Corporate Clout 2013:
Time for responsible capitalism

Tracey S. Keys, Thomas W. Malnight and Christel K. Stoklund

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Executive Summary

Of the world's 100 largest economic entities in 2012, 40 (40%) are corporations, the same percentage as in 2011 but down 2% since 2010 (42%). If you look at the top 150 economic entities in 2012, the proportion of corporations is 58%, slightly down from 2011 (58.7%) but at the same level as in 2010 (58%).

Since we started our analysis in 2009, Wal-Mart has consistently been the largest corporate economic entity in the world. However, in 2012, Wal-Mart was overtaken by both Royal Dutch Shell (largest) and Exxon (second largest) leaving it in third place. Royal Dutch Shell recorded 2012 revenues that exceeded the GDPs of 171 countries making it the 26th largest economic entity in the world. It ranks ahead of Argentina and Taiwan, despite employing only 90,000 people. The biggest industry group in terms of size remains the energy majors, buoyed by energy price increases over 2012, with revenues of the five largest players increasing between 25% and 46% over the year. Combined, the revenues of these five companies (Royal Dutch Shell, ExxonMobil, BP, Sinopec and China National Petroleum) were the equivalent of 2.9% of global GDP in 2012.

However, the proportion of corporations amongst the world's largest 100 economic entities has fallen 20% from 2000 to 2012, and some significant shifts are becoming clear. One is the clear movement of economic power from West to East as the economies of rapidly developing economies (RDEs) move up the ranks of global economic power – along with fast-growing companies headquartered in these regions. Among the top 100 economic entities there are now 8 RDE companies versus just 1 in 2000, and looking at the top 150, the number of RDE companies more than triples between 2000 and 2012 to 17.

These countries and companies have significant opportunities for growth: increasing financial power, resources, knowledge base, population, and consumer affluence are all factors. Perhaps more importantly, the leaders of these nations and global challengers have a mindset for growth, which has allowed them to outpace the multinationals from the developed world, whose rankings on the list of the largest global economic entities are slowly but steadily falling.

While we focus in this analysis on two distinct types of economic entity, nation-states and corporations – at least, publicly traded ones – there are other economic entities which are becoming increasingly important. These include cities, private corporations, state-owned enterprises, and, of course, the money men who often opaquely own the means of economic value creation. The influence and potential impact of each of these types of players is shifting and needs to be taken into account when evaluating how the future economic landscape may shift and its implications for organizations in preparing for the future. Looking forward, expect many of these entities to play larger roles in influencing global economic growth.

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The landscape of corporate clout is becoming more distributed, not just geographically, but between different types of entities. Understanding how this picture impacts your markets, customers, consumers, employees and value creation networks is critical to future success. It is also critical to the future success of economies and societies globally.

The sheer size and influence of corporate entities, whether public, private, state-owned or financial super-entity, means there is a need for them to take a more active role in addressing critical global challenges, and to take responsibility for their role in society.

Last year we talked about the challenge of moving "shared value" beyond lip service and individual initiative. Shared value challenges organizations and their leaders to focus on creating value for companies and societies simultaneously – because it is the interests of both sides to do so. This year we take this thinking a step further by focusing on the need for responsible capitalism. Responsible capitalism is not simply about voluntarily pursuing shared value, but about recognizing that business is an integral part of society and therefore has both the need and the responsibility to build strong, sustainable relationships with societies based on mutual benefit. It's not about purpose versus profit, because they are not mutually exclusive. As Paul Polman, CEO of Unilever puts it, it is about: "*…developing more inclusive and equitable growth within the constraints of the planetary boundaries."*

Does your organization have the licence to lead? How can you balance the needs of people, planet and profit? What do you need to do to redefine your organization's relationships with society?

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Of the world's 100 largest economic entities in 2012, 40 (40%) are corporations, the same percentage as in 2011 but down 2% since 2010 (42%). If you look at the top 150 economic entities in 2012, the proportion of corporations is 58%, slightly down from 2011 (58.7%) but at the same level as in 2010 (58%).

2012 by the numbers

Due to the global recession and the rapid upward economic growth trajectory of rapidly developing economies (RDEs) China overtook Japan to record the second largest GDP after the United States in 2010. However, since 2010 the top 5 economic entities have maintained their ranks with the U.S. as the largest, followed by China, Japan, Germany and France. In 2012 the United Kingdom once again overtook Brazil as the sixth largest nation in terms of GDP, while Russia moved ahead of Italy to claim eighth place. Iran, Venezuela, Nigeria, Egypt and the Philippines also improved their economic positions relative to the majority of developed nations.

It's therefore no surprise that the relative economic clout of some of the world's largest corporations – most of which originate in the developed world – saw some small declines. The largest in 2012, Royal Dutch Shell has overtaken Wal-Mart which is slowly slipping down the list. Royal Dutch Shell had revenues exceeding the respective GDPs of 171 of the 196 countries in the world[i] versus 174 in 2009. If it was a country in 2012 it would be the 26th largest, behind Norway, Poland, and Belgium. But that still means it is larger than most countries including Argentina and Taiwan.

The energy majors were buoyed in 2012 by higher oil prices. ExxonMobil's revenues are slightly lower than those of Royal Dutch Shell, but nonetheless an impressive 27.7% growth rate moved it up to 29nd place from 32th in 2011, making it larger than Wal-Mart, Austria and South Africa. BP also surged ahead with revenue growth of 25.1%, claiming 32th place from 38th the year before. Closing fast are Chinese energy giants Sinopec and China National Petroleum which recorded respective annual revenue growth of 37.2% and 46.7%, making them the fifth and sixth largest companies in the world, and 35th and 39th largest economic entities. If you added the revenues of these five energy powerhouses, the combined total would be the equivalent of 2.9% of global GDP – equivalent to a little more than the GDP of Russia, the eighth largest nation in the world in terms of GDP. Between them, they employ just under 3 million people to realize these revenues, less than 2.1% of the Russian population at the end of 2012.

