WCD Board Strategy Briefing: Issue 2

The Growth and Management of Megacities
“Leading Through Uncertainty” was the theme of the **2014 WCD Global Institute**, which convened more than 225 directors from 38 countries this spring at the JPMorgan Chase headquarters in downtown New York. Emerging from the Institute were a number of provocative ideas and insights around governance challenges as companies expand their global footprint.

An area that captured particular interest at the Institute was the growth of “megacities” (over 10 million population) and how these entities are changing the landscape of globalization. Megacities – and their risk and opportunities – are a factor that boards must grapple with as the cities rapidly gain influence over global markets and demand more from corporations and governments alike.

**“The Growth and Management of Megacities”** session was moderated by **Nancy Calderon** (United States), Global Lead Partner, KPMG LLP; Director, KPMG’s Global Delivery Center, India; and WCD Member. Panelists included:

- **Phyllis Campbell** (United States), Chairman Pacific Northwest, JPMorgan Chase; Lead Director, Alaska Air Group; Director, Nordstrom, and PATH; WCD Asia Vice Chair
- **Michael Dixon** (Australia and United States), General Manager, Global Smarter Cities Business, IBM
- **Louise Koopman Goeser** (Mexico), President and Chief Executive Officer, Siemens Mesoamerica; Director, MSC Industrial Direct Co., Inc., PPL Corporation and HSBC Mexico; WCD Member
- **Neera Saggi** (India), Chief Executive, Larsen and Toubro Seawoods Pvt. Ltd.; President, Bombay Chamber of Commerce and Industry (BCCI)
- **Annette Schömmel**, (Switzerland and Hong Kong), Vice Chairman and Managing Director, Arthesia AG; Director, Kuoni; WCD Member

In this **WCD Board Strategy Briefing**, presented in partnership with KPMG LLP, we highlight the big ideas coming out of the discussion – and how companies can best leverage the inevitable dominance of megacities today and in the future.
Unprecedented Urban Growth – Driven by Emerging Markets

The number of people moving into cities worldwide is staggering:

- Each week, 1 million people leave the country to move into a city (*World Health Organization*); each year, the equivalent of eight brand-new New York Cities are being developed.

- 3.2 billion people – half the world – live in cities today; by 2030, it will be nearly 2/3 the population (*World Health Organization*).

And the cities are getting bigger:

- In 1950, there were only 75 cities above 1 million in population; by 2025 – in 10 years – more than 500 cities will hold that claim (*United Nations*).

- More than 20 megacities exist today; in the next 15 years the world will have 37 – most of which will be in developing regions – from Lagos and Sao Paolo to Karachi, Mumbai, and Bangkok (*United Nations*).

Economic progress of nations has become inseparable from the development of cities. As such, growth of megacities has begun to provide opportunities for businesses, but also major challenges – from energy efficiency to public transport to urban planning, and even how to manage law and order among such massive populations. But these challenges also make cities hubs of innovation that can actually thrive when public policy, market forces, and urban planning all work altogether.

Asia boasts the seven largest megacities in the world, with Pakistan, China, and India topping the pace of growth. India, in particular, is expected within 20 years to have 590 million people living in cities (vs. 340 million today). With this enormous influx of people comes the demand for jobs: 1 million young people in India will enter the labor force every month for the next 20 years (*Asian Development Bank*).

This dramatic urbanization of the region’s population has forced governments to think more purposefully about resources and building sustainable infrastructure and services. To continue to attract foreign investment and businesses, questions around the “livability” of cities must be addressed – questions that have real impact on the attractiveness of the talent base and consumer base these cities promise to provide to the world.
Rethinking the City Model to Create Value

As cities swell to unprecedented proportions, the entire model of what they look like is being forced to change. The ancient paradigm of cities that relied on separation of people (e.g., keeping the sick away from the well) is shifting toward connection: families at risk must rely on social services, which is linked to employment, which is linked to education – and all these things must come together for a city to survive.

