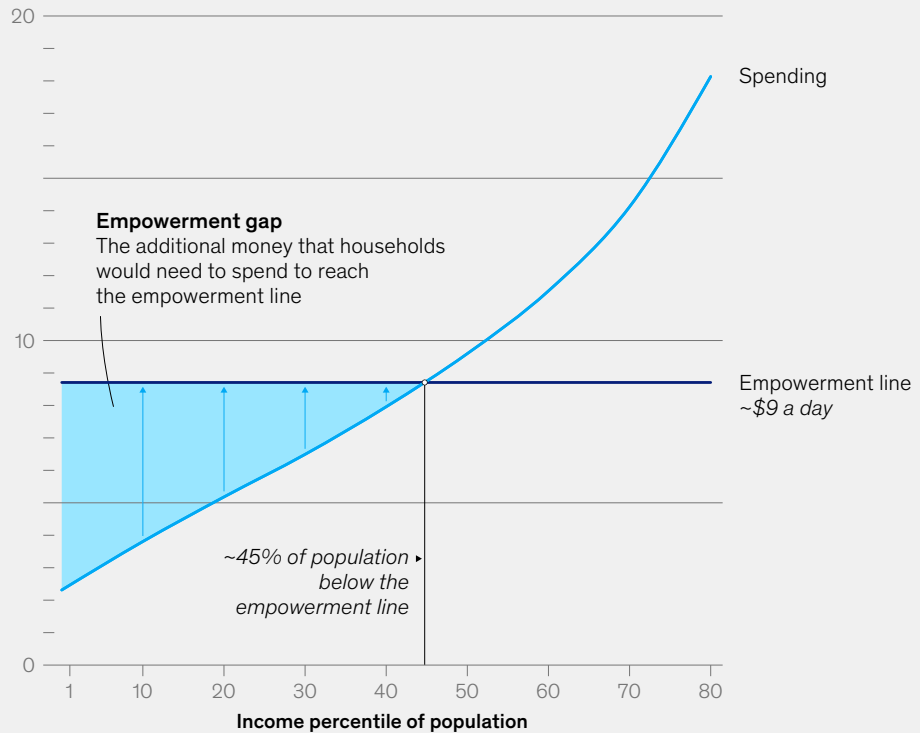
Estimating the empowerment share

We estimate the share of the population below the line in each economy by comparing per capita daily spending to the empowerment line (exhibit). In this illustrative country, the empowerment line is about \$9 per person per day, and the spending of roughly 45 percent of the population falls below this line.

Exhibit

We estimate the share of the population below the line in each country by comparing per capita daily spending against the empowerment line.

Illustrative example of daily spending per person by income percentile, \$



Source: McKinsey Global Institute analysis

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In 2020, approximately 60 percent of the global population—4.7 billion of the world’s 8.0 billion people—lived below the empowerment line and struggled to make ends meet, according to our calculations. Every populated continent and country has people below the line. For instance, in the Americas, there are about 120 million people below the empowerment line in Brazil and an additional 70 million in the United States. In Asia, there are one billion below the line in India and about 640 million

in China. In Europe, higher-income nations like France, Germany, Italy, and the United Kingdom each have between nine million and 15 million people living below the line.

What lifts people into empowerment? The answer has many layers. For 4.3 billion people residing in lower- and middle-income economies—accounting for 95 percent of the world’s people below empowerment—GDP growth is likely the

most powerful path. Consider that, in lower-income economies, only about one-quarter of the population (1.1 billion out of 4.2 billion people) reaches the empowerment line. In middle-income economies, this share increases substantially, to roughly half (1.4 billion of 2.6 billion people). And in higher-income economies, home to 14 percent of the global population, the share grows to about 80 percent of the people who are economically empowered (930 million of 1.2 billion people).⁴

But that still leaves 20 percent of the population even in higher-income economies that are not economically empowered—and that number is stubbornly consistent even as GDP per capita grows. In other words, countries can't seem to grow their way out of the issue and economically empower the final 20 percent of the population. Costs of essential goods and services have been rising faster than overall inflation in many markets, making empowerment out of reach for some households, even as GDP per capita increases.⁵

In higher-income economies, inequality (the distribution of national income and wealth) and affordability (the costs of basic goods and services) are increasingly important. Previous MGI research shows that for higher-income economies, differing levels of per capita GDP explain less than 15 percent of the differences in empowerment outcomes. Inequality and affordability collectively account for 80 percentage points of the variation in empowerment outcomes.⁶

Expanding on previous MGI research, this article offers practical insights for companies aiming to increase economic inclusion through their core businesses or corporate social responsibility (CSR) budgets.⁷ While acknowledging that the public sector plays an important role, our focus

is on what the private sector could achieve in economic inclusion, using empowerment impact as a unifying metric.⁸

The insights in this article are supported by two main analyses: one macro and the other micro. First, our macro-level analysis of 120 economies assesses the relative importance of labor market metrics and the cost of essentials that influence empowerment outcomes. Next, to understand how companies are acting to support empowerment, our micro-level analysis looks at the initiatives of 100 large companies to find about 70 types of initiatives for empowerment. Of these initiatives, we estimate the cost efficiencies of a subset of illustrative cases and observe that the efficiencies vary with implementation and specific company circumstances.

To help companies refine their understanding of where to engage, we then propose a practical framework based on connections, contexts, and capabilities. The article wraps up by introducing the “economic empowerment cost curve” as a tool to help companies better assess and prioritize their initiatives for greater social impact.

Empowerment challenges differ across countries, including those at similar levels of GDP per capita

How can companies help people acquire sufficient spending power to meet their fundamental needs? The answer depends on context, considering local elements that affect both household incomes and household expenditures (see sidebar “Paths to empowerment”).⁹ To get there, companies must first grasp the contours of the problem and then who is most affected.

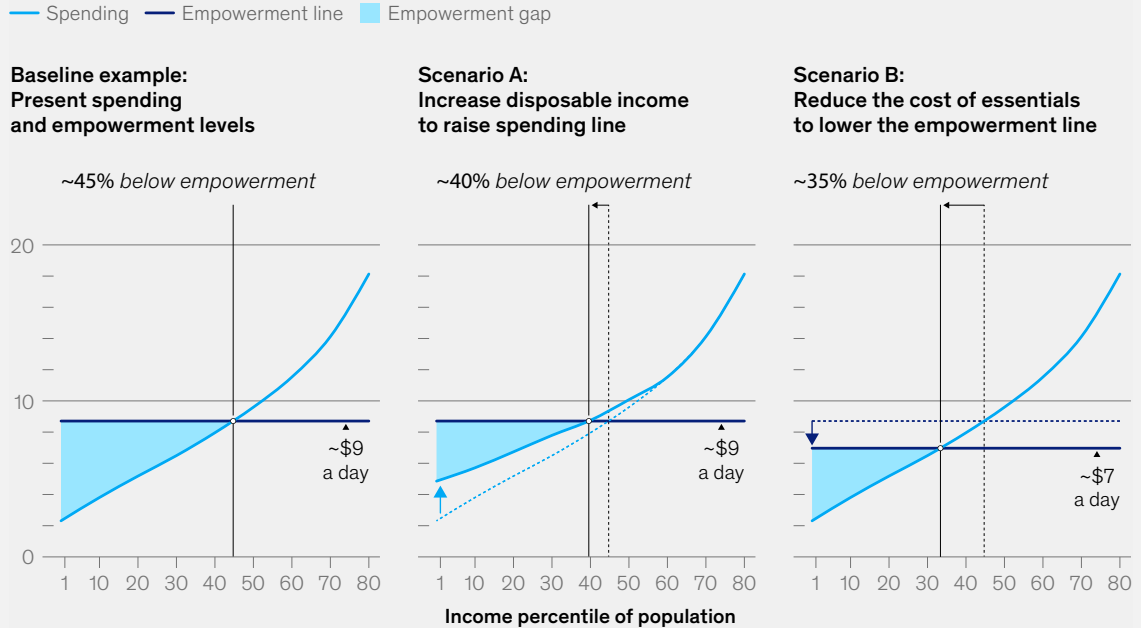
Paths to empowerment

Incomes and costs offer two paths to empowerment. The first raises disposable income so that people can spend more on essential goods plus services. The second reduces the cost of essentials to increase the purchasing power of households (exhibit).