The automotive sector has clearly made progress after the financial crisis. Yet despite overall strong growth in the automotive sector, Toyota Motor's 6.1% revenue gain saw it slip one place in the rankings from 53th to 54th, while Volkswagen's strong growth of 31.8% allowed it to jump from 67th to 57th in the rankings. Japan Post Holdings with a 3.5% revenue growth fell from 57th to 60nd. Japanese companies have been slipping consistently down the list in the last three years, partly due

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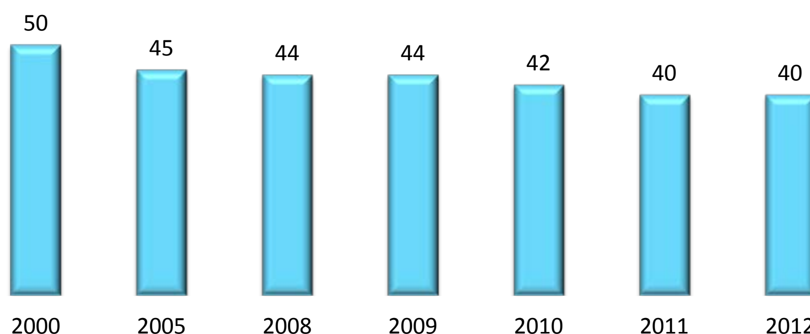
to the 2011 tsunami and nuclear disaster. However, a new financial stimulus package boosting the Japanese economy could help Japanese companies potentially move up the list again in future.

In the finance sector, rankings were mixed, impacted by the continued troubles of the Eurozone but partly offset by slowly increasing stability in the financial sector. Leading the pack here, financial services provider ING posted a revenue increase of 2.4%. It has held almost steady moving from 74th to 75th place since 2011, while insurer AXA saw revenues down 12% to drop from 69rd to 82nd, a drop that has been extended since 2009. But keep in mind this still makes AXA and ING bigger than emerging Asian powerhouse Vietnam!

In 2012, the 40 companies among the largest 100 global economic entities generated revenues of close to US$ 7.9 trillion, equivalent to just under 11% of global GDP, up 1.4% despite the same number of companies on the list in 2011.[ii] If all the companies in the top 100 list together constituted one country, it would be third on the list, behind the US and China but ahead of Japan. However, their combined contribution to global employment falls far short of their economic clout. Together, they employed 12.8 million people, less than 0.4% of the world's economically active population.[iii] Yet, this still exceeds the total population of Greece.

While corporate clout is clearly alive and well, looking back to 2000, the figures suggest that economic power is becoming more distributed, with corporations' share diminishing. The number of corporations among the world's 100 largest economic entities has fallen 20% over the last 12 years, to 40 in 2012, from 50 in 2000. The question is what's driving this change?

Number of companies among the Top 100 global economic entities



Sources: IMF, Fortune Global 500, 2012

The BRICS and beyond (B&B): An opportunity and a mindset for growth

The first decade of the 21st century saw a generational shift in economic power from west and north to east and south. It's a shift that continues today. The BRICS and beyond[iv], those RDEs that constitute the high growth markets now and in the decades to come, are overall proving relatively resilient in the face of a sluggish economic recovery – and even dips back into recession in developed markets, despite some slowdowns, e.g. in Brazil and South Africa.

> ***Generating the top 100 list***
>
> *There are many possible ways to compare the relative economic size of nations versus corporations. A key study was done in 1996 by Sarah Anderson and John Cavanagh of the Institute of Policy Studies (updated in 2001) using GDP for nations and revenues for corporations. (See Corporate Empires, Multinational Monitor, December 1996, Volume 17, Number 12.) In strict economic terms GDP is a measure of value added, although calculated on an income basis it can be used as a proxy for a nation's spending power.*
>
> *UNCTAD suggests the value added of corporations is a better measure than revenues and in 2002 published analysis that suggested 29 corporates were in among the world's top 100 economic entities in 2000. (See www.unctad.org) However, the challenge in reaching these figures is substantial due to different corporate accounting practices.*
>
> *As revenues are a more consistently comparable measure worldwide, we have elected to use GDP versus revenues as in previous comparable studies. While this may overstate the number of corporate among the world's largest economic entities, UNCTAD's work shows that the message remains consistent – corporates are among the largest economic entities in the world and as such have influence.*

Looking ahead, these markets are anticipated to drive the majority of global growth in the decades to come, even allowing that their fortunes will also be shaped by the interconnected nature of the global economy. In contrast, mature, developed markets are anticipated to have much slower growth rates, and in the short term the burdens of debt and austerity will constrain potential.

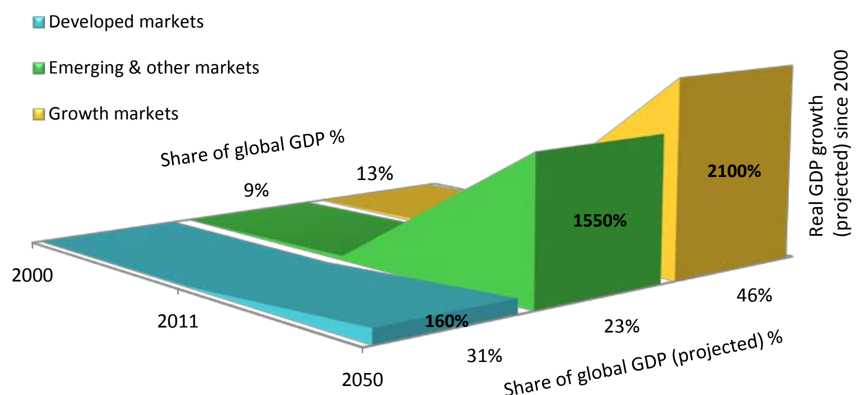
Against this backdrop, let's look at some of the reasons for the shift in the number and geographic origins of the corporates on the list of the world's largest economic entities.