To make these connections more manageable, states are consciously planning “satellite” cities – population centers emerging alongside megacities that are having their own increasing impact on global markets. With current megacities being stretched beyond their means, many view satellite cities as the only sustainable solution for dramatic urban growth.

Risk is a major factor companies consider when weighing investment in and around these mammoth cities. For companies, the attractiveness of the sheer size of these cities is drastically mitigated by the perceived risks – risks around infrastructure, resources, workforce skills, and, at their heart, how livable the cities are for their populations. India, for example, has had to shift its focus in its transportation efforts over the past 10 years. Until recently, many of the cities being developed there were planned around the road network, but this proved to be unsustainable and very eco-unfriendly. Today, the trend is shifting to instead optimize and expand the rail network, which can better link the megacities and satellite cities and their populations. And, indeed, in the recent national elections in India, the infrastructure agenda of both parties loomed large, with much discussion among leaders about ways of bringing the country and its talent further onto the global stage.

The Middle East is another region undergoing a shift in thinking about state projects, which has a direct impact on the region’s viability for companies. Pragmatism is driving these states, which have strong leadership, a great deal of wealth, and robust ambition as global economic players. Everything from infrastructure projects (roads, ports, public transport) to utilities and communications networks to social services are attracting heavy investment by Middle Eastern governments, who realize they must address each of these dimensions to create value for their economies.
3 Competitive Levers: Positioning for Economic Growth

The planning around a country’s urban centers is increasingly focused on where talent and demand converge. With megacities nearly strangled by their sheer size, how will cities stay competitive? Where will economic growth come from?

The evolution of cities is occurring on both a planned and an organic level. As governments such as India look to engineer cities around industrial rail and freight corridors, normal evolution is taking place – Mumbai, for instance, with its 16 million people, has grown so much that an additional 8 million people live in its satellite cities. China’s Chongqing, one of the world’s largest municipalities, is creating its own “knowledge city,” seeking to build a place that has both the density and quality of life to attract global industry and knowledge workers.

Efforts to shift economies up the value chain to more profitable, high-margin goods and services are trending globally. China is the epitome of this shift, as the government is looking to shed its reliance on the less-skilled manufacturing sector and instead position itself better for the high-tech, “new economy” jobs. And the rethinking around workforce issues is paralleled by a new emphasis on their populations as diverse human beings who have needs and interest in education, quality of life, and health, and who are, last but not least, consumers, not just workers. A more holistic view of the worker as someone who shops, who consumes goods and services domestically, is taking hold.

A complicated task for governments is to determine where cities can differentiate themselves – to think strategically about their competitive assets and what they can bring to the table. Too many cities decide something like “We want to be a biotech hub,” but then do not have the structure to support it, such as a university. Or they set their minds that they will be “the new Copenhagen” where everyone bikes to work, but this might be an impossible dream in a city with a large footprint or a mountainous environment. One size does not fit all – cities need to define their unique offering and positioning to retain their population and attract the ones who are driven to that particular proposition.

In addition to having a clear sense of their own DNA – their own strengths and weaknesses – cities need to rethink who their true competitors are. When a typical mayor is asked “Who’s your competitor?” he or she often just mentions the nearest city on the map. But a Fortune 500 company wouldn’t name as their closest competitor another Fortune 500 company just because they happened to be in the same city. Cities can learn from each other and adopt best practices, but not lose sight of their own differentiated assets in positioning themselves for the global market. And companies around the world are getting to understand that cities offer opportunities far beyond infrastructure development projects, but are a place where their talent increasingly wants to live, where creativity and innovation happen, and where large numbers of their consumers and potential consumers are.
As power shifts globally from Western cities to developing regions, there is another emerging shift in influence around who is driving change in cities. Governments and business are putting resources into infrastructure, but they are hardly making their decisions in a vacuum.

The people living in these cities, with access to social media, are becoming highly engaged and vocal – putting their governments "on notice" about its responsibilities to its citizens. In Japan, after the triple crisis of 2011 (earthquake, tsunami, and nuclear meltdown), the social media use of millions of Japanese not only informed and directed responses to immediate needs but also sparked in the government a complete rethinking of nuclear power and energy solutions in general. While some of the anti-nuclear backlash has died down since the disaster, Fukushima unleashed a much stronger voice especially among younger Japanese citizens – a real wake-up call to the government (and to other nations worldwide).

Governments globally are having to address how they are accommodating the social needs of their population as a whole – not just the workers they hold up as the local talent pool for global corporations seeking labor. There is a completely different set of expectations among the new generation: 20 years ago, farmers would move from rural areas to the cities, just hoping to make a little more money to send home to their families – this model worked for them. But today, the worker comes into the city with his or her spouse, and this spouse also needs a job. These workers are not willing to break their backs in a factory; they want employers to create working environments that are very different from the ones accepted a generation ago. Companies, too, are stepping in to address the services needed for the workforces. In the U.S., firms such as JPMorgan Chase are establishing a national "New Skills at Work" initiative to train the long-term unemployed and increase worker capacity in each local economy.

And it’s not only about the workplaces – governments have to find ways to provide all the services the working couples, and then their children, need to create lives in the city. For women in most of the world, this shift in services provides an unprecedented opportunity. Being able to take their children to school and have access to a doctor for their family enables them to work in the city; this job is the key to accessing economic power as a worker and a consumer.
Collaboration and Inclusion

Even as cities think about how they compete in a global world, collaboration is a key vehicle for driving growth. The ecosystem approach – where public and private sector entities put their collective brains to work on specific problems (from creating symbiotic industry “clusters” to sharing foreign direct investment strategies) – is the model of the future.

Developing cities that address both the workforce and social needs of a population is extremely challenging, and many governments are asking themselves: where are the solutions that one city has found that my city can replicate? Research such as the Siemens Green Cities Index is allowing cities to compare their efforts to their peers in areas such as environmental performance. This kind of healthy competition and benchmarking makes collaboration and discussion among cities a win-win for all.

Inclusion is a strategy that addresses the reality of the global consumer marketplace. As people swarm into megacities, especially in emerging countries, many live at the “margins.” They often do not immediately become part of the “official” infrastructure (paying taxes, etc.), either because they don’t want to or can’t afford to. But while they take advantage of the public infrastructure, using services they can’t pay for, they are at the same time becoming consumers – paying for things like cell phones (and they are often using these phones to express themselves on social media, even when they are “off the grid”). Eventually, as they become more integrated into the city and its workforce, they become more a part of the official infrastructure, the “visible” economy, with real money to spend.

Ultimately, the 2.6 billion-strong consumer class living in cities – however on or off the grid they are – is creating a significant new opportunity for global business. The evolution of this population and its expectations for what it needs from both the public and private sector means that companies must dive deeper into the products and services demanded, and rethink their model for expanding into these markets. Investing in these cities is not without its risks, but the rewards of opening up a whole new consumer market are enormous.
Megacities: Initiatives

To learn how companies are bringing their resources to developing a sustainable urban future, explore below:

Global Cities Initiative – Collaboration between JPMorgan Chase and Brookings
http://www.brookings.edu/about/projects/global-cities/about

IBM Smarter Cities Initiative – How cities are enabling a global economic transformation

The Crystal – Sustainable Cities Initiative by Siemens
http://www.thecrystal.org/

L&T Seawoods Navi Mumbai – One of the largest planned cities in the world
http://www.lntreality.com/seawoods-work.html

Kuoni – Global travel-related service provider
http://www.kuoni.com/

Arthesia – Global strategists
http://www.arthesia.com
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During the WCD Global Institute, these additional panels and speakers were featured.

- **The “Revolutions” in Energy, Manufacturing, Technology, and Other Areas Directors Need to Know About**
  - Deborah Wince-Smith (United States) (Moderator), President, Council on Competitiveness; Director, NanoMech; Former Director, NASDAQ OMX; WCD Vice Chair
  - Isabelle Courville, (Canada), Chairman, Laurentian Bank of Canada; Director, Canadian Pacific Railway and TVA Group; Former President, Hydro Québec Distribution; WCD Member.
  - Dr. Alice Gast, (United States), President, Lehigh University; Director, Chevron
  - Edie Weiner, (United States), President, Weiner, Edrich, Brown, Inc.; Author; Futurist; Former Corporate Director; WCD Member

- **The Consumer in Charge**
  - Diana David (Hong Kong) (Moderator), Regional Corporate Development Director, Asia-Pacific, Financial Times
  - Zelma Acosta-Rubio, (Peru), General Counsel, Board Secretary, and Director of Corporate Affairs/CSR, Banco Internacional del Perú - Interbank; Director, La Fiduciaria and Intertitulos; WCD Member
  - Dr. Namane Magau, (South Africa), Executive Director, B & D Solutions; Founding Member and Director, Tselane Basadi; Director and Shareholder, AON South Africa; Former Executive Vice President, Human Capital for Council for Scientific & Industrial Research (CSIR); Former President, Business Women’s Association - South Africa
  - Sandra “Sandi” Peterson, (United States), Group Worldwide Chairman and Executive Committee Member, Johnson & Johnson; Director, Dun & Bradstreet; WCD Member
  - Kulpatra Sirodom, (Thailand), Professor of Finance, Thammasat University; Director, Thai Wacoal Public Company Ltd., Thai President Foods Public Company Ltd., President Bakery plc, and The Siam Commercial Bank Public Company

- **Executive Compensation & Succession – Making the Case for Courage and Action**
  - Christie Hefner (United States) (Moderator), Executive Chairman, Canyon Ranch Enterprises, Inc.; Director, Center for American Progress; WCD Member
  - Anne Berner (Finland), Chief Executive Officer, Valilla Interior, a 3rd Generation Family Business; Chairman, Foundation New Children’s Hospital, Potential Investor, Sweden and Finland, Dragons Den TV Show; WCD Member
  - Melissa Means, (United States), Managing Director, Pearl Meyer & Partners; Trustee, All Newton Music School; WCD Member
  - Neil Minow, (United States), Editor, Miniver Press; Movie Critic/Columnist, Beliefnet; Co-Founder and Director, GMI Ratings

- **Recruiting, Managing, and Marketing to Millennials**
  - Cere Eberly (United States) (Moderator), Chief People Officer and Senior Vice President, The Coca-Cola Company; Director, Oglethorpe University; WCD Member
  - Catherine A. Allen, (United States), Founder, Chairman, and Chief Executive Officer, The Santa Fe Group; Director, Stewart Title Information Services, El Paso Electric Company, and Synovus Financial; WCD Member
  - Irene Chang Britt, (United States), President, Pepperidge Farm, Inc.; Senior Vice President, Global Baking and Snacking, Campbell Soup Company; Former Director, Sunoco, Inc.; WCD Member
  - Iyalode Alaba Oluwaseun Lawson, (Nigeria), Chairman, Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA); WCD Member
  - Susan Tannmantong, (Philippines), Chief Procurement Officer, Jollibee Foods Corporation

- **The Crises Yet to Come**
  - Diane Brady (United States) (Moderator), Senior Editor and Content Chief, Bloomberg Businessweek
  - Marion Blakey, (United States), President and Chief Executive Officer, Aerospace Industries Association; Former FAA Administrator and Chairman, National Transportation Safety Board; Director, Alaska Airlines; WCD Member
  - Nicholas Consonery, (United States), Director, Asia, Eurasia Group
  - Ann Veneman, (United States), Former Secretary, United States Department of Agriculture; Director, Alexion Pharmaceuticals, Inc., Nestlé S.A., and S&W Seed Company; WCD Member
  - Ambassador Melanie Verweer, (United States), Executive Director, Georgetown Institute for Women, Peace and Security; Former Chief of Staff to First Lady of the United States, Hillary Rodham Clinton

- **A Conversation With Merle Aiko Okawara and Kathy Matsui**
  - Merle Aiko Okawara (Japan), Chairman, JC Comsa Corporation; Director, Parco; WCD Chapter Chair
  - Kathy Matsui (Japan), Managing Director, Chief Japan Strategist, Co-Head of Asia Economics, Commodities and Strategy Research, Goldman Sachs; Director, Asian University for Women Support Foundation; WCD Member
  - Interviewed by Henrietta H. Fore (United States), Chairman and Chief Executive Officer, Hislam International; Director, Exxon Mobil Corporation, General Mills and Theravance, Inc.; Co-Chair, Asia Society; WCD Global Co-Chair

Upcoming WCD Institutes Include:
- Asia Institute: September 3–4, 2014, in Singapore
- Americas Institute 2014: November 11–12, 2014, in Miami
- European Institute: March 4–5, 2015, in London
- Global Institute: May 5–7, 2015, in New York City
**About WomenCorporateDirectors (WCD)**

WomenCorporateDirectors (WCD) is the only global membership organization and community of women corporate directors, comprised of more than 3,000 members serving on over 5,000 boards in 63 chapters around the world, with many more slated in the next two quarters. The aggregate market capitalization of public companies on whose boards WCD members serve is $8 trillion – if WCD were a country, its economy would be the world’s third largest, behind only the U.S. and China. In addition, WCD members serve on numerous boards of large private companies globally.

WCD membership provides a unique platform for learning from the intellectual capital of accomplished women from around the world, and WCD’s mission is to increase courage, candor, inclusion, and cohesion in the boardroom. KPMG LLP is a Global Partner of WCD.

Spencer Stuart is a Premier Partner, and WCD Strategic Partners include Marriott International, Marsh & McLennan Companies, and Pearl Meyer & Partners; WCD Alliance Partners include International Finance Corporation (IFC), JPMorgan Chase, and Northern Trust.

WCD has 63 global chapters, located in Arizona, Atlanta, Beijing, Boston, Charlotte, Chicago, Chile, Cleveland, Colombia, Columbus, Dallas/Fort Worth, Delhi, Denmark, Finland, France, Germany, Gulf Cooperation Council, Hanoi, Ho Chi Minh City, Hong Kong, Houston, Iceland, Indonesia, Israel, Japan, Kansas City, London, Los Angeles/Orange County, Greater New Mexico, Malaysia, Melbourne, Mexico, Milan, Minnesota, Morocco, Mumbai, Netherlands, New York, New Zealand, Nigeria, Northern California, North Florida/South Georgia, Panama, Peru, Philadelphia, Philippines, Quebec, Rio de Janeiro, Rome, San Diego, Sao Paulo, Seattle, Shanghai, Singapore, South Africa, South Florida, Switzerland, Sydney, Tennessee, Toronto, Turkey, Washington, D.C. and Western Canada. Upcoming chapters include Argentina, Brussels, Denver, Egypt, Guatemala, Hawaii, Kenya, New Mexico, Poland, Puerto Rico, South Korea, Spain, and Thailand. For more information, visit www.womencorporatedirectors.com.

**About KPMG LLP**

KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative (“KPMG International”). KPMG International’s member firms have 155,000 professionals, including more than 8,600 partners, in 155 countries.

**About KPMG’s High Growth Markets**

KPMG’s High Growth Markets (HGM) practice helps companies navigate the complex challenges and risks of cross-border investments to, and from, high growth emerging markets. HGM provides audit, tax and advisory services to U.S.-based companies in their pursuit of outbound investment opportunities in high growth markets such as China, India, Korea, Brazil, Russia, Mexico, ASEAN, Africa, and beyond.