Exhibit

Both increasing disposable income and reducing the cost of essentials can bring people closer to economic empowerment.

Illustrative example of daily spending per person by income percentile, \$



Source: McKinsey Global Institute analysis

McKinsey & Company

There are many elements influencing economic empowerment on both the income side and the spending side. Our macro-level analysis of 120 economies (home to more than 90 percent of the global population) breaks down into nine such elements—including four labor market metrics and five major components of cost of essentials—into

measurable dimensions to capture the relative scale (Exhibit 1).¹⁰

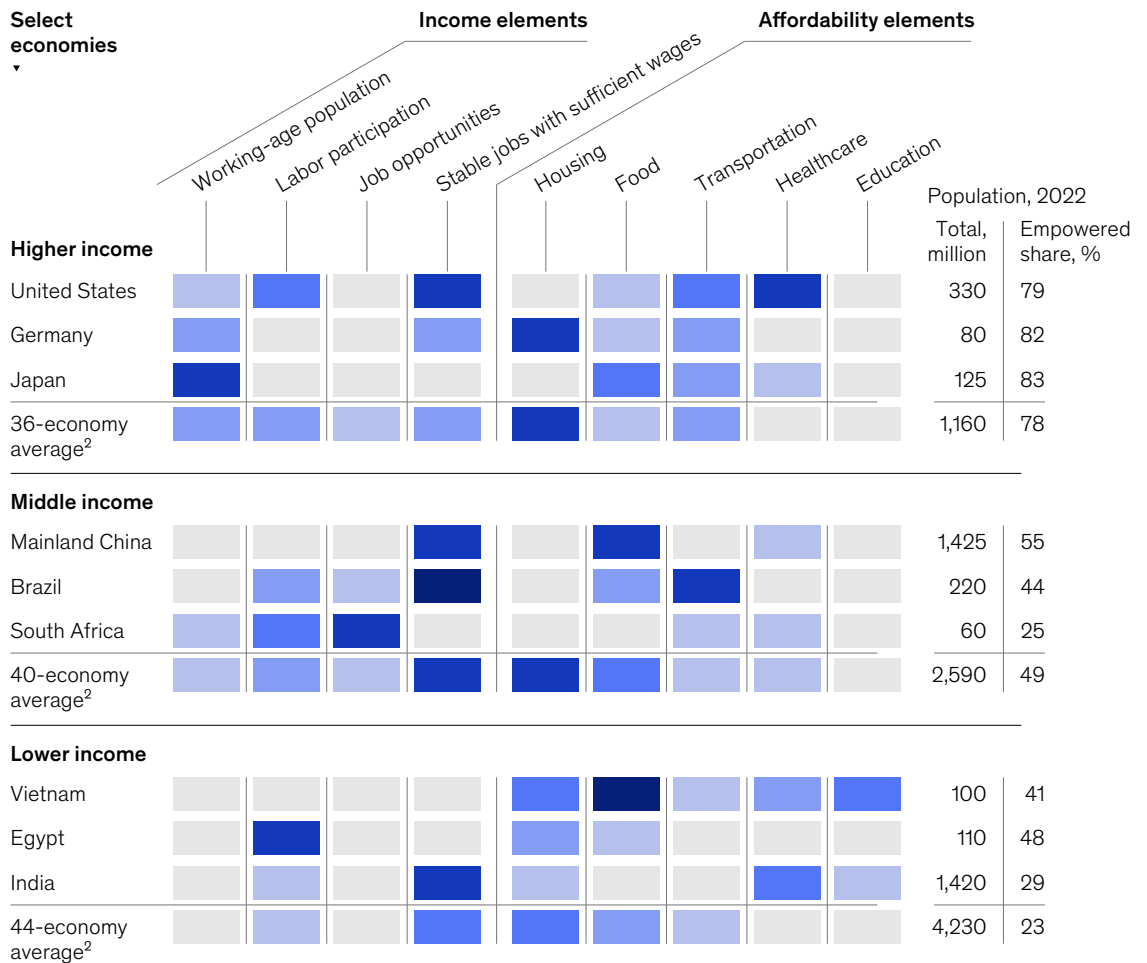
We illustrate the share of the population that would shift above the empowerment line if an economy could match one element to the same level as the best-performing economies at their income level, while keeping the other elements constant.

Exhibit 1

At the country level, the elements contributing to the degree of variation in empowerment share look very different.

Importance of 9 income and affordability elements influencing economic empowerment¹

Level of importance: Lowest Highest



¹Measured by share of the population that might be lifted above the empowerment line if a country could match one element to the same level as best-performing countries at their income level, while keeping other elements constant.

²Simple average.

Source: WageIndicator; World Data Lab; Oxford Economics; World Bank; United Nations; International Labour Organization; McKinsey Global Institute analysis

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At the country level, the proportion of the population that can be counted as economically empowered varies significantly, and for different reasons. Context clearly matters—there are significant variations even among economies with comparable levels of GDP. To illustrate the types of variations, we look briefly at three economies in each of the three income bands (higher, middle, and lower income):

— **Higher income: United States, Germany, and Japan.** These are the three largest higher-income economies. In Germany, for example, housing costs account for 48 percent of the empowerment basket—higher than in the United States (24 percent) and Japan (20 percent). There is an opportunity to help reduce housing costs in Germany.

In comparison, Japan, with its aging population, faces a different empowerment challenge. With only 58 percent of the population aged 15 to 64 as of 2022—compared with 65 percent in the United States and 64 percent in Germany—Japan’s workforce is relatively small and shrinking.¹¹ With fewer working-age individuals, Japan faces the dual challenge of sustaining economic growth and supporting a growing elderly population.

— **Middle income: China, Brazil, and South Africa.** These are the largest economies in their respective continents. Food costs represent the largest share of the empowerment basket for middle-income economies, averaging 31 percent of total expenses. In China, food accounts for 46 percent of empowerment costs, likely due to high production costs.¹² In Brazil, by contrast, the primary affordability barrier is transportation. The country’s immense size, diverse terrain, and uneven population distribution make mobility a critical challenge.¹³ Transportation costs make up 24 percent of empowerment costs in Brazil, compared with 12 percent in China and 13 percent in South

Africa. These contrasting affordability levels highlight the need for tailored solutions.

For South Africa, a lack of sufficient employment opportunities is a much more pressing issue. Its unemployment rate stands at 29 percent—much higher than in China (5 percent) and Brazil (9 percent).¹⁴ In South Africa, companies could help address structural barriers to reduce inequality and create pathways for a much broader base of the population, including through access to education and skill development.¹⁵

— **Lower income: Vietnam, Egypt, and India.** These are large emerging economies in their respective regions. Labor force participation is a major challenge in Egypt—just 46 percent of the population is in the labor force, compared with 78 percent in Vietnam.¹⁶ Improving labor force participation in Egypt could empower many more people while also helping to unlock greater productivity and financial stability.