A question of origin and trajectory

For the last century, multinationals (MNCs) headquartered in developed countries have dominated the global corporate landscape. They prospered and expanded geographically during the 20th century, benefiting from significant post-war growth at home and abroad. However, as growth in developed markets slowed in the latter decades of the century and the start of this one, these MNCs started – and still are – looking more aggressively at expansion into the emerging high growth markets.

But they have not kept up with the pace of growth in the B&B economies. The McKinsey Global Institute suggests that in 2010, 100 of the world's largest companies headquartered in developed economies derived just 17% of revenue from emerging markets, even though those markets accounted for 36% of global GDP.

Transformation of the global economy



Source: Goldman Sachs

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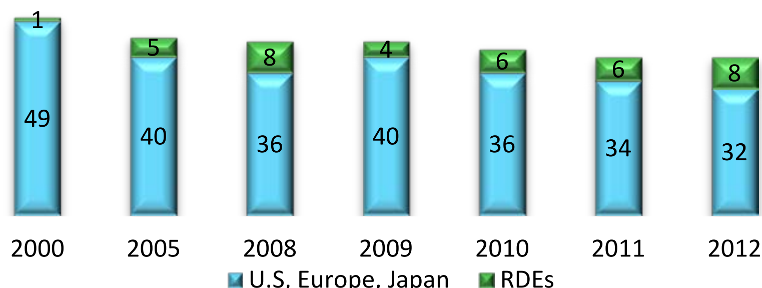
So, an obvious first reason that corporates are slipping down or falling off the top 100 list is that most in 2000 were developed world MNCs realizing the majority of their revenues from mature, slow growth markets. They have simply been overtaken because of the far higher growth rates of RDE economies which have been moving up the list.

The opportunity for growth

A second, related reason is that even as these countries power ahead, so too do companies headquartered in these hotbeds of growth. Gone are the days when the Fortune's Global 500 list was dominated by firms from developed economies: while U.S. firms still number the most with 132 companies on the Fortune Global 500 list, this is down from 186 companies in 2001. In contrast, Chinese companies now number 73 on the 2012 list, including three of the top 10, versus just 12 in the whole 500 list in 2001.

It's not just China: firms with Asian headquarters now make up more than 34% (172 companies) of Fortune Global 500 firms, a huge increase from 118 companies in 2001, while North American headquartered companies represent only 29% or 146 companies, down from 215 in 2001. Forbes' Global 2000 annual ranking,[v] tells a similar story: companies in the BRICS and beyond are rapidly gaining ground on their developed world counterparts. Our top 100 rankings clearly agree.

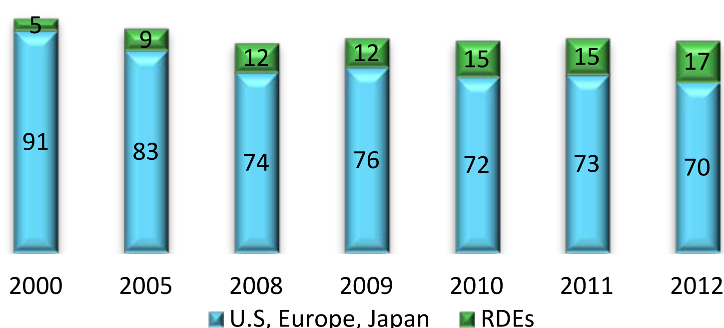
Number of companies from developed countries and RDEs in the top 100 global economic entities



Sources: IMF, Fortune, SDG Analysis

Looking at top 150 entities, the number of RDE companies in the Top 150 global economic entities has more than tripled from 5 in 2000 to 17 in 2012.

Number of companies from developed countries and RDEs in the top 150 global economic entities



Sources: IMF, Fortune, SDG Analysis

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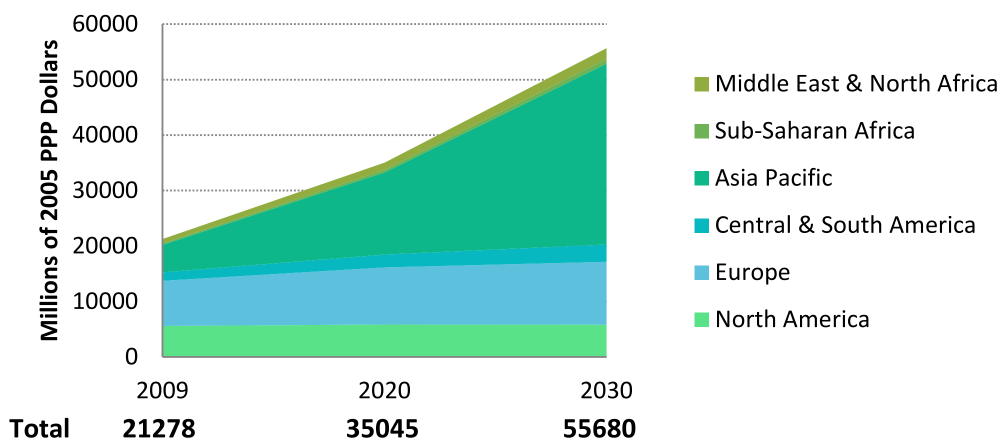
What is driving the growth of these new global challengers is unprecedented opportunity at home, and in neighboring high growth markets. Increasing financial power, resources, knowledge base, population, and consumer affluence are all factors. The global middle class will grow by an estimated 3 billion people in the next two decades, bringing it up to some 4.9 billion people with a combined spending power of about US$56 trillion by 2030. As the graph below shows, most of the projected additional spending will be seen in Asia Pacific.

