

McKinsey Global Survey results:

How business interacts with government

A variety of government actions in addition to laws and regulations powerfully affect companies' finances, executives say. But executives also indicate that companies' processes to manage their relationships with government are generally less robust than are the ones used to manage relationships with other stakeholders.

Government is likelier to affect companies' economic value than any other group of stakeholders except customers, say executives in response to a new McKinsey survey.¹ The results also indicate that most executives expect government involvement in their industries—which in most cases has skyrocketed since the global economic crisis began—to continue increasing. The survey asked executives about their companies' relationships with the government of the country or region that is their primary market: how government affects their companies' economic value, how their companies interact with the government, how effective those activities are, and who spearheads the companies' relationships with the government.

The results show that government actions have a significant effect on companies' economic value: 34 percent of respondents say 10 percent or more of their operating income is at stake. Some government actions, such as providing infrastructure and access to capital, are likelier to have a positive than a negative effect on company finances. However, passing laws and setting policies—the actions executives say most often affect their companies' economic value—have an overall negative effect. Respondents whose primary markets are in developing economies are more positive than others, however, about the effect of government actions, such as the passage of laws and enforcement of rules.

¹ The online survey was in the field from November 17, 2009, to November 30, 2009, and received responses from 1,167 executives representing the full range of industries, regions, and functional specialties.



A strong majority of executives say business must proactively and regularly engage with government, even though many find that dealing with government is often frustrating and consider government officials to be uninformed about the economics of their industries. Yet companies aren't doing as much to counter those problems as they could; for example, only a third say their companies are "extremely" or "very effective" at building strong relationships with key government stakeholders. In fact, despite the variety of practices that can help a company successfully manage its relationship with government, a majority of companies aren't effective at even one of them.

Government's growing role

Government has a crucial and expanding effect on companies' industries and economic value, respondents say (Exhibit 1).

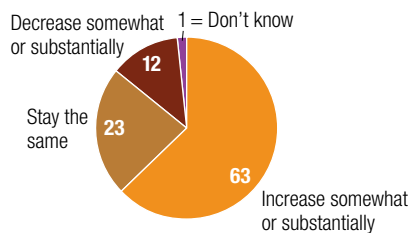
A variety of government actions affect companies' economic value; not surprising, respondents in every country select passing laws and enforcing regulations far more often than other actions as

Exhibit 1

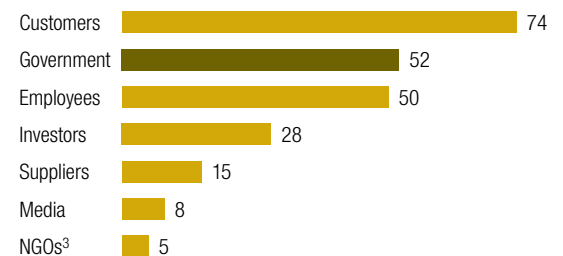
Role of government

% of respondents, n = 1,167

*How do you expect the government's involvement in your industry to change in the next 3–5 years?*¹



*Which stakeholders do you expect will have the greatest effect on your company's economic value in the next 3–5 years?*²



¹Figures do not sum to 100%, because of rounding.

²Respondents who answered "other" or "don't know" are not shown.

³Nongovernmental organizations.

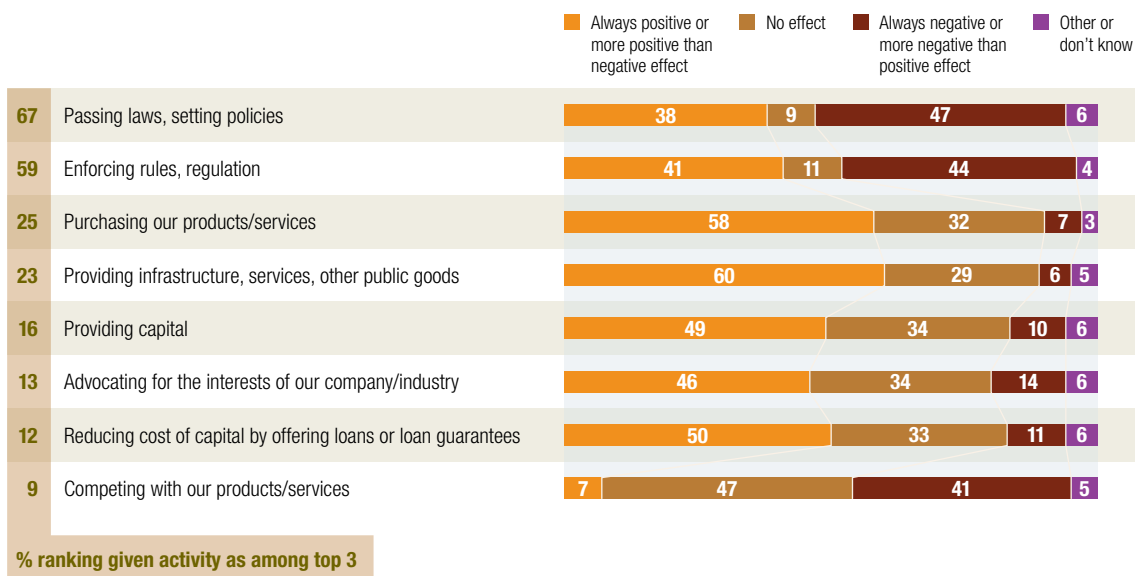


having an effect (Exhibit 2). Although most government actions are less likely to have an effect than those two, others are seen as likelier to have a positive than a negative effect on companies' finances. There are notable regional differences in the government actions executives say are likeliest to have a positive effect—mostly related, it appears, to a greater need for infrastructure and capital in developing economies (Exhibit 3).

Exhibit 2
Economic impact of government activities

% of respondents, n = 1,167

Which activities that government might engage in will have the greatest effect on your company's economic value in the next 3–5 years, and how will they affect the economic value?¹



¹Figures may not sum to 100%, because of rounding.



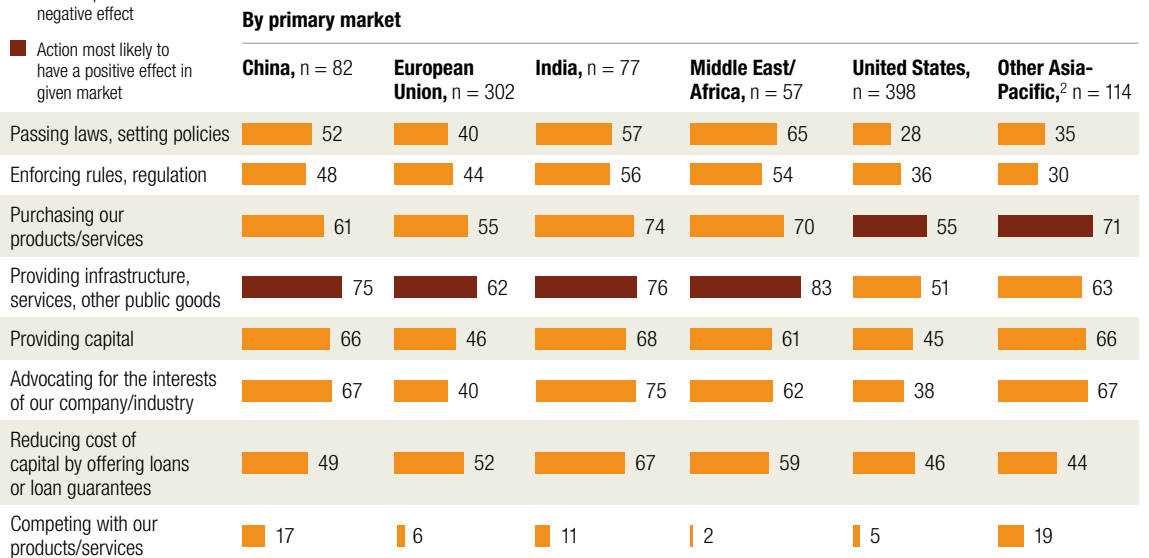
Exhibit 3

Where government matters most

% of respondents,¹

- Always positive or more positive than negative effect
- Action most likely to have a positive effect in given market

Which of the following activities that government might engage in will have the greatest effect on your company's economic value in the next 3–5 years, and how will they affect the economic value?



¹ Respondents who answered “other” or “don’t know” are not shown; respondents could choose more than one answer.

² Excludes China and India.

At companies that try to quantify the potential impact of government actions on their companies' economic value, majorities assess a mix of potential risks and opportunities, with 71 percent assessing the impact of regulations on costs, 70 percent the cost of complying with regulations, and 69 percent the opportunities created by regulations.



Respondents are nearly evenly divided on whether government actions will increase or decrease the operating incomes of their companies over the next three to five years (Exhibit 4). Yet 34 percent of respondents say the effect, whether positive or negative, will be 10 percent or higher; thus, significant value is at stake for many companies.

What executives think of government

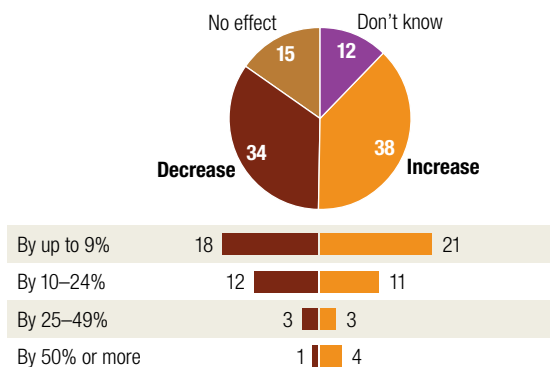
Given this value at risk, it's heartening that 71 percent of respondents say companies should proactively and regularly engage with government. But it's less encouraging that only 43 percent say their companies actually do so.

Exhibit 4

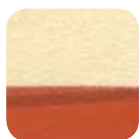
Government-driven value at stake

% of respondents,¹ n = 1,029

Executives' estimate of effect government activity will have on their companies' operating income in the next 3–5 years



¹Figures do not sum to 100%, because of rounding.



Some of the reasons for the relative lack of engagement may be executives' own views of government. More than three-quarters agree that business must be actively involved in shaping government policy to succeed and that it's beneficial for companies to be as transparent as possible with government, but large shares also express frustration with government along various dimensions (Exhibit 5).

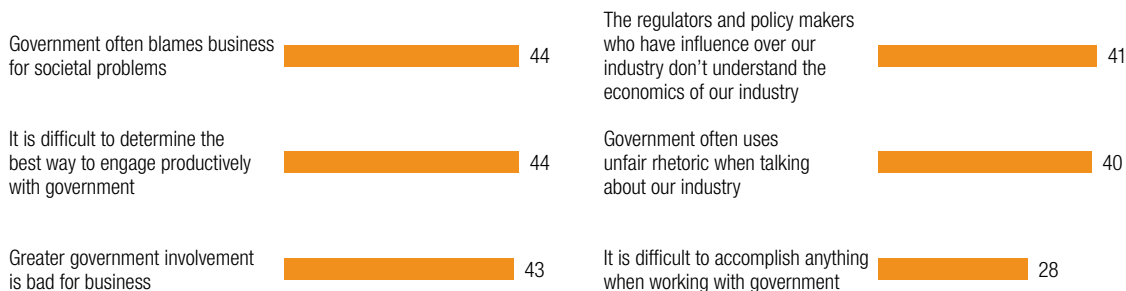
Ineffective engagement

When companies do engage with government, executives indicate they're not particularly good at it. Engaging with the governments of their companies' primary-market countries is a top-three priority for only a third of CEOs—although the figure rises to nearly 60 percent in China. More are involved in overseeing their companies' efforts to engage: almost two-thirds of respondents say their CEOs either sponsor those efforts personally or oversee the group that does so.

Exhibit 5

Businesses' frustration with government

% of respondents who strongly agree/agree with given statement, n = 1,167



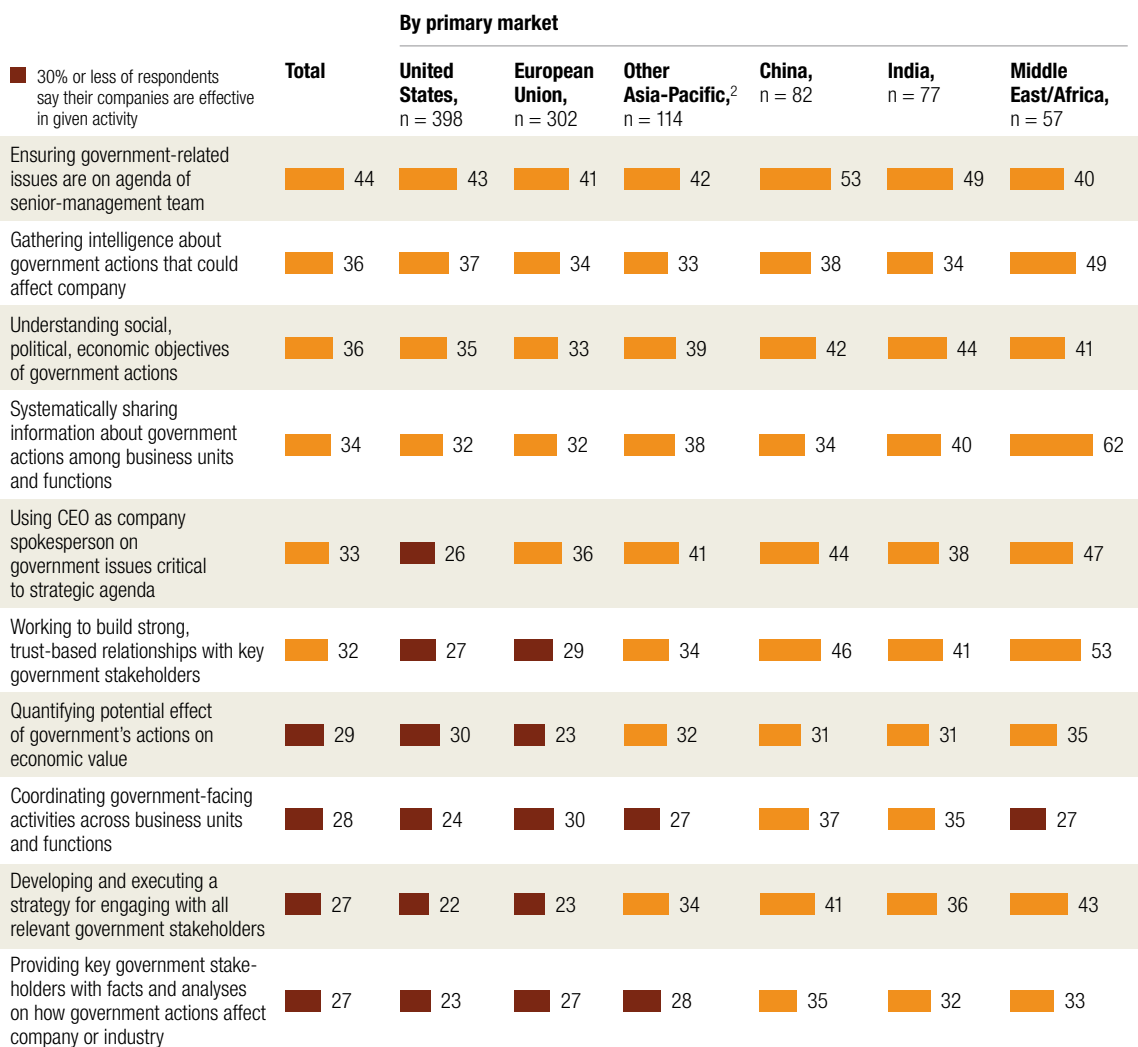
However, executives don't rate their companies all that highly on practices that, our experience shows, are important for successful engagement with government (Exhibit 6). Fewer than half say their companies are good at ensuring that government-related issues are on the agenda of the senior-management team, and effectiveness declines from there. There are some notable regional differences, with companies active in the European Union and the United States often lagging those that are active elsewhere.

Among companies whose primary market is in the European Union or the United States, less than a quarter of respondents say their companies are effective at developing and executing strategies for engaging with all relevant government stakeholders.

Exhibit 6

How companies engage with government

% of respondents who say their company is “extremely” or “very effective” in given activity,¹ n = 1,167



¹ Respondents who answered “don’t know” are not shown.

² Excludes China and India.

Further, in a majority of companies, key functions and businesses are not involved in supporting government relationships. For example, only 26 percent of respondents say business units are consistently involved in planning or executing their companies' government-facing activities—even though our experience shows that the government issues companies face are often driven by individual businesses.

Looking ahead

- More executives say government will affect their companies' economic value than say the same of employees, investors, or suppliers. Yet companies' processes to manage their relationships with government, this survey shows, are generally less robust than the processes they use to manage relationships with other stakeholders. Most companies would benefit from making government more of a priority by building integrated capabilities to manage their government relationships.
- Only a third of CEOs consider engaging with the government to be a top-three priority; our experience indicates that companies will benefit when management of government relationships is integrated into the top leadership's mandate to ensure CEO sponsorship of, and involvement in, executing the company's government agenda.
- Just over a quarter of executives say their companies are "extremely" or "very effective" at coordinating their government-facing activities across business units and functions. A better or separate government affairs function is insufficient to manage government relationships effectively, given that government actions can affect so many different business units and functions. A better approach is for all business units and functions to play a role in managing a company's relationship with government.
- Respondents say they are less effective at engaging with government in their secondary markets than they are in their primary ones. As multinational companies expand their operations to developing markets in which they are unlikely to have experience engaging with government, they will need to build this capability in their most important secondary markets (often China or India). □



Contributors to the development and analysis of this survey include **Andre Dua**, a principal in McKinsey's New York office, and **Kerrin Heil** and **Jon Wilkins**, a consultant and principal, respectively, in the Washington, DC, office. Copyright © 2010 McKinsey & Company. All rights reserved.