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THE BIG IDEA

Companies have long prospered by ignoring what economists call "externalities." Now they must learn to embrace them.

Leadership in the Age of Transparency

by Christopher Meyer and Julia Kirby

Included with this full-text *Harvard Business Review* article:

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Leadership in the Age of Transparency

Idea in Brief

The big idea: The key to becoming a contemporary corporate leader is to take on responsibility for externalities—what economists call the impacts you have on the world (like pollution) for which you are not called to account.

The argument: Thanks to trends in three areas—the growing scale of companies and their impacts, improvements in sensors that measure impacts, and heightened sensibilities of stakeholders—the demands to operate responsibly are dramatically increasing. The stark difference between the tobacco industry's irresponsible refusal in the 1980s to acknowledge lung cancer risks and the food industry's swift actions two decades later to remove trans fats from products comes down to a willingness to internalize externalities.

A better approach: An externalities framework allows you to respond rationally and in ways that are simultaneously defensible to all stakeholders. By focusing on your company's own footprint—societal problems that really can be laid at your doorstep—you can establish priorities, set measurable goals, and take action.

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Rarely do before-and-after business cases present such a neat study in contrasts. Compare the recent actions of the key players in the food industry with those of the tobacco industry two decades earlier.

In the 1980s, executives at Philip Morris were still fighting energetically to hold back the tide of evidence that cigarettes cause lung cancer, and claiming that customers were exercising free will in choosing to smoke. A 1993 *Washington Post* article titled "Scientists Testify Tobacco Company Suppressed Addiction Studies" tells the tale: Damning company-sponsored research had been spiked a decade before by senior executives.

Fast-forward to the turn of the millennium and you see a very different kind of behavior in the packaged food and restaurant industries. As the dangers of trans fats came to light, managers in the most powerful firms took the health implications to heart and responded quickly, before the issue became a cause célèbre, by changing recipes, funding public education campaigns, and pushing reduced-fat products. By 2005, a trade publication was already announcing "Kraft completes trans fat reformulation," and every one of the company's competitors was following suit. Given that the first U.S. state law outlawing trans fats in restaurants went into effect only this year, these were voluntary changes taken well in advance of legal or regulatory compulsion—or even public anger.

What transpired over those 20 years to drive such divergent managerial responses? Something very big, actually: As the impacts of business on the environment, on society, and on individuals became too substantial to ignore in many realms, and cheaper and easier ways to measure those impacts were devised, the rules of doing business shifted. Considerations that hadn't previously complicated the plans of corporate leaders started getting factored in. In other words, it was no longer possible to ignore externalities.

Externalities is the term economists use when they talk about the side effects—or in the positive case, the spillover effects—of a business's operations. They're the impacts that

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a business has on its broader milieu, either directly or indirectly, but is not obliged to pay for or otherwise take into account in its decision making. The classic example is pollution: A smokestack in Akron may send particulates into the air that descend on farmlands downwind, but in the absence of any measurement of those, the factory isn't charged for ensuing crop damage. Those effects are out of scope, and the company is off the hook. How a consumer disposes of your product at the end of its useful life is another form of externality, and so is the noise of your factory whistle.

The concept of externalities goes beyond impacts on the physical environment. Say your menu-driven phone system keeps callers on the line a bit longer and eats up their minutes, or your subcontractor decides to cut costs by using undocumented workers, or property values near your facilities start to slide: Those are impacts for which you will likely not be called to account.

When Kraft, Nabisco, and Nestlé decided to reformulate their recipes, and national restaurant chains such as Wendy's and Burger King switched to less artery-choking fats in their fry-o-laters, they were choosing to internalize an externality. They were taking ownership of an issue that they could, by law, have continued to say was not their problem. Yes, they did so under some activist pressure, and yes, they could still do more. But unlike tobacco companies in the 1980s, the food companies didn't wait for regulation or lawsuits. They acted. That's a big change, and what's behind it isn't as simple as good public relations. There's something more nuanced, and at the same time more hardheaded, going on.

In this article, we'll explore the forces behind what we see as a coming sea change in corporate leadership. We'll make the case that the true measure of corporate responsibility—and the key to a business's playing its proper role in society—is the willing, constant internalization of externalities. Today, business leaders are bombarded with messages through many channels that they owe more to society, and many think so themselves. But often the result is an incoherent mishmash of charitable giving, CSR programs, and "going green" initiatives. Here, we present a far more disciplined way to respond to the challenge.