Spending by the global middle class



Source: OECD

The growth of the middle class is clear evidence that B&B countries are moving rapidly from being sources of cheap labor to the fastest-growing consumer markets businesses could hope for. They no longer want scaled-down, cheaper versions of Western goods, but are instead setting their own trends. In fact, when it comes to luxury goods, B&B consumers are the ones driving growth. The leader of one high-end watch company told us: "We have two growth markets today. China, and Chinese tourists wherever they are travelling."[vi]

However, even as the new B&B challengers make their way on to the global economic scene, bear in mind that even with all this opportunity, it takes time for businesses to grow large enough to make the top 100 global economic entities list. As they do, expect more to join the list over time – the question will whether this is by displacing developed world MNCs or whether these challengers can outgrow the economies in which they operate.

The mindset for growth[vii]

The third reason for the shift in the list of corporates in the top 100 global economic entities is less tangible. B&B companies want to own the future.

Very few B&B market leaders we met were interested in trying to break into stagnant, mature markets, because they did not offer the high growth that they were seeking. Their thinking often questioned why they should spend time and resources expanding in the mature, slow-growth,

consolidated markets in Europe and the U.S. when the markets of the future were in their immediate neighborhoods.

Compared with developed world MNCs, they have a mindset for growth. “There’s a lot of protection of what we built in Europe,” Peter Borup, the head of Asia at Norden, the Danish shipping group (and currently president of Lauritzen Bulkers A/S), told us. “We’re protecting our dream now, and we’re afraid that by giving just one concession that we’re going to lose it all. But in Asia they’re generally building their dreams, and many of them have very little to lose. That is a generalization, of course, but there is a dynamic and an energy that is driven by the hope and belief that tomorrow is going to better. It’s almost tangible.”

The consistent factor is the absolute focus on growth; companies have to double their business every two or three years just to stay relevant, the CEO of one large Asian multinational told us. This attitude stands in stark contrast to those of companies based in mature markets, where annual growth is more likely to be measured in low single digits. Take for example, The Godrej Group, a consumer goods multinational based in India, which has a broad reach and ambitious plans. It already operates in 20 countries in Asia, Africa, and South America, but its chairman has much more expansion in mind. “We are introducing what we call our 10x10 strategy, which means growing ten times in ten years,” Adi Godrej told us. “This means a compound annual growth rate of 27%. If we make it only to ‘8x10,’ we will do that.”

Looking forward: New economic players, new models for growth

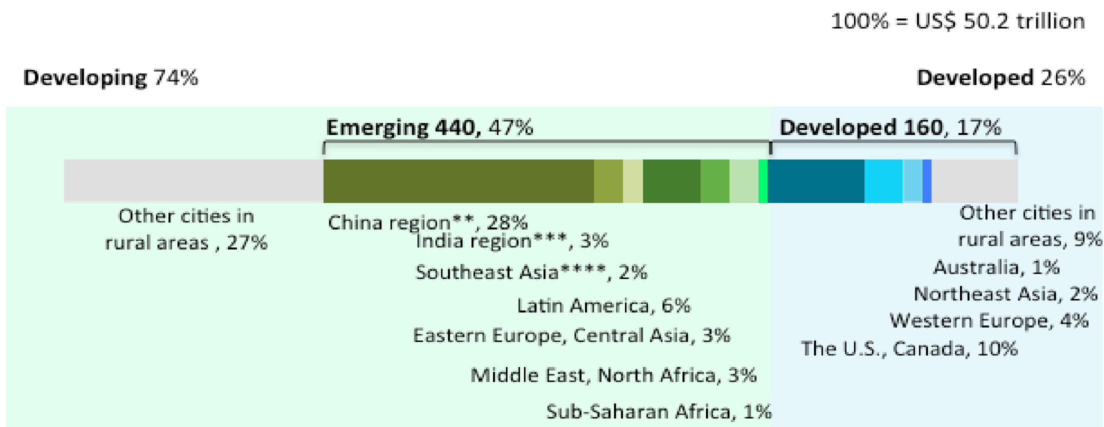
While we focus in this analysis on two distinct types of economic entity, nation-states and corporations – at least, publicly traded ones – there are other economic entities which are becoming increasingly important. These include cities, private corporations, state-owned enterprises, and, of course, the money men who often opaquely own the means of economic value creation. The influence and potential impact of each of these types of players is shifting and needs to be taken into account when evaluating how the future economic landscape may shift and its implications for organizations in preparing for the future. Let’s take a brief look at each.

Urban clout: The growth of the city-state

Rapid urbanization around the globe means that economic clout is also concentrating in the largest and fastest-growing regions of the world: cities. Today large cities are home to around 38% of the world’s population but they generate as much as 72% of global GDP. If considered as individual economic entities, many would already rank in our top 100 list (given comparable data). For example, London’s GDP in 2010 (US$ 751,814 million) was only slightly below that of the entire Netherlands (US$ 782,288 million) which is 17th on our list in 2012. New York’s GDP in 2010 (US$ 1,180,331 million) was greater than that of Mexico (US$ 1,034,805) which is 14th on the 2012 list.[viii]

Looking forward, research from the McKinsey Global Institute[ix] (MGI) suggests that only 600 urban centres, that one fifth of the world’s population calls home, will generate nearly 65% of global

growth or US$ 30 trillion from 2010-2025. Close to half (47%) of this growth will come from the emerging 440 cities whereas only 17% will be generated in the developed 160 city index.



*Predicted real exchange rate; figures may not sum to totals, because of rounding.
** Includes cities in China (including Hong Kong and Macau) an Taiwan.
*** Includes cities in Afghanistan, Bangladesh, India, Pakistan, and Sri Lanka.
****Includes cities in Cambodia, Laos, Malaysia, Myanmar, Papua New Guinea, Philippines, Singapore, Thailand, and Vietnam.

Source: McKinsey Quarterly

The increasing size of these cities means that they will be increasingly important economic entities of the future in their own rights, some of the megacities with 10 million or more inhabitants even approaching the role of city-states. Some of the faster growing ones – typically in RDEs – will rival or even overtake the size of nations in terms of GDP. McKinsey's urban world app analysis[x] finds that for example, Vienna had roughly the same GDP in 2010 as Istanbul. However, by 2025, they suggest that Istanbul's GDP will be comparable to the entire country of Austria. Similarly, while the GDPs of Auckland and New Delhi were roughly the same in 2010, by 2025 the GDP of New Delhi could almost rival that of the entire country of New Zealand. These levels of economic output in 2025 would likely propel both cities – and many more urban centres – into our top 100 economic entities list, raising the question of whether national boundaries are the right unit of measurement to define the markets and production powerhouses of the future.

Understanding the world through a city lens is critical not just for developing strategy; these cities will also be home to the corporate giants of the future, acting as increasingly important trade hubs and talent hubs. They will drive global trends in consumption, working patterns, environmental awareness and design to name but a few.

Where your company is headquartered and operates makes a difference. Of the 40 companies in our Top 100 economic entities 42.5%, down from 50% in both 2011 and 2010 (due to many banks moving down the list), are headquartered in the Top 25 urban hotspots by 2025 identified by MGI[xi] (based on GDP, GDP per capita, GDP growth, population, children, number of households and household income). Of the 87 companies in the Top 150 economic entities, 48.2% are located in these hotspots, up from 46.2% in 2011 but still down from 52% in 2010. These companies clearly have advantages in their proximity to key growth areas, as well as resources and talent – for those companies that are not present in these hotspots, how will this impact their future prospects?

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Private clout

It is notoriously hard to find definitive revenue and profit numbers on privately held companies across the world. However, it is clear that some would certainly make the top 100 list. For example, commodities giant Cargill is identified by Forbes' magazine as the largest privately held company in the U.S. in 2012, with revenues of US$ 133.9 billion, which would put it in 87th place. Together, the 220 companies on Forbes' 2012 list of the biggest private companies in the U.S. accounted for US$1.4 trillion in revenues and 4.2 million jobs.

Such large private companies are not only found in America. Vitol, the biggest independent oil trader in the world[xii] which is headquartered in Switzerland, boasted 2012 revenues of US$303 billion. This would put it around 41st on our top 100 economic entities list, alongside Malaysia.

While these huge companies would make our list, even second placed Koch Industries in the U.S. Forbes list would not, as would not the largest private companies from many other countries. However, in aggregate these companies have huge corporate clout – and typically a different approach to business compared with publicly-held corporations. Often – and clearly there are many exceptions to this generalization – privately held companies have a longer-term approach to business because they are not subject to the same short-term pressures from financial markets that their public peers are. Avoiding the tyranny of quarterly earnings is in fact one of the factors behind an increasing number of public firms returning to private status.

State clout

There are also state-owned enterprises (SOEs) to consider, again many of which are powerful and influential economic entities. While the hand of the government in the economy rolled back at the end of the 20th century with swathes of privatization, the SOE is once again in ascendance. Concerns are rising as these formerly slow-moving, domestically-focused behemoths become increasingly assertive globally and adopt private sector practices making them more formidable competitors, albeit ones where the perception, if not reality, is that they compete on a less than level playing field.

Research by Aldo Musacchio and Sergio G. Lazzarini of the Insper Institute of Education and Research in São Paulo, Brazil, reported in Forbes/HBS Working Knowledge[xiii] finds that while the number of state-owned firms has decreased overall, the number of truly important state-run companies, such as oil and telecom firms, has remained steady. Many of these companies have developed in countries with less well functioning capital markets – which in more developed systems support the emergence of large private and public companies – and can benefit these economies if run well (avoiding agency issues of the past and run in the interests of the business not directors) and by supporting social as well as economic development objectives. However, multiple objectives can mean SOEs make trade-offs, e.g. keeping prices low for social reasons, which can be detrimental to firms competing on a purely commercial basis.

Going a step further, The Economist argued in 2012[xiv] that these national champions, often in strategic industries, have never competed on a level playing field and that the advantage is tilting even further towards SOEs, looking at China in particular. In addition to sheer size, unfair advantages cited include below-market cost of credit, tax breaks and subsidies, and favorable procurement terms. Both American and European Chambers of Commerce have published reports arguing for a resumption of SOE reform and market opening. Further sources suggest that SOEs may also have advantages in terms of access to and ability to spend on research and technology.

So who are these SOEs and how big are they? Research from economists at VOX[xv] offers some new data on a generally poorly covered area, by looking at state ownership amongst the Forbes Global 2000 list. Identifying SOEs as enterprises where the state owns, directly or indirectly, over 50.01% of shares at the national or sub-national level, they found that in 2011 more than 10% of the world's largest firms were state-owned (204 firms). The firms came from 37 different countries and combined sales amounted to US$3.6 trillion in 2011, which represents more than 10% of the combined sales of the whole Forbes Global 2000 and is equivalent to 6% of world GDP, exceeding the GDPs of countries such as Germany, France or the UK.

Clearly SOEs have significant – and arguably growing – influence, but there are also some which do not feature in the Forbes 2000 list. Again financial information on some of these companies is not available, but the "new masters of the universe" (so-called by The Economist), include 13 of the largest energy companies in the world, which between them owned over three-quarters of the world's oil and gas reserves in 2010.[xvi] A 2012 estimate from Bain puts this figure as high as 90%.[xvii] The energy giants include: Saudi Aramco which is the world's largest oil producer, NIOC (Iran), PDVSA (Venezuela), Kuwait Petroleum, Gazprom (Russia), Qatar Petroleum, NOC/SOC/MOC (Iraq), ADNOC (UAE), Turkmengaz, Libya NOC, PetroChina, NNPC (Nigeria), and Rosneft (Russia). With estimated revenues of US$311 billion in 2011 (source: Hoover's), Saudi Aramco would certainly make the top 100 list along with many of the other national oil companies.

While the data is patchy, it is clear that SOEs are particularly powerful in the high growth markets the BRICS and beyond, making up most of the market capitalization of China's and Russia's stockmarkets and accounting for 28 of the emerging world's 100 biggest companies.

Besides the SOEs, many high growth economies along with some developed ones have a further source of influence in the shape of sovereign wealth funds (SWFs). These funds have vast assets which can be invested in the corporate world, the question being how they will direct their funds – towards ensuring sustainable domestic economic growth or towards overseas investments, and if so where.

After dramatic growth since the 1990s, sovereign wealth funds (SWFs) saw their assets significantly damaged by the financial crisis, falling from US$ 3.9 trillion in September 2008 to US$ 3.5 trillion in March 2009. Today though, sovereign funds have fully recovered from the crisis with the SWF Institute estimating the size of their assets at almost US$ 5.2 trillion in December 2012. Compared

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to the total cumulative value of international banking assets which declined at an annual 4% rate, SWF assets rose at an annual 10% rate during the period 2007-2011.

Largest sovereign wealth funds (assets in US$ billions)

* This number is a best guess estimate. Source: http://www.swfinstitute.org/fund-rankings/

Looking forward, the influence of SWFs is expected to grow significantly – although transparency will continue to be a major issue. The continued creation of sovereign wealth enterprises (SWEs) gives SWFs more flexibility in investments – and potentially lower scrutiny.

The "money men"

Sovereign wealth funds are not the only ones with significant assets that can impact the corporate world and global economy. There is another select group whose control and influence is even less transparent – the "money men" who hold the reins of the biggest corporates.

In last year's Corporate Clout paper, we discussed research in 2011 by from the Swiss Federal Institute of Technology – The Global Network of Corporate Control – so here we offer just a brief recap. Stefania Vitali, James B. Glattfelder, and Stefano Battiston undertook a first of its kind study into the structure of the control network of transnational corporations (TNCs) – essentially who owns whom directly or indirectly, and therefore has the potential to exert influence over value created (operating revenues). Understanding who controls the economic power exerted by the top 100 economic entities has clear implications for global market competition and financial stability, and this first attempt at modeling such a complex system offers important insights.

147:
The number of corporations that control 40% of total global value creation

Starting from a list of 43,000 transnational corporations (TNCs), the team found a core of 1347 strongly connected corporations, and that only 737 firms (the majority in the core) had 80% of the control over the value created by all TNCs. Comparing this to the distribution of wealth in the world, the top ranked actors hold a control ten times bigger than what could be expected based on their wealth. Untangling this complex web even further, nearly 40% of the control over the total economic value created by TNCs in the world is held, via a complicated web of ownership relations, by a group of only 147 TNCs in the core, which has almost full control over itself. Almost three-quarters of these 147 companies – called super-entities by the researchers – are financial intermediaries, including Barclays, J.P. Morgan and Goldman Sachs. This concentration of control

over economic value creation raises questions around the stability of the financial system given such dense connections between financial players, and how this influence is used in shaping future value creation by companies and nations.

Time for responsible capitalism

Why does corporate, urban, state, and super-entity clout matter? The sheer size of major global corporations, whether public, private or state-owned, which operate across multiple countries and regions means their combined influence and impact is huge, on many aspects of how we live and work. Their economic and employment contributions sustain nations, regions and local communities – in many cases exceeding the influence of the nations that host them – allowing them to influence nations' policies and actions, economically, socially, and politically. They drive trade and the sharing of knowledge and technology globally, as well as funding vast amounts of R&D. They influence regulations and legislation that governs markets, employment and how we live. They have the financial capital to shape not just their own future, but that of communities and societies worldwide.

Could Royal Dutch Shell, Wal-Mart, Sinopec or even Vitol or a national oil company buy a small country if they wanted to do so? Probably, but they wouldn't want to. Their expertise and contribution to global growth and development is much broader if less deep. Can they contribute to global and societal challenges, from education to resource scarcity and the environment? Of course, and they do. The question is do they do enough, individually and collectively, with the massive corporate clout that they have to make the world a better place socially and environmentally as well as economically?

There is a growing expectation and need for corporations of all shapes and sizes, but particularly those with clout, to step up to a bigger role in society. As we said last year, shared value needs to move beyond lip service and individual initiative to become shared responsibility, backed up by action. The challenge of shared value for organizations and their leaders is to focus on creating value for companies and societies simultaneously – because it is the interests of both sides to do so.[xviii]

Paul Polman, CEO of Unilever, in his Foreword to the new book *Ready? The 3Rs of Preparing Your Organization for the Future*,[xix] takes shared value a step further, recognizing the mutual responsibilities between business and society:

"As business we need to start becoming part of the solution to today's challenges. Not just because it's time for business to be givers and not takers from the system that gives us life in the first place, but because the only way to guarantee long-term prosperity is to grow our businesses in line with the needs and aspirations of the communities we serve.

"There is a huge opportunity for businesses that embrace this new model of responsible capitalism, but it does require a different approach. This goes well beyond CSR. It's about moving to a licence to lead, where business sees itself as part of society and not separate from it; where the focus is on the

long term, not on quarterly earnings; and where the needs of citizens and communities carry the same weight as those of shareholders. It moves business well beyond the concept of shared value to one of shared responsibility – shared responsibility for developing more inclusive and equitable growth within the constraints of the planetary boundaries."

Paul Polman also sees a key part of his and the company's role as inspiring others globally to rethink business and what responsible capitalism means.

Society's expectations of business are clearly changing. It is no longer enough for companies to avoid breaking the rules, nor to have a few, isolated corporate social responsibility (CSR) activities; they need to take an active approach to improving the world around them or risk losing the trust of customers, employees, institutions, and communities.

Companies that have lost the public trust have always struggled with the fallout that a damaged reputation causes their business, but the impact will be worse in years to come. The networked, connected nature of the future means that companies will be more dependent than ever before on their relationships with all stakeholders – relationships that will suffer if trust falls – and that critics can make their voices heard around the world within an incredibly short space of time.

As an example of the rising importance of societal issues for business, one CEO told us: *"Whatever business you are in, if you are not taking care about the environment and sustainability and the economy, it's like a CEO of a company saying 'I can continue to grow without the internet' in 1995."*

More and more businesses are embracing the approach of shared value and responsible capitalism, strengthening their businesses by creatively addressing key issues. It's not easy, but does make sense in a world that is becoming more complex and interdependent and where corporations are at risk of losing their legitimacy in society. Yet in many organizations today shared value is the subject of much talk and little action, with a danger of it becoming the latest fad in corporate jargon to which mere lip service is paid.

Looking at the clout of the corporations that are part of the world's largest economic entities – both those on our list and the entities who are not but should be (and will be once we can get comparable data), and the intricate webs of influence they have globally, critical questions in light of the global challenges the world faces are: Will they cooperate together and with societies, communities, governments and other stakeholders to tackle pressing global challenges? Or will competition and individual financial results continue to remain the sole, dominant priority? How can we re-think relationships between and among governments and corporations to drive responsible capitalism?

Fortunately, there are many corporations that are moving towards in the right direction, including Royal DSM. Feike Sijbesma, the chairman and CEO of Royal DSM told us[xx]: *"If you look at success as a pure economist, then you may well conclude that profit is the highest value. From a purely economic point of view, that might be true. But companies are also a part of society, and you cannot measure the success of one without reference to the success of the others. We need to learn*

that we have to create value on three dimensions simultaneously, all balanced equally: societal, environmental and economic. I call that People, Planet and Profit."

Sijbesma and his team are using insights about societal change – particularly climate change, the global imbalance of food and health, and the effects of globalization – to guide the company's transformation. His goal is to find ways that DSM can solve some of the challenges that these changes pose.

"We focus on life sciences and materials sciences," Sijbesma said. *"That's about improving health and food where we can, but it's also about things like making cars lighter, which helps with the energy and climate change problem."*

A further – and perhaps one of the most advanced – examples of companies pursuing the journey towards shared value and responsible capitalism is the Mahindra Group.[xxi] Headquartered in India, it has a mission that states: *"We will challenge conventional thinking and innovatively use all our resources to drive positive change in the lives of our stakeholders and communities across the world, to enable them to rise."* This purpose has not been at the expense of success, as the company's stock price increased more than 20 times between 2002 and 2012, but rather has been a key enabler shaping and directing the dramatic growth and expansion of the company, including deciding what businesses to enter, and not enter, and how to operate in each business. Why a positive purpose, such as Mahindra's really matters is because it underpins so many decisions. It matters to shareholders, employees, consumers, and other stakeholders, all of whom will have opinions about what they want in any organization with which they are associated.

As you reflect on the influence and impact of the corporations and economic entities discussed in this article, take a moment to ask yourself how your organization needs to rethink its relationship with society:

Mutual benefit How do you help to meet the needs and demands of consumers and other stakeholders with respect to socially important issues? Does this allow for mutual benefits?

Relationships What capabilities will you need to build so that your relationship with society is one of mutual benefit and shared value? What other aspects of your organization and its agenda will you need to rethink?

Stakeholders Which external stakeholders will you need to work with for future success? How will you work with them?

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The World's Largest 100 Economic Entities

Rank 2012	Rank 2011	Country/ Corporation	Country of Companies	GDP/Revenues (US$ million, 2012)	% Change 2011 to 2012
1	1	United States		15,684,75	4.0%
2	2	China		8,227,04	12.4%
3	3	Japan		5,963,97	1.1%
4	4	Germany		3,400,58	-5.7%
5	5	France		2,608,70	-6.1%
6	7	United Kingdom		2,440,51	0.4%
7	6	Brazil		2,395,97	-3.9%
8	9	Russia		2,021,96	6.5%
9	8	Italy		2,014,08	-8.3%
10	10	India		1,824,83	-0.7%
11	11	Canada		1,819,08	2.1%
12	12	Australia		1,541,80	3.4%
13	13	Spain		1,352,06	-8.6%
14	14	Mexico		1,177,12	1.6%
15	15	Korea		1,155,87	3.5%
16	16	Indonesia		878,198	3.8%
17	18	Turkey		794,468	2.6%
18	17	Netherlands		773,116	-7.7%
19	19	Saudi Arabia		727,307	8.6%
20	20	Switzerland		632,400	-4.3%
21	24	Islamic Republic of Iran		548,895	10.7%
22	21	Sweden		526,192	-2.3%
23	25	Norway		501,101	2.1%
24	23	Poland		487,674	-5.1%
25	22	Belgium		484,692	-5.8%
26	31	**ROYAL DUTCH SHELL**	Netherlands/UK	484,489	28.1%
27	27	Argentina		474,954	6.8%
28	26	Taiwan Province of China		473,971	2.1%
29	32	**EXXON MOBIL**	U.S.	452,926	27.7%
30	28	**WAL-MART STORES**	U.S.	446,950	6.0%
31	29	Austria		398,594	-4.7%
32	38	**BP**	U.K.	386,463	25.1%
33	30	South Africa		384,315	-4.5%
34	37	Venezuela		382,424	20.8%
35	41	**SINOPEC GROUP**	China	375,214	37.2
36	36	Columbia		366,020	11.7%
37	33	Thailand		365,564	5.8%
38	34	United Arab Emirates		358,940	5.0%
39	48	**CHINA NATIONAL PETROLEUM**	China	352,338	46.7%
40	35	Denmark		313,637	-6.0%
41	40	Malaysia		303,527	5.4%
42	42	Singapore		276,520	4.1%
43	46	Nigeria		268,708	10.1%
44	44	Chile		268,177	6.8%
45	45	Hong Kong SAR		263,021	5.7%
46	51	**STATE GRID**	China	259,142	14.5%
47	50	Egypt		256,729	9.0%
48	52	Philippines		250,436	11.4%
49	43	Finland		250,126	-5.1%
50	39	Greece		249,201	-14.1

Rank 2012	Rank 2011	Country/ Corporation	Country of Companies	GDP/Revenues (US$ million, 2012)	% Change 2011 to 2010
51	59	**CHEVRON**	U.S.	245,621	25.1%
52	47	Israel		240,894	-1.1%
53	61	**CONOCOPHILLIPS**	U.S.	237,272	28.3%
54	53	**TOYOTA MOTOR**	Japan	235,364	6.1%
55	56	Pakistan		231,879	10.0%
56	60	**TOTAL**	France	231,580	24.5%
57	67	**VOLKSWAGEN**	Germany	221,551	31.8%
58	49	Portugal		212,720	-10.6%
59	64	Iraq		212,501	17.7%
60	57	**JAPAN POST HOLDING**	Japan	211,019	3.5%
61	54	Ireland		210,416	-4.9%
62	58	Algeria		207,794	4.5%
63	65	Peru		199,003	11.5%
64	62	Kazakhstan		196,419	7.3%
65	55	Czech Republic		196,072	-9.7%
66	75	**GLENCORE INTERNATIONAL**	Switzerland	186,152	28.4
67	66	Qatar		183,378	5.8%
68	68	Ukraine		176,235	7.8%
69	71	Kuwait		173,424	7.7%
70	70	New Zealand		169,680	4.8%
71	63	Romania		169,384	-7.2%
72	94	**GAZPROM**	Russia	157,831	33.0%
73	87	**E.ON**	Germany	157,057	25.6%
74	81	**ENI**	Italy	153,676	16.6%
75	74	**ING GROUP**	Netherland's	150,571	2.4%
76	78	**GENERAL MOTOR**	U.S.	150,276	10.8%
77	80	**SAMSUMG ELECTRONICS**	South Korea	148,139	10.7%
78	82	**DAIMLER**	Germany	148,139	14.4%
79	73	**GENERAL ELECTRICS**	U.S.	147,616	-2.6%
80	93	**PETROBAS**	Brazil	145,915	21.5%
81	77	**BERKSHIRE HATHAWAY**	U.S.	143,688	5.5%
82	69	**AXA**	France	142,712	-12.0%
83	89	Vietnam		138,070	12.5%
84	72	**FANNIE MAE**	U.S.	137,451	-10.6%
85	83	**FORD MOTOR**	U.S.	136,264	5.7%
86	85	**ALLIANZ**	Germany	134,168	5.3%
87	90	**NIPPON TELEGRAPH & TELEPHONE**	Japan	133,077	10.6%
88	84	**BNP PARIBAS**	France	127,460	-1.0%
89	86	**HEWLETT-PACKARD**	U.S.	127,245	1.0%
90	76	Hungary		126,873	-8.7%
91	88	**AT&T**	U.S.	126,723	1.7%
92	98	**GDF SUEZ**	France	126,077	12.7%
93	109	**PEMEX**	Mexico	125,344	23.5%
94	132	**VALERO ENERGY**	U.S.	125,095	45.4
95	128	**PDVSA**	Venezuela	124,754	41.2%
96	97	**MCKESSON**	U.S.	122,734	9.5%
97	96	Bangladesh		122,724	7.8%
98	100	**HITACHI**	Japan	122,419	12.6%
99	91	**CARREFOUR**	France	121,734	1.2%
100	129	**STATOIL**	Norway	119,561	36.4%

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*List Sources: Fortune Global 500 2012, IMF. *Estimates*

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[i] The number of countries in the world may be considered to be 196, based on the 193 member countries of the United Nations, plus Vatican City, Kosovo and the Province of Taiwan, which operates autonomously from the Republic of China.

[ii] 2011 global GDP estimated at US$ 70.2 trillion. 2012 global GDP estimated at US$ 71.7 trillion. (Source: IMF).

[iii] 2012 Global economically active population estimated at 3.32 billion. (Source: ILO).

[iv] See The Global Trends Report 2012, www.globaltrends.com for analysis of expected future B&B growth markets.

[v] See http://www.forbes.com/global2000/ for the 2013 list (based on 2012 figures).

[vi] Source: *Ready? The 3Rs of Preparing Your Organization for the Future*, by Thomas W. Malnight, Tracey S. Keys and Kees van der Graaf, 2013. www.3RsReady.com . Available from Amazon in print and for Kindle.

[vii] Note: This section including quotes and examples is based on *Ready? The 3Rs of Preparing Your Organization for the Future*, by Thomas W. Malnight, Tracey S. Keys and Kees van der Graaf, 2013. www.3RsReady.com

[viii] MGI, from the Urban World app.

[ix] Urban world: Cities and the rise of the consuming class, June 2012, McKinsey Global Institute

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[xii] Source: Fortune/CNN, February 2013.

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[xix] Source: *Ready? The 3Rs of Preparing Your Organization for the Future*, Thomas W. Malnight, Tracey S. Keys and Kees van der Graaf, 2013. www.3RsReady.com. Available from Amazon in print and for Kindle.

[xx] Ibid

[xxi] Ibid.