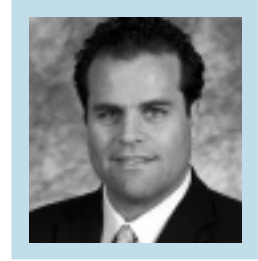


## INTERVIEW:

**TAKING CARE OF BUSINESS BY TAKING CARE OF SOCIETY**

An interview with **Mats Lederhausen**,  
Managing Director of McDonald's Ventures



Some say businesses cannot become more socially conscious because it would compromise their ability to create shareholder value. But such a limited perspective can put a business at risk, explains Mats Lederhausen, Managing Director of McDonald's Ventures. In the following interview, Mats articulates how businesses must widen their attention to include stakeholders beyond the shareholder. Mats has a unique vantage point from which to consider these issues—he manages McDonald's investments in growing businesses like Chipotle, Boston Market, and Pret A Manger.

**Brandon Schauer:** Mats, many of our readers are probably very familiar with the brands and ventures you manage because of how they fit into our everyday lives. What our readers probably aren't aware of is your interest in correlating what's good for a business with what's good for society. Is this becoming a more viable discussion for you and other business leaders? What are the opportunities for moving this dialog forward?

**Mats Lederhausen:** For my entire business career I have been an avid campaigner, believer and supporter of what is today more commonly referred to as corporate social responsibility (CSR). The reason is simple. Any institution (or human being for that matter) that cares only about themselves and ignores the world around them will be not be able to sustain themselves for any long period of time.

I have reacted strongly to the mantra of past decades that "the business of business is business." First I don't believe it is true. Focusing only on shareholders is a shortsighted and limiting perspective. In order for any business to prosper you will need to take good care of all stakeholders. Customers, Employees, Suppliers, Communities and Stockholders. Second, businesses have become the most powerful institutions on this planet. Over 50% of the world's largest economies are companies. As such businesses have to assume a responsibility for the whole.

I believe for many businesses this has always been a fundamental part of their philosophy. There are great companies that demonstrate wonderful commitment to their customers, their employees and their local communities. But I also think we can do better, and more. I am encouraged by the trend today where more and more companies "come out" and show what they are doing and also demonstrate increasing willingness to participate in broader societal engagements; that was more unusual a few decades ago.

The nature of our problems in society are such that they cannot be solved by compartmentalized thinking. We need interdisciplinary action. Businesses, governments, NGO's and local communities all have to care, they all have to pitch in and work collaboratively towards an improved state of the world. After all, that is what it is all about.

Lastly, I find it interesting to think about Adam Smith. He is often used by CSR skeptics as the founder of capitalism and his "invisible hand" theory is often quoted as a manifestation of the fact that businesses should employ a laissez-faire mentality towards social issues. Nothing could be more far from the truth. All you need to study is the fact that Adam Smith was not an economist. He was a moral philosopher. That says it all, doesn't it? The point he was trying to get across, which I passionately agree with, is that market based systems are by far the most efficient organizing mechanism we have discovered to set prices on goods and services. Let demand and supply do the work. Avoid regulation and non-transparent transaction costs. But this of course doesn't mean we shouldn't care what type of products or services we are creating. Nor does it imply that we should ignore the consequences our activities have on the societies in which we live.

**BS:** As you've described it, the consequences for a company that only cares about itself are in the long term, but as you point out, the interests of the shareholder focus on the short term. How do you make the argument for the responsible creation of wealth in the face of pressure for short-term shareholder value? How do we give weight to these other stakeholders (customers, employees, suppliers, and communities) to affect short- and long-term decision-making?

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## Design as a Core Strategy

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**BS:** I can see how your point would also apply to core strategies other than design—everyone at P&G become involved in marketing or everyone at Google is involved in engineering. And there are many more Googles and P&Gs out there than there are Apples. You might even say that Apple began with an engineering-focused core before transitioning to design as the fundamental strategy. What are the key tenets of a company with design at its core versus these other alternatives? And how are these tenets and practices diffused through the organization so that everyone in the company becomes involved in designing?

**JZ:** I think the difference equates to a strategic choice. Companies like Apple have chosen to make design the primary means for creating strategic value. As Michael Porter says, a company can attempt to profit through either lowering its cost of operations, or through differentiation by adding value to its products and services. Design is one way — and I would argue potentially the most effective way — to pursue the latter route. Design creates the emotional value, or certainly the emotional pay-off, to the product or service — that's worth a lot to customers, and extremely difficult to copy. But being successful in that route, as with any strategy, requires a deep commitment. Making the choice to differentiate through product or service design means a whole other set of choices cascade, like that you'll have to get good at understanding the emotions that underlie customers' choices. It's hard — impossible probably — to spend enough time focusing on good design and everything it entails and still focus relentlessly on squeezing out costs from the supply chain (for example). So it's a deeply strategic decision. And it's the leader's job to make sure everyone in the company understands that strategy well enough to execute on it. He/she is ultimately the one who propagates the message, and is held accountable for its results.

Interestingly, though, I think there can be a place for design in companies competing through the first route — through lowering costs. It's of a different and probably less often talked about type of design, but similar methods and processes can be applied to finding ways to improve operational efficiency, too.

Until recently leaving to start his own consulting firm, John was Director of Practice Development for User Experience and Design at Yahoo! Inc., where he led and contributed to organizational design, product development planning, and quality improvement initiatives, and had responsibility for improving corporate-wide design performance. Before Yahoo!, John was Vice President of Customer Research for Wells Fargo, where he planned and designed innovative Web channel strategies that helped the company develop the most successful internet channel in the financial services industry. John is currently a national board member of the American Institute of Graphic Arts, is the national chair of its Experience Design Community, and will be speaking at the Institute of Design's Strategy Conference.

## Taking Care of Business By Taking Care of Society

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**ML:** The question you raise is perhaps the most difficult challenge businesses face. I have no real good answer and can only offer a few reflections.

In life, balancing your many different priorities is perhaps the most difficult task we face. It is easy to spend too much time working and not enough caring for your family and friends. It is equally tempting to eat too much when great food is everywhere and less easy to spend as much time being physically active. We constantly face, as modern human beings, endless choices where it is easy to over-consume one over the other.

Businesses have similar challenges. Short-term and long-term is just one of them. Making sure you are investing as much in your employees as in your customers is another one. We can't always give our customers what they want, neither can we give all our employees what they want. I would probably go as far as to say that at the end of the day, perhaps the greatest businesses have a better ability to make the right trade-offs whereas the less fortunate ones lack that organizational capability.

I would say though, that I think the particular trade-off about short-term and long-term profitability perhaps is overstated. I actually think there are many shareholders that value the long-term over the short-term. The issue you face is that you have to be able to prove that some short-term sacrifices actually will materialize. Without a track record that may be difficult and you may have to make some long-term sacrifices just to build the necessary shareholder credibility to invest in longer-term value creation.

Finally, I would also add that two things have changed that should make it easier for companies to put more priority on the longer term. First, the penalties of not having your own house in order are becoming increasingly tough. Look at Enron, Tyco or more recently Merck. These penalties are huge. Secondly, customers and employees, our two most important stakeholders, have much more information available to them today than ever before. They require more transparency, more trust and more responsible business practices before they will commit their time or their consumption towards your particular enterprise.

Mats Lederhausen began his McDonald's career as a part time crew member in Stockholm, Sweden in 1979. With degrees in both Economics and Business Administration, Mats has also held positions with Boston Consulting Group and more recently as president of McDonald's Business Development Group. We invite you to come meet Mats and learn more about his viewpoints at the upcoming Institute of Design Strategy Conference.