In India, about 90 percent of the workforce is in the informal sector, where workers and the self-employed may receive less in income and benefits.¹⁷ This compares with, for instance, 67 percent in Vietnam.¹⁸ The high prevalence of informal employment stems from factors like the large agriculture sector and the vast number of small and microenterprises.¹⁹ Companies can create conditions for accelerating investment to lift productivity and grow, so that they can employ more workers from the informal sector.²⁰

Empowerment challenges can vary significantly among people with different education levels and members of different demographic groups (see sidebar “Empowerment challenges faced by subgroups”).²¹ For instance, in Japan, the elderly population (those 65 and over) faces a higher relative poverty rate than the rest of the population (under 65). And within this older demographic, women are much more likely to live in poverty than men.²²

Empowerment challenges faced by subgroups

Across demographic groups, those with lower educational attainment and members of single-parent households are less likely to be economically empowered than others. We compared the likelihood of being below the empowerment line

by level of education and demographics in selected higher- and middle-income economies. Individuals with only a presecondary education are 1.8 times more likely to be below the empowerment line than the national average, while individuals

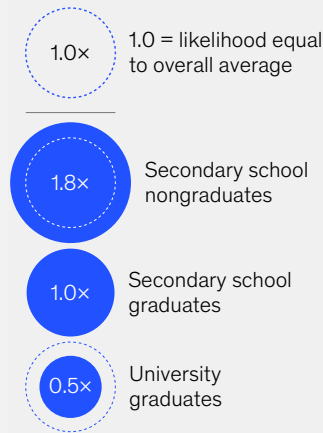
who have completed tertiary education are half as likely to be not empowered. Compared with dual-parent households, members of single-parent households are more than twice as likely to be below the empowerment line (exhibit).¹

Exhibit

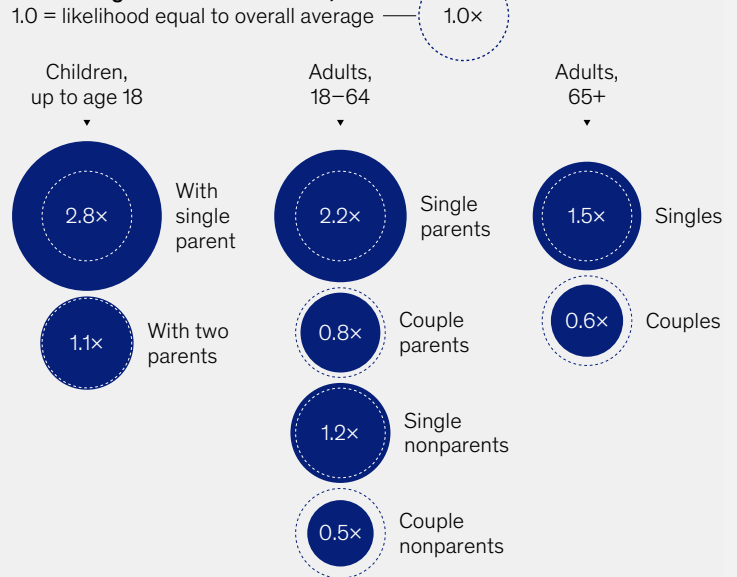
Empowerment challenges tend to be concentrated in groups with lower education levels and in single-parent households.

Likelihood of being below empowerment line¹

By education level in the European Union (all higher- and middle-income economies)



By household demographics in 7 select high-income economies,²



¹Likelihood presented as a ratio with respect to the national average relative poverty rate.

²Australia, France, Italy, Japan, Spain, Sweden, and United Kingdom.

Source: Eurostat; Australian Council of Social Service; France's National Institute of Statistics and Economic Studies (INSEE); Ministry of Internal Affairs and Communications of Japan; Spain's National Statistics Institute (INE); Statistics Sweden; Joseph Rowntree Foundation; McKinsey Global Institute analysis

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¹ We are not analyzing a causal relationship between single parenthood and empowerment, because the connection may be endogenous. Single parenthood may place individuals in situations where they are more likely to encounter barriers to empowerment. For example, single mothers with young children, particularly African Americans, face heightened risk of eviction. See Matthew Desmond, *Poor black women are evicted at alarming rates, setting off a chain of hardship*, MacArthur Foundation policy research brief, March 2014.

Understanding what matters most in each economy is important not only for the public sector to set effective policies but also for private-sector actors. With this view, companies can better serve the needs of the populations where they operate.

The private sector has a wide array of options to promote empowerment

The private sector employs most of the global workforce and helps keep the cost of essentials affordable. Companies are also experiencing pressure to create social impact.²³ We see companies all over the world contributing to the economic empowerment of billions of people. Companies do this through their core businesses as well as their training programs, retention benefits, social initiatives, and other actions.

Sizing the private sector's impact on empowerment is not straightforward, but we look at the United States and Europe to get started. We estimate that the US private sector contributes roughly \$4.0 trillion annually toward empowering employees, suppliers, and communities. That figure includes \$3.9 trillion allocated to the income of all 137 million private-sector employees, including empowered employees, only up to the empowerment line. Corporate benefits to reduce the cost of essentials necessary for an empowered life are also included in this \$3.9 trillion.²⁴ An additional \$135 billion in philanthropic giving by companies and private foundations is also included.²⁵

It is notable that this \$4 trillion contribution is roughly eight times the remaining empowerment gap in the United States, which currently stands

at \$500 billion, and roughly two-thirds of the current consumption of the US population up to the empowerment threshold. In Europe, household income from the private sector by the same definition is about \$2.1 trillion per year, or seven times the remaining empowerment gap.²⁶ Households below the empowerment line often have some portion of their consumption needs met by government transfers, but many are employed as well, particularly in retail and hospitality jobs. Wage levels are important for these households because any net increase in earnings goes directly toward reaching the empowerment threshold.²⁷

Given that companies are already big players in economic empowerment globally, even modest increases in their positive impact could help lift vulnerable populations wherever they are found. To complement our top-down look at empowerment from the country level, we also take a view from the bottom up, asking what individual companies are doing now and what they might do better. For some answers, we examine the initiatives of 100 global and large companies.

Looking across this group of 100 companies that span both regions and industries, we find in company reports that there are about 70 different ways to contribute to economic empowerment across seven of the nine elements.²⁸ These actions or investments increase empowerment beyond what companies are already doing—either pursued as part of their core business serving customers, employing workers, and doing business with suppliers, or through CSR activities delivered to their communities (Exhibit 2 shows more detail on action by four main groups of stakeholders served).²⁹

Exhibit 2

Analyzing the efforts of 100 companies reveals the private sector is taking ~70 types of actions to contribute to economic empowerment.

<i>Economic empowerment element</i>	Company actions by stakeholder group			
	Employee	Supplier	Customer	Community
<i>Sufficient labor force participation</i>	<ul style="list-style-type: none"> • Entry-level opportunities • Hiring policies • Flexible work policy • Childcare support 	<ul style="list-style-type: none"> • Supplier development and support • Supplier diversity programs 	<ul style="list-style-type: none"> • Childcare solutions • Clearinghouse for jobs • Technology for job search • Technology for remote working 	<ul style="list-style-type: none"> • Workforce reentry • Community investment
<i>Stable jobs with sufficient wages</i>	<ul style="list-style-type: none"> • Living wages • Profit sharing • Stock ownership • Nonwage benefits • Training/education support • Pathway from apprenticeship to full-time • Formal employment upskilling 	<ul style="list-style-type: none"> • Living wage pledge • Ethical sourcing • Collective bargaining 	<ul style="list-style-type: none"> • Products for training/upskilling • Mobile reader for card payments 	<ul style="list-style-type: none"> • Training/upskilling support • Local organization partnership • Local hiring • Living wage advocacy
<i>Housing affordability</i>	<ul style="list-style-type: none"> • Corporate housing • Down payment/rental assistance • Discount negotiation with developer • Location-based pay • Remote work policy 		<ul style="list-style-type: none"> • Mortgage/financing support • Construction cost reduction • Utility cost reduction • Affordable housing provider 	<ul style="list-style-type: none"> • Social housing • Building space donation • Land donation • Land supply unlocking
<i>Food affordability</i>	<ul style="list-style-type: none"> • Free/subsidized meals • Grocery stipends/discounts 		<ul style="list-style-type: none"> • Discount program/brand • Food waste reduction • Production cost reduction 	<ul style="list-style-type: none"> • Food donation • Food access grant • Local agriculture support
<i>Transportation affordability</i>	<ul style="list-style-type: none"> • Shuttle services • Commute time reduction 		<ul style="list-style-type: none"> • Ride sharing • Energy-efficient vehicles 	<ul style="list-style-type: none"> • Rural infrastructure • Public transit support
<i>Healthcare affordability</i>	<ul style="list-style-type: none"> • Well-being support • Health insurance • Pooled healthcare 		<ul style="list-style-type: none"> • Discount program • Well-being incentives 	<ul style="list-style-type: none"> • Well-being support • Healthcare awareness support
<i>Education affordability</i>	<ul style="list-style-type: none"> • Learning programs • Tuition subsidy 		<ul style="list-style-type: none"> • Products for education • Learning management systems 	<ul style="list-style-type: none"> • School dropout reduction • School partnership

Source: Company reports; McKinsey Global Institute analysis

McKinsey & Company

Let us first look at ways companies contribute through their core business of supplying essential goods and services. For example, well-known discount supermarket chains such as Aldi are

keeping food prices low for consumers across the globe through continuous efforts to optimize their supply chains.³⁰ To address rising housing costs, financial institutions such as Bank of America and

Intesa Sanpaolo have announced investments in social housing in the communities they serve.³¹

Companies also aim to improve access to affordable essentials through their CSR activities. To provide more affordable housing in their communities, tech firms such as Amazon, Google, and Meta have announced donations of land and building space.³² Large multinational companies also report that they are taking action in the emerging economies where they operate. One example is CEMEX in Mexico, which UN–Habitat has identified as providing expanded access to loans, training, and building materials to help lower-income households build their own homes.³³ To improve access to affordable food, companies are providing free or subsidized employee meals and grocery discounts to lower the cost of food for employees.

On the income side, a growing number of companies are publicly committing to paying their workers a living wage and helping workers in their supply chains receive fair wages, too. Unilever, for example, has said it will work only with suppliers that pay a living wage by 2030.³⁴ Companies in our sample have also announced reskilling programs to help employees take on higher-productivity—and higher-wage—roles.³⁵ Some are financing the higher education of their low-wage employees and offering pathways for hourly workers to move into staff positions. Companies like Unilever and Nestlé have also discussed their efforts to create work opportunities for women from poor rural areas.³⁶

In addition to supporting employees, some companies have communicated their commitment to wider community upskilling initiatives. For example, according to Microsoft, its 4Afrika initiative has trained more than 1.6 million individuals across Africa to acquire digital skills such as software development and data platform management.³⁷

With so many efforts under way and the often-significant expenditure they entail, how should companies go about prioritizing whom they serve and how?

Depending on the initiative and the company, the cost efficiency of initiatives varies greatly

In the environmental domain, greenhouse gas (GHG) emissions have emerged as a unifying metric for assessing and comparing the GHG abatement impact of various actions. While GHG emissions do not address the full scope of environmental issues (such as water pollution and the depletion of the ozone layer), their use as a metric has gained traction among companies, alongside the concept of net zero, to benchmark progress in climate-change mitigation.³⁸

In contrast, the social domain lacks a widely adopted standardized metric for assessing the impact of different types of initiatives (such as employees' healthcare costs and young community members' employability).³⁹ Without this metric, it could be difficult to find a consistent way to prioritize initiatives with the greatest return on investment.

This is why we see the need for an “empowerment impact” metric for companies, which enables like-for-like comparisons across a wide set of social initiatives to better guide the allocation of resources to empower more individuals. We define our empowerment impact metric as the boost in spending power that reaches people who are below the empowerment line. That boost can come from added disposable income or more affordable basics. Beyond the empowerment line—that is to say, if the empowerment gap is closed for the targeted population—our metric stops counting additional benefits, not because they don't matter to households but because they don't contribute directly to their economic empowerment.

An additional benefit of the empowerment impact metric is that it helps companies quantify and more effectively communicate their progress. There are many different standards and sometimes conflicting measures of impact.⁴⁰ Reporting impact in terms of 1,000 employees empowered or 10,000 community members empowered provides a tangible and relatable measure. Stakeholders can appreciate the impact created by companies on the ground.

Using the empowerment impact metric, we evaluate the benefits provided by an initiative relative to the costs incurred by the company in order to determine its cost efficiency (see sidebar “Estimating cost-to-impact ratios”). A cost-to-impact ratio of 1.0 indicates that a dollar spent by the company delivers a dollar in empowerment benefits to a household below

the threshold. A cost-to-impact ratio below 1.0 signifies a more cost-efficient initiative, meaning less than a dollar delivers at least a dollar in empowerment benefits, and often more. Conversely, a cost-to-impact ratio above 1.0 indicates a less efficient initiative, meaning more than a dollar is required to deliver just a dollar in empowerment benefits.

Estimating cost-to-impact ratios

The cost-to-impact ratio compares the total costs of an initiative with the resulting empowerment benefits.

Total cost borne by the company. For financial companies making loans, the cost is determined by the discount on the loan rate compared with a typical lending rate. For companies that are funding initiatives through capital or operational expenditures without expecting repayment, the full funding amount represents the cost.

Total empowerment benefit accrued by beneficiaries. This component is the product of three factors: targeting effectiveness, intensity, and duration:

- *Targeting effectiveness* measures the proportion of individuals who are lifted above the empowerment line relative to the total number of individuals benefiting from the initiative.
- *Intensity* measures the incremental empowerment benefits that result from reducing empowerment costs or increasing disposable income, capped at the empowerment line per person.

- *Duration* measures the number of years for which the empowerment benefits will accrue.

Discount rate. Discount rates employed to assess future monetary value for corporate and societal investments differ. While multiple approaches arrive at different values for social discount rates, a 2 percent social discount rate based on the “social rate of time preference” approach is commonly used.¹ We apply this to the social benefit, in this case the empowerment amount.

The discount rate used by companies when evaluating investments related to their business is significantly higher because it is commensurate with the weighted average cost of capital (WACC). Setting a WACC depends on several factors, including the risk level (risk-free rate, market risk premium), a company’s industry, and its capital structure.² In our analysis, the costs are the company’s, and we thus apply a WACC. While a WACC is company-specific, 8 percent is often used as a reference value.³

Cost-to-impact ratios are more sensitive to changes in the discount rate when benefits are realized further in the future. For example, housing support for low-wage employees has a ratio of 0.33 if we assume a 2 percent discount rate for benefits, but that ratio is 0.42 if we assume a 5 percent discount rate, due to a longer time horizon (27 percent difference). However, in most of our cases, the difference is small. For 14 out of 17 cases in our sample, the difference is less than 6 percent.

We use externally available information to evaluate the cost efficiencies of a set of initiatives across companies from diverse industries—such as financial services, manufacturing, and consumer goods—while also encompassing a broad geographical range. Some assumptions used in estimating the cost-to-impact ratios are referenced from the academic literature on the topic. Estimates are not generalizable.

¹ Moritz A. Drupp et al., “Discounting disentangled,” *American Economic Journal: Economic Policy*, volume 10, issue 4, November 2018.

² Tim Koller, Mark Goedhart, and David Wessels, *Valuation: Measuring and managing the value of companies*, 7th edition, John Wiley & Sons, 2020.

³ This 8 percent WACC reference value is the average WACC for the Russell 3000 companies, a proxy of the overall US equity market, from 1985 to 2022. See *Cost of capital: A practical guide to measuring opportunity cost*, Morgan Stanley, February 2023.

There are at least four characteristics of cost-efficient initiatives.

What makes an initiative cost-efficient?

Past research on the subject is a good place to start: we highlight the following four characteristics commonly found in companies' cost-efficient initiatives:⁴¹

- *Investment in human and physical capital.* To take one example, extensive research highlights how upskilling individuals promotes long-term self-sufficiency, which is more efficient than direct financial support for addressing basic needs.⁴² Likewise, physical infrastructure investments can yield benefits over many years.
- *Economies of scale.* For example, group health insurance for employees pools risks and administrative costs to save on individual medical expenses.⁴³ Research points to cost-efficient social initiatives spreading their investments over large enough bases to reduce per-unit costs.⁴⁴
- *Targeting of resources at populations below empowerment.* Targeting effectiveness measures the proportion of individuals who are lifted above the empowerment line relative to the total number of individuals who benefited from the initiative. It is a component of total empowerment benefit, and a more effective

targeting contributes to better cost efficiency (as seen in the sidebar “Estimating cost-to-impact ratios”).

- *Operational efficiencies.* Promoting flexible work arrangements through a policy change, for example, can help reduce commuting time and transportation expenses for employees. The increased flexibility could lead to greater empowerment benefits, while the company has the advantage of higher productivity at minimal to no additional cost, as research has shown.⁴⁵

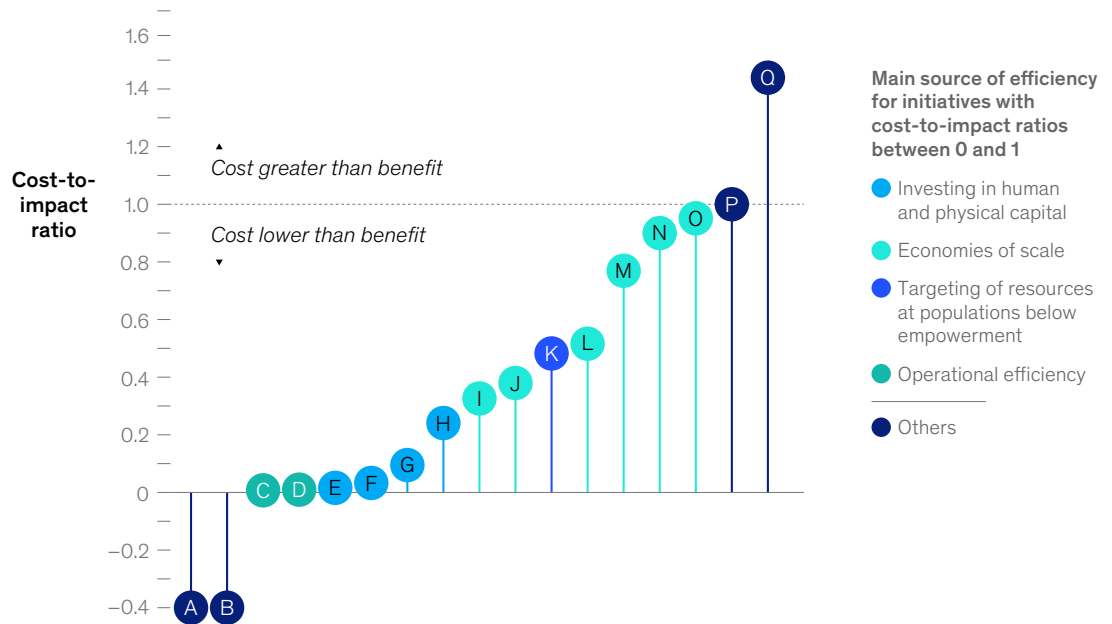
From the roughly 70 types of initiatives listed in Exhibit 2, we selected a mix of 17 across categories that we consider illustrative of the array of options available to reach different stakeholders with empowerment needs and for which data are externally available. We then estimate the cost-to-impact ratios for each and observe that the ratios vary widely: from less than 0 to greater than 1.0. There is evidence that the return on the most effective community or philanthropic initiatives can be up to 1,000 times the return on the least effective ones.⁴⁶ We also find many of the four cost-efficient characteristics listed above at work (Exhibit 3).

Among the 17 initiatives, we identify several highly cost-efficient ones that focus on investing in human and physical capital. These include a career

Exhibit 3

Multiple company initiatives demonstrate the four characteristics that make an initiative cost-efficient.

Estimated cost-to-impact ratio of select illustrative initiatives based on actual company examples¹



- A** Increase the efficiency of logistics and supply chain of a low-cost food retailer to lower food prices²
- B** Launch affordable digital savings product targeted at budget-conscious customers²
- C** Arrange flexible work hours to avoid rush hour and save commuting time
- D** Provide employees advice on optimal public health insurance coverage to reduce out-of-pocket expense
- E** Offer contactless payment card reader to street vendors
- F** Provide low-interest loans to complete the construction of low-cost housing in a suburban area
- G** Provide low-interest loans to complete the construction of low-cost housing in an urban area
- H** Fund free training courses for unemployed young people
- I** Support housing for low-wage employees
- J** Upgrade employee health insurance to a plan with a lower deductible to reduce out-of-pocket expense
- K** Provide education loans using means testing (to target students below empowerment)
- L** Contribute to a food bank providing free warm meals to the elderly
- M** Offer interest-free seasonal public transit loans for low-wage workers
- N** Support childcare for low-wage workers
- O** Fund university course fees to boost the education attainment of low-wage workers
- P** Reduce employer-sponsored group health insurance premium
- Q** Provide education loans without using means testing

¹We use externally available information to evaluate the cost efficiencies of a set of initiatives across companies from diverse industries—such as financial services, manufacturing, and consumer goods—while also encompassing a broad geographical range. Some assumptions used in estimating the cost-to-impact ratios are referenced from the academic literature on the topic. Estimates are not generalizable.

²While values over 1 indicate costs greater than benefits, negative values indicate benefits that exceeded the full cost of implementation.
Source: Company reports; McKinsey Global Institute analysis

training program aimed at unemployed youths (initiative H in Exhibit 3) and investments in large-scale, low-cost housing projects (initiatives F and G in Exhibit 3). The latter two initiatives, while often requiring a high up-front investment, can improve living conditions, stimulate local economies, and create job opportunities that empower more people over time.⁴⁷

Operational efficiencies are evident in two workforce-targeted initiatives in our sample. One initiative allows employees to opt for preferred work hours (initiative C in Exhibit 3). This arrangement may help employees to pick up longer shifts and enhance take-home pay by avoiding peak commuting times or scheduling work shifts around family demands.⁴⁸ Another initiative helps employees, through providing advisory support, select the optimal health insurance coverage to bring down out-of-pocket expenses (initiative D in Exhibit 3).

Alongside operational efficiencies, economies of scale seem to be leveraged in several of the workforce initiatives, where employers use the size of their workforce to achieve cost savings. One example is reducing lower-income employees' healthcare expenses by upgrading an employer-sponsored health insurance plan to one with a lower deductible. The upgrade is efficient because it costs the company less than the benefits accrued by unempowered employees (initiative J in Exhibit 3).

Economies of scale are also at work in the example of a company contributing funds to a community food bank. In this example, the company helps provide basics to under-empowered individuals at lower unit costs, due to the food bank's ability to rely on bulk purchasing of ingredients and volunteer labor (initiative L in Exhibit 3). Our case studies also highlight how targeting resources

at under-empowered populations can improve the cost efficiencies of initiatives. For instance, a bank providing education loans can enhance its empowerment efficiency (as measured by its cost-to-impact ratio) by using means testing to benefit students below empowerment (in Exhibit 3, initiative K is more efficient than initiative Q).

Not only do cost ratios vary across initiatives, but they can also vary across companies for the same initiative. Not captured in Exhibit 3 are the specific circumstances of the implementing company that can further affect cost efficiencies. For example, revisiting the initiative of allowing low-wage employees to opt for their preferred work shifts (initiative C), we have estimated the benefits accrued by employees to be an extra two working hours a day on a cost base of nearly zero. Changing the company circumstances so that only half of the employees are low wage, saving only one hour of daily commuting time due to the local context, then these benefits will be greatly reduced, bringing the cost ratio down by 75 percent. This variation highlights the need for a tailored, "made-to-measure" approach.

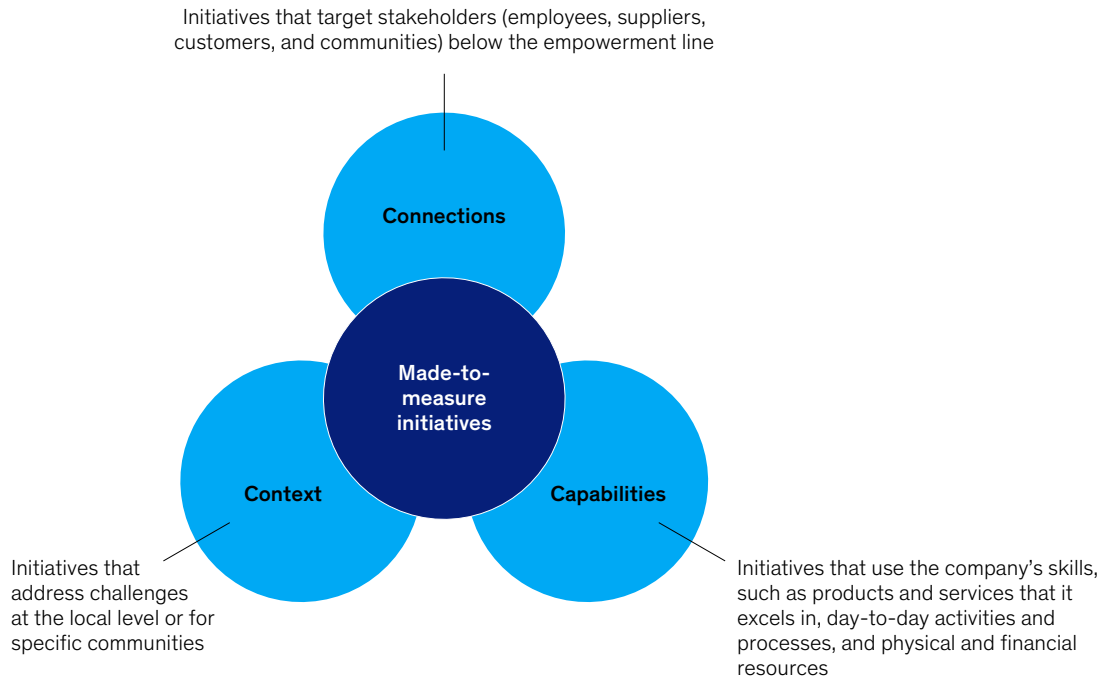
A company can customize its initiatives based on its connections, contexts, and capabilities

With a wide range of empowerment challenges across economies and numerous company initiatives already under way, where should companies focus their efforts? Connections, contexts, and capabilities can serve as a guide, helping companies find their focus area of engagement (Exhibit 4).⁴⁹

Exhibit 4

A company can customize its initiatives based on its connections, contexts, and capabilities.

Overlapping attributes of customized empowerment initiatives



Source: McKinsey Global Institute analysis

McKinsey & Company

Connections to stakeholder groups below the empowerment line allow companies to better focus their efforts

The first step for companies is to use their direct knowledge of stakeholders to identify which groups of them are most likely to fall under the empowerment line. For example, a company might look no further than its own workforce to find people struggling to make ends meet, through reviewing wages and benefits and gathering data on factors affecting the local cost of living, such as commuting times and scheduling challenges. Companies can leverage their ties to stakeholder groups, amplifying the empowerment benefits provided. Below we look

briefly at four groups in turn: employees, suppliers, customers, and communities.

- **Employees.** Workforce empowerment is an obvious place to start because this is where corporate connections are closest. Even in traditionally higher-paying sectors, financial struggles can persist. PayPal, for example, shared that it has assessed the financial wellness of its entry-level employees and discovered that many were struggling to cover basic monthly expenses.⁵⁰ In response, the company launched a financial wellness program aimed at supporting employees' financial stability and overall well-being.

- **Suppliers.** For some companies, their suppliers present greater opportunities for empowerment. Some have committed to ensuring that their suppliers pay living wages.⁵¹ Through their considerable purchasing power and global reach, these companies are aiming to promote fair labor practices to help workers within their networks.
- **Customers.** Knowing customers can also reveal empowerment needs and gaps. This is especially relevant for companies providing essential goods and services—such as utilities, food, and telecommunications—that directly affect consumers' daily lives. For these companies, promoting the economic empowerment of customers aligns closely with their core business mandate. However, it also applies to businesses with broader customer bases. For example, retail banks play an essential role in empowering underserved communities through financial services. By offering accessible credit, savings accounts, and financial literacy programs, banks can become enablers of empowerment.
- **Communities.** Some business-to-business companies may not find many under-empowered individuals among their workforce and customers. They may instead find many under-empowered individuals in the communities in which they operate. Take the example of Salesforce, which has a strong presence in the San Francisco Bay Area. The company has announced financial commitments to organizations combating homelessness in the area.⁵² Luxury retailers, too, may wish to focus their empowerment efforts on the wider community. For instance, Bulgari is a long-standing supporter of Save the Children, helping the organization implement projects reaching more than two million children.⁵³

Individual context can guide which empowerment challenges to focus on

Once companies identify who within their reach is most in need of support, the next step is to understand the specific challenges of individuals. As noted, empowerment challenges vary by

country, and these country-level needs could help inform companies of the needs of stakeholders. In Germany, for example, addressing housing affordability could have a greater impact and benefit more people than other areas of focus.

While national-level priorities could provide helpful guidance on empowerment contexts, empowerment challenges can vary significantly across different groups within a country. Revisiting the example of Germany, regional disparities in housing affordability significantly affect purchasing power, especially for retirees. A recent study shows that regional pension purchasing power varies up to 70 percent due to local cost-of-living differences driven by housing costs.⁵⁴ In southern Germany, where housing expenses are higher, pensions lose purchasing power, versus eastern regions with lower housing costs. Grasping the contextual needs of specific groups and tailoring initiatives accordingly helps allocate resources more efficiently.

Capabilities enable companies to implement certain initiatives more efficiently than others

Guided by the principle of leveraging their comparative advantages—or “superpowers”—companies can generate more value when they invest in initiatives that play to their strengths.⁵⁵ This is consistent with previous MGI research, which suggests that the type of company can shape its economic and societal impact.⁵⁶ Comparative advantages include a company's core capabilities as well as its operations and assets, as follows:

- **Core capabilities.** Companies can contribute to empowerment by tapping into their core capabilities—their products and services. For instance, by equipping more than 1,000 vendors with PayPal's contactless card readers and QR codes, PayPal enabled touch-free digital payments, a core competency, at a lower cost.⁵⁷ In some instances, initiatives with empowerment impact on customers could also be a “win-win” situation when companies, through innovation, address unmet demand in the lower-cost end of markets for essentials while empowering more people.⁵⁸

For instance, Novo Nordisk's social responsibility strategy, Defeat Diabetes, focuses on expanding access to its own diabetes care products to empower more individuals.⁵⁹ With long-standing expertise in insulin production and significant ongoing investment in diabetes treatments, Novo Nordisk is uniquely positioned to advance its mission.

- **Operations.** Operations encompass the day-to-day activities and processes involved in producing goods or delivering services. The supply chain, a critical part of a company's operations, can play a central role in supporting economic empowerment, especially in times of crisis. For instance, PepsiCo announced a Food for Good program aiming to address food insecurity by leveraging PepsiCo's logistics to make meals accessible to low-income families.⁶⁰ The program has also fostered employment in local communities through partnerships and job creation.
- **Assets.** Companies can rely on their physical assets to achieve economies of scale and improve efficiency. Consider, for instance, that the cost of childcare can be a source of financial stress for some US households.⁶¹ Patagonia's headquarters offers on-site daycare to employees at potentially lower costs than external providers, given the scale.⁶² This centralized setup could allow the company to pool resources effectively, reducing overhead per child. Additionally, employees save commuting time by bringing their children to work. In contrast, offering direct childcare subsidies, such as vouchers, would likely yield lower efficiency due to added administrative costs and external variables that are beyond the company's control.

In addition to physical assets, companies and their foundations or charitable arms can contribute financial assets to organizations dedicated to economic empowerment, complementing companies' capabilities to reach stakeholders with which they have connections. One prominent example is Walmart: the retailer delivers cost savings

for its customers through its core business, and it extends this social impact through additional ecosystem investments as part of the Walmart Foundation.⁶³

Companies can tap into all three areas—connections, contexts, and capabilities—to apply their strengths and design initiatives that are fine-tuned to the needs of their stakeholders (Exhibit 4). Relying on only two of the three areas may help companies progress toward delivering made-to-measure empowerment initiatives. For instance, combining an understanding in both connections to stakeholders and local context enables companies to engage in philanthropy, where the company's capabilities do not have to come into play. Applying the company's capabilities to helping stakeholders with which the company has strong connections, without understanding the local context, may not necessarily address the challenges most limiting empowerment. Conversely, applying the company's capabilities to support individuals with whom the company has weak connections, even if the needs are well met, may not establish the trust and relationships necessary for sustained impact. Instead, a holistic approach that integrates all three areas ensures that initiatives are not only effective but also deeply resonant with the stakeholders they aim to empower.

Companies can use an economic empowerment cost curve to guide resource allocation

Upon identifying the stakeholders to empower, understanding their specific needs, and surfacing the relevant capabilities that can be applied, a company can use an economic empowerment cost curve to prioritize specific initiatives.

So far, we have considered only the cost efficiency of initiatives. However, high efficiency does not necessarily translate to large-scale impact. The initiative may have limitations—such as resource and operational constraints—that may limit scalability or reduce the number of people below empowerment who can benefit. An initiative with high cost efficiency can support scaling. Consider two initiatives with cost-to-impact ratios of 1.0 and 0.1:

to reach the same impact, the first initiative would require ten times the investment of the second.

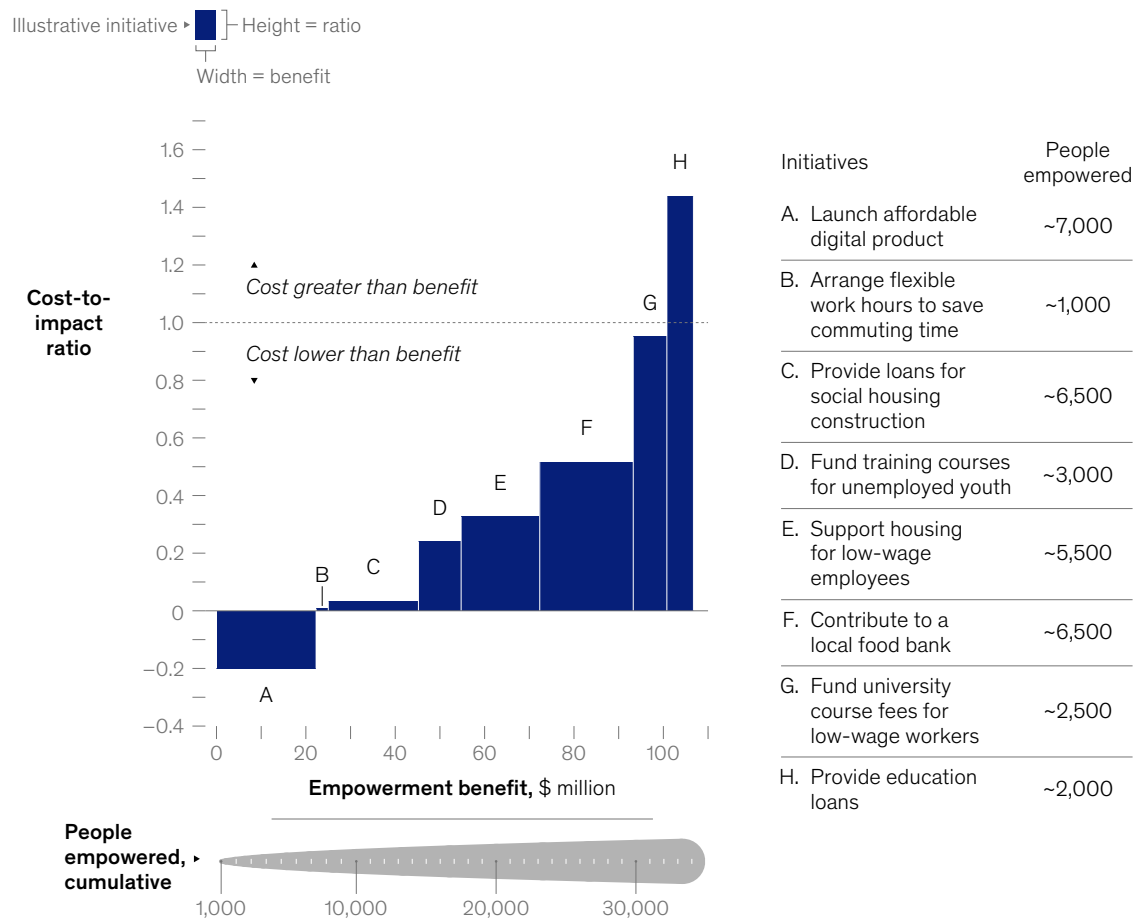
Similar to the GHG abatement cost curve in the environmental domain, the company-level economic empowerment cost curve brings together these two dimensions—efficiency and impact—to enable a comprehensive assessment and prioritization of initiatives (Exhibit 5).⁶⁴

On the vertical axis, we plot the initiative's efficiency ratios, which capture the cost to a company's bottom line needed to deliver a dollar of empowerment benefit (as seen in the sidebar "Estimating cost-to-impact ratios"). The horizontal axis shows their overall empowerment impact in terms of the boost in consumption spend (in millions of US dollars) alongside the equivalent number of empowered persons (expressed as thousands of people lifted above the empowerment line).⁶⁵

Exhibit 5

A cost curve for a financial services firm shows how organizations could evaluate and prioritize empowerment initiatives.

Cost-to-impact ratio and empowerment benefit¹



¹We use externally available information to evaluate cost-to-impact ratio and empowerment benefit. Initiatives are illustrative and do not represent one company's full portfolio of initiatives. Source: Company reports; McKinsey Global Institute analysis

The cost curve organizes initiatives from highest (left) to lowest (right) cost efficiency based on the common metric of empowerment impact. This data-driven approach enables companies to more effectively evaluate empowerment initiatives. On the cost curve, taller and thinner bars, for example, represent less cost-efficient actions, offering smaller empowerment benefits, while shorter and thicker bars indicate more efficient initiatives that have significant scale—that is, those offering greater empowerment benefits.

Adopting more cost-efficient initiatives could drive more empowerment impact with a constant budget (see sidebar “How a company might empower more people”). For example, in the United States, where companies and private foundations are contributing approximately \$135 billion in philanthropic giving, increasing the cost efficiency of initiatives funded by this amount by 10 percent could bring between four million and five million people into empowerment.⁶⁶ This could be achieved by shifting initiatives toward more under-empowered individuals or by

harnessing operational efficiencies and capabilities to deliver empowerment benefits to households.

Investing in economic empowerment presents a compelling opportunity for companies to enhance their business outcomes. These benefits include reduced employee churn, increased customer loyalty, and higher productivity of workers.⁶⁷ Internally, such initiatives can have a direct positive impact on employee performance and retention. In addition, by assisting employees in reducing their living costs, organizations can gain a labor-productivity advantage as employees become more motivated and less pressured by financial concerns.⁶⁸ Externally, empowerment initiatives can enhance a company’s reputation. Finally, when companies invest in the empowerment of their stakeholders, the benefits extend beyond immediate economic gains to a more sustainable business environment as well as a thriving ecosystem that supports continued growth and innovation.

How a company might empower more people

By shifting parts of its portfolio to favor cost efficiency, a company in our illustrative example could empower more people. The company's goal is to empower 10,000 members of the community, initially focusing solely on providing education loans. In this hypothetical scenario, achieving this goal costs the company about \$15 million. And although

the company uses means testing to help students below the empowerment line, the action still has a relatively high cost-to-impact ratio of approximately 0.5.

An alternative hypothetical scenario demonstrates the significant benefits of diversifying investments into more cost-efficient initiatives, such as issuing

construction loans for social housing, rolling out a training program, and working to keep students in school to earn diplomas. By applying a mix of these higher-efficiency initiatives, approximately 30,000 more people can be lifted above the empowerment line with the same budget (exhibit).

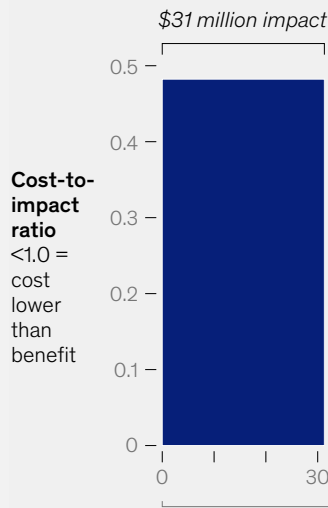
Exhibit

An illustrative cost curve shows how a company can empower ~30,000 more people by shifting to a set of initiatives with higher cost efficiency.

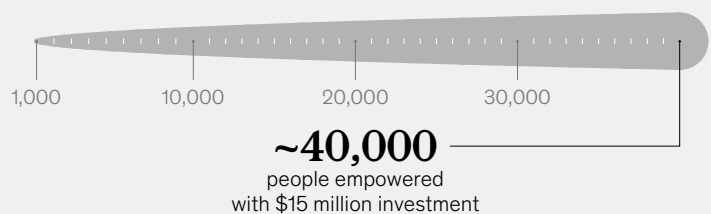
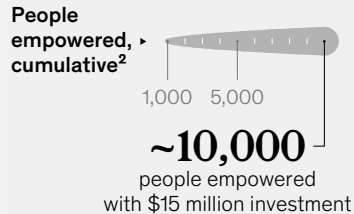
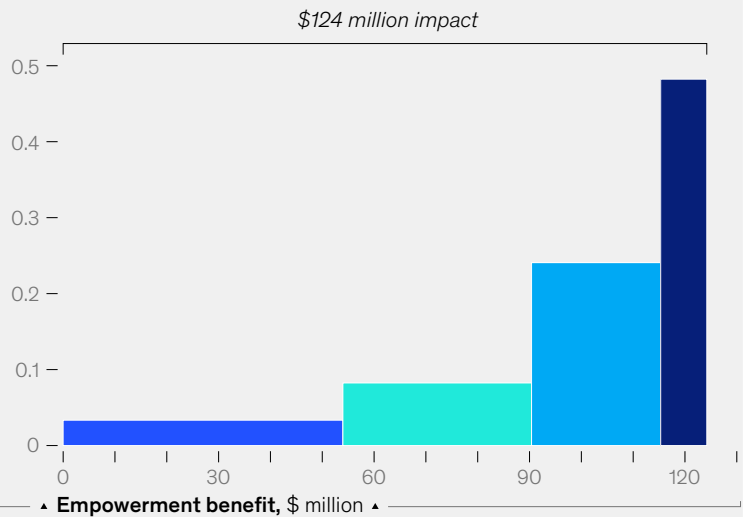
Cost-to-impact ratio and empowerment benefit¹

Four sample initiatives: ■ Provide education loans ■ Provide loans for social housing construction ■ Offer guidance for young people at risk of dropping out of school ■ Fund training courses for unemployed youth

Option 1: Invest ~\$15 million in one initiative with higher cost-to-impact ratio



Option 2: Invest ~\$15 million in four initiatives with lower cost-to-impact ratios



¹Cost-to-impact ratios are illustrative and dependent on characteristics including connections, contexts, and capabilities.

²Based on annual empowerment gap of ~\$3,100.

Source: Company reports; McKinsey Global Institute analysis

The role that companies play in economic empowerment around the world is critical—and by investing in a more cost-efficient way to drive empowerment through better prioritization, they can have even more impact. To empower even larger populations, companies can also combine

their capabilities and expertise with those of other private actors, governments, and nonprofits. Bolder innovation in finance, technology, industry, and policy, alongside robust economic growth, would be needed to enable the remaining hundreds of millions of individuals to realize their full potential.

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Endnotes

- 1 The global floor of the empowerment line is set at \$12 per person per day (in purchasing-power-parity, or PPP, terms), compared with the World Bank's extreme poverty line of \$2.15 per person per day in PPP terms. See *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, McKinsey Global Institute, September 2023; and *A better life everyone can afford: Lifting a quarter billion people to economic empowerment*, McKinsey Global Institute, May 2024.
- 2 In this article, "China" refers to mainland China.
- 3 In 2022 US dollar terms.
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- 7 See the technical appendix for methodology.
- 8 The public sector plays a crucial role in enabling economic empowerment. Much of the debate about how the public sector can improve the well-being of lower-income households revolves around income, inflation, and potential responses such as tax policies, cash transfers, and labor regulation. But the public sector also affects affordability. Most governments deliver public goods and services such as housing, education, and healthcare. Most intervene in markets to a certain extent, perhaps by subsidizing priority goods (such as food or energy), preventing price gouging, ensuring competition, or regulating trade. Various public-sector policies, including public-private partnerships, affect empowerment outcomes.
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- 26 Countries considered are the United Kingdom and the European Union (excluding Cyprus and Denmark).
- 27 Retail trade and leisure and hospitality together contribute roughly one quarter of the jobs in the US private sector (based on US Bureau of Labor Statistics, October 2024).
- 28 The working-age population is subject to factors beyond the private sector, and creating employment opportunities is a key mandate of the private sector.
- 29 We selected 100 companies based on three main criteria: (1) size and reach: many are global industry leaders with large market capitalizations in sectors like technology, finance, consumer goods, and healthcare; (2) record of innovation: many are recognized for driving advancements in their respective industries through cutting-edge technologies, digital transformation, and forward-facing business models; and (3) record of sustainable and socially responsible business practices.
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- ⁶⁶ We have assumed that the existing cost efficiencies funded by the \$135 billion of philanthropic giving fall between 0.3 and 1.0. Improving these cost efficiencies by 10 percent is associated with an uplift in empowerment benefits of between \$30 billion and \$35 billion. Applying the annual US empowerment gap of about \$7,200 per person, this translates to roughly four million to five million people being lifted into empowerment.
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- ⁶⁸ For example, Patagonia provides access to on-site childcare for employees at its headquarters and distribution center. The company expected to recoup more than 40 percent of the investment from its savings on turnover costs and from better employee engagement alone, contributing to a return on investment of 115 to 125 percent. See Rose Marcario, "Patagonia's CEO explains how to make on-site child care pay," *Fast Company*, August 2016.