Feedback Forces the Issue

Before we go on, let's disinvite the elephant from the room: We have no political agenda, and certainly no antibusiness agenda, about the environment, health, or any other social concern. We'll talk about these issues, of course, because externalities so often affect them, but our perspective has something to offer both Right and Left. On the Right, we propose taking responsibility for one's actions and employing markets to determine the price of an impact. On the Left, our approach leads to greater resources applied to social problems, with costs borne by those who cause them. And for both, we offer a framework for improving the chances of constructive dialogue between opposing advocates.

The first thing we can all agree on is that greater accountability for corporate impact is unavoidable. Think about what's involved in an externality: One party takes action that has effects on others who did not have a say in the matter. How long can that persist before feedback starts impinging on the actor? Indefinitely, if the effect is too small to notice, or if the effect is noticeable but is difficult to trace to a cause, or if the affected party doesn't make any objection. With every passing year, however, each of those "ifs" becomes more unlikely.

Scale. To begin with, many types of externality that used to be minor have grown too large to ignore. When the Eureka Iron Works, the first Bessemer steel mill, opened in 1854 in Wyandotte, Michigan, it probably wasn't very clean. But however inefficient it was, a single furnace wasn't going to have much effect on the earth's atmosphere. When the world can produce on the order of a billion tons of steel per year, though, the impact becomes prominent. One recent analysis shows that before 1850, global carbon emissions from fossil fuels were negligible, but by 1925 the figure had reached a billion metric tons per year. By 1950, the amount had doubled. By 2005, it had doubled twice more, to 8 billion. Simply put, commercial activity has achieved planetary scale. The rapid growth of emerging economies will only accelerate the trend.

Scale has changed not only for industry collectively but for companies individually. Given the gargantuan size of many of today's multinationals, even the smallest decisions, or non-decisions, add up. UPS recently decided to stop printing paper labels and sticking them to packages; instead it designed a device to stamp shipping information directly on boxes. That

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will that save at least 1,338 tons of paper per year.

Larger corporate scale gives a company a greater proportion of the responsibility for a negative externality, and more leverage to create a positive one. Hewlett-Packard is not the world's largest company, but it recognizes that its annual procurement budget of $50 billion gives it an undeniable ability to influence vendors. Rather than using its muscle only to strong-arm them into price reductions, HP created its Supplier Code of Conduct in 2002 to ensure that suppliers were doing business in a socially and environmentally responsible manner. To take another example, we all know that what Wal-Mart wants from suppliers, Wal-Mart gets. And Wal-Mart knows that at the volume its stores sell, a shift to, say, recyclable packaging will be meaningful. It's now asking consumer goods manufacturers to report on the sustainability of their products, including packaging, and is educating consumers about the externalities.

Sensors. If the 1900s were, as sociologist Theodore Caplow says, the "first measured century," then efforts to collect comparative data have only gained momentum since. The United States AQS (Air Quality System) now stores data from more than 5,000 active monitors on 188 pollutants—and anyone can register to use these EPA data, free. Wireless nanosensors ("smart dust") have been tested on the Golden Gate Bridge to detect vibration that would signal dangerous wear and tear.

Ubiquitous technical measurement is only the most obvious improvement in sensing: Increasingly, human behavior is tracked as well. Not long ago, political contributions by individuals were cloaked in obscurity. Now they're published online for all to ponder. When some newsworthy event happens—like a plane landing in the Hudson—we get waves of data from surveillance cameras and bystanders' cell phone photos.

With growing access to expanding sources of data comes the ability to see patterns. Consider Google Flu Trends. Based on the incidence of Google searches about flu symptoms, it tracks the course of an epidemic reliably, and two weeks ahead of the CDC. Or consider CitySense, a Blackberry and iPhone app that tells pub crawlers, based on the locations of those mobile devices, which establishment is offering the liveliest nightlife—in real time.

We're even gaining the ability to "fuse" diverse data to see such patterns. Sitting in a coffee shop, you are simultaneously "seen" by the GPS system on your phone, the credit card validation track of your purchase, the IP address of your computer, the record of your subway card swipe at the nearest station, and the shop's security camera. A friend at one of the credit-checking bureaus tells us that on the basis of data available to him he can see a couple's divorce brewing six months prior to a filing.

Not all of this newly cheap and accessible data has to do with externalities. The point is that if you are a party disgruntled by something—anything—the chances of your laying your hands on relevant information have gone way up. Thinking again of the Eureka Iron Works, it wasn't feasible a century ago to measure its contribution of sulfur dioxide in the atmosphere. Now we can, and do, measure parts per billion of many pollutants, and much of this kind of data is accessible anywhere in the world.

Sensibilities. Suppose you were concerned about poor air quality in your neighborhood, and you wanted to find out who was causing it. In 1950, how would you have done that? We'll leave that as a rhetorical question, but today, a good place to start is with Scorecard.org. We tried it—it took us 15 seconds to discover the 20 largest polluters in our area. We could also check how each ranked relative to its industry. The next step was right there for us, too: We could click on "Take Action" and then select from a roster of options, from sending a fax to the company's management to joining an online discussion. The fact is, more people do take action these days, and not only in protest of corporate wrongs.

The effect of instantaneous communications has been a rising sense of global connectedness and responsibility. Natural disasters, when they happened in other nations, used to elicit sympathetic noises from a vaguely aware public, which was content to know its government was sending emergency aid. Today, a calamity like the earthquake in Haiti occurs, and the individual contributions to organizations such as the American Red Cross—$4 million worth via mobile phone texting alone within the first 24 hours—overwhelm their ability to process them. Even absent catastrophe, the impulse to reach out is strong; thus the proliferation of re-

Taking Time

The story goes that after testing a new Mac model, Steve Jobs took his engineers to task because the start-up time was now longer. He pointed out that Apple hoped to sell at least a million of the new machines, which meant that a million people would boot up every day. Every second added to the process by bloated code would cost society over 4,000 man-days per year.

It didn't occur to the group of engineers, properly focused on system performance, to take that consideration into account. It was an externality. By shining a light on a valuable resource that his company was failing to factor into its decision making, Jobs internalized it.

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tailers offering customers a chance to make a donation to a cause at checkout—$5 for food for the poor at Whole Foods, $4 to give a book to an urban child at Borders, a dollar for the nonprofit of the day via eBay's PayPal.

Given the evolving sensibilities of ordinary people, any apparent callousness by corporations is more likely to raise hackles. Royal Dutch Shell was an early target of activist dissatisfaction when a range of groups railed against its environmental and human rights impacts in the 1990s. By all accounts its management was blindsided by the change in mood. The company pioneered a process for engaging stakeholders, many of whom were on the attack, to gain an appreciation of their expectations. Since then, firms of every kind have experienced similar pressures. Before the turn of the millennium, few coffee drinkers paused to think about the struggling farmers who had harvested the beans. Now, thousands of consumers are sufficiently concerned to boycott a coffee seller that turns a blind eye (as Starbucks discovered), and millions more are willing to pay more for beans with a Fair Trade seal of approval.

The developments we are seeing in scale, sensors, and sensibilities all fuel one another. The average company feels the effects because as measurement improves and access to those measurements becomes ubiquitous, people act on the information, thanks to heightened sensibilities. Formerly unseen and unremarked effects of doing business start getting measured, and affected people, armed with data, seek recourse.

The Fog of CSR

What constitutes a "responsible corporation" in an era of advanced scale, sensors, and sensibilities? We would submit that it is as simple as this: Stakeholders regard a company as responsible when they perceive that it is steadily internalizing externalities—that is, using sensing capabilities to measure and manage its impacts on society. Conversely, when the public perceives that a company is producing an externality that it could take greater responsibility for but isn't, that's when mechanisms of compulsion are brought to bear, from regulation to riots.

This is an important point: When the costs of externalities become sufficiently clear—and onerous—they manage to get internalized in one way or another. The scope of impact you are responsible for managing can only continue to grow. Your choice in the matter is whether to take charge of that scope or have it thrust upon you. In terms of corporate reputation, that makes the choice easy, because the worst of all worlds is to be *made* responsible, and still not be *considered* responsible.

We're convinced that the vast majority of executives want their companies to do right by society. The fact that they so often act to the contrary (resisting beneficial regulation, for example, or exploiting legal loopholes) is in part due to the huge assortment of demands made of them. The pressures come from all directions, and it often seems impossible to do enough. Pat Tiernan, Hewlett-Packard's vice president of corporate social and environmental responsibility, described the effect of all this on his company: "Nongovernmental organizations, social responsibility investment fund interests, and the media continually demand responses from us." Lynette McIntire, who holds an equivalent role at UPS, told us her organization filled out more than 130 sustainability-focused surveys in 2009 alone.

The response is often as disorganized as the demands. Companies engage in an incoherent jumble of activities under the banners of corporate social responsibility, sustainability, giving back, going green, and philanthropy. If your executive team is like most, you need a way to sort all this out, and an externalities

Ripples of Responsibility

A simple framework can help you come to terms with your company's externalities. Start by drawing four concentric circles: The core is the business you manage today; the rings beyond are impacts on the world for which you haven't had to account.

Core: Your Business Today

Take Ownership
These are impacts that can be directly traced to your operations. It's now possible to measure and manage them, and the world should accept no less.

Take Action
These are impacts that you contribute to and in relation to which you have particular problem-solving competence.

Take Interest
These are distant ripple effects, and you have no special competence to ameliorate them. You'll channel your efforts through other trusted parties.

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framework can help. By focusing on your company's own footprint—the problems of the world that really can be laid at your doorstep—you can establish priorities, set measurable goals, and take actions that are defensible to all stakeholders as proper and coherent. Among these stakeholders are, of course, your own people, who long for a sense of confidence that their organization is wielding its considerable power for the good.

A positive angle. It's important to pause here and note that while the world tends to focus on negative externalities, positive externalities also exist. These are the spillover effects that others in your system enjoy as a result of your operations. As the simplest example, if your company employs a security guard to keep watch over your building entrance, that uniformed presence wards off threats to the neighbors as well. On a larger scale, when Google traced the source of an information security breach recently, the beneficiaries of its fingering the hacker included at least 30 other U.S. firms. Those who adopt an externalities framework should therefore bear this in mind: There's goodwill to be gained by producing positive externalities as well as by diminishing negative ones.

Own Your Impact

To think about how to embrace externalities, we find it useful to start by drawing four concentric circles. (See the exhibit "Ripples of Responsibility.") At the center of this simple diagram is the business you run today: the domain that you actively manage and the key performance indicators you track. Beyond this core, every impact you make is something you consider today to be an externality. The differences from ring to ring have to do with three variables: your accountability, your competence to remediate, and your brand's resonance with the issue.

Your company's investments of resources and attention in solving a problem should correlate with these bands. If a problem is directly attributable to you (like emissions levels), it falls within your first ring and the onus will be on you, not some other company or organization, to make up for it. In this ring, all three variables are in play. The impact is one you can be held accountable for; you have organizational competence to address it; and people see a connection between your business and the work to be done. If a problem is one you contribute to, but to which your direct accountability can't be measured (be it a collective problem or a knock-on effect), it is in the second ring. You need not take ownership of it, but given your competence and its relevance, you should take action. The third ring consists of more distant ripple effects, in which you

Resetting Your Boundaries

Once you embrace externalities as an organizing principle for your efforts to become and be perceived as a responsible business, how do you decide what to start measuring and what feedback to respond to? If you were going to devote a session at an offsite to deciding what externality to let in, you might begin by asking everyone present to think expansively about the system in which your offering is situated. You make cars, for example, but they operate in a system that includes service, emissions, and traffic congestion. Then, you might provoke ideas by asking the following questions:

1. Scale

Where do public costs start to come in, and how does your product contribute to them?

What resources do you buy in large quantities? Of which are you a dominant buyer?

Is there a resource you are taking for granted?

How do people use your product, and how do they dispose of it?

When people you're socializing with learn where you work, what issue do they bring up?

2. Sensors

What feedback is available that you haven't paid much attention to?

What feedback are you busily resisting?

What are the unmeasured costs associated with your key resources?

What is now possible to measure that wasn't before?

What is something you are already measuring but not factoring into decisions?

3. Sensibilities

How have stakeholders' expectations changed?

What part of your system does no one want in their backyard?

What lawsuits might you be threatened with, even where you're on solid legal ground? What new precedent might a plaintiff hope to set?

What issue might you embrace if you wanted to wrongfoot your antagonists?

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should at least take an interest—and a visible one. You do not have particular competence on this front, but relevance still applies. This diagram, once completed (perhaps via the exercise we describe in the sidebar, "Resetting Your Boundaries"), serves as a guide to becoming a truly responsible company.

Taking ownership. The first priority, corresponding to the first ring of our model, is simply to bring into your managerial scope all the "side effects" of your operations that should no longer be called externalities because they are known or knowable. Peter Drucker wrote, "One is responsible for one's impacts, whether they are intended or not. This is the first rule. There is no doubt regarding management's responsibility for the social impacts of its organization."

UPS is heeding that rule when it makes the effort to translate all its package-truck miles (something it was already measuring) into data about emissions of CO2 and NO2—and then shifts more package volume onto rail routes to lessen that impact. Nike heeds the rule when it compels all its suppliers to adhere to a code of conduct forbidding the kinds of child labor practices that human rights watchdogs discovered in the late 1990s. In both cases, the impacts are obvious if not easy ones to mitigate. Sometimes, though, the opportunities are not so clear to the world or the company. Coca-Cola, when it examined its carbon footprint, discovered that the most greenhouse-ghastly aspect of its business was its installed base of more than 9 million coolers and vending machines. The company is in the process of changing over to units that are more fuel-efficient. Along the same lines, Nestlé's VP of innovation, Helmut Traitler, says his company is working to develop ice cream products that needn't be frozen until they reach the grocer.

Carpet manufacturer Interface may be the company that has taken Drucker's "first rule" most to heart. Its goal, as evangelized by longtime leader Ray Anderson, is to achieve zero impact on the environment (in a notoriously chemical-spewing business) and in fact to become a closed-loop, *negative* impact business by 2020.

Taking action. A company usually knows it is contributing to negative externalities, and the world knows it, but the contribution is not direct or precisely measurable. Coca-Cola, for example, might know exactly how much water its production process consumes but might not know how much that level of consumption destabilizes global water supplies. In such cases, the wrong thing to do would be to deny the seriousness of the problem or one's role in it. If the world perceives, however vaguely, that you are part of the problem, and you have organizational competence that can be applied to a remediation effort, you will only gain by being seen as part of the solution.

A fine example is Wal-Mart's green construction efforts in China. As it expanded into that market, the retailer wanted to uphold the same environment-friendly building standards it had established elsewhere but was thwarted by local contractors' lack of skills and knowledge. The easy response would have been to say, "Oh well—we tried." Wal-Mart opted for the much harder response, taking upon itself the task of training those local contractors to do the job. Meanwhile, it took a similar level of action with its private-label jewelry line by adding a country-of-origin stamp to assure customers that the precious metals were sourced responsibly. No one could reasonably say that Wal-Mart itself is the direct cause of social ills associated with gold and silver mining in many parts of the world. It does not need to take ownership of those externalities. Yet by taking action, it can refuse to be complicit.

Sometimes, taking action is a step toward taking ownership. In the 1990s, John Brown of British Petroleum actively campaigned for more government regulation of emissions in his industry. Brown knew BP was part of a societal problem, but he also knew that no company could survive a unilateral principled

Time to Take Ownership?

In November 2009, more than 2,000 villagers in Mehdiganj, India, staged a march to demand the closure of a Coca-Cola bottling plant there. At issue: whether the company had overextracted groundwater even as a serious drought threatened the region. This wasn't the first such complaint: According to India's Central Groundwater Board, groundwater levels in Kala Dera, the site of another Coca-Cola bottling plant, had plummeted an unprecedented 19 feet from 2007 to 2008.

It's a perfect example of scale, sensors, and sensibilities combining to make an issue of an externality. The company is taking action on various fronts around the globe as it internalizes the issue, researching threats to fresh water supplies and how to counteract them. The question is: Is taking action enough, or is it time for Coca-Cola to take ownership of its impact? To the company's credit, it's not burying its head in that dry sand. This is the right debate for its executives to be having, and they're having it.

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stand. It would be just short of martyrdom to undertake a drastic reduction of emissions when competitors were not putting the same burden on themselves. Brown also thought BP was agile enough to be very competitive in a changed game.

Taking action, however, need not imply any future ownership of a problem. When microfinance pioneer and Nobel laureate Muhammad Yunus challenged Adidas with the question "why shouldn't all the world's children have shoes they can afford?" the company decided to act, not because it was to blame but because it had special competence to engineer a "one euro shoe."

Taking interest. For impacts that are far too remote to assign accountability, but where it is possible to see a connection to a company's activities, it makes sense to contribute to amelioration efforts. This is not admitting any culpability; it is demonstrating a special concern for troubles that are closer to home, so to speak.

Often a company's activities in this ring appear indistinguishable from philanthropy, in that they support other organizations with specific competence to address the chosen issue. Yet they are imbued with relevance. When, for example, we spoke with Chris West, who directs Royal Dutch Shell's global philanthropic efforts through the Shell Foundation, he explained that the organization steers its contributions into areas associated with cleaner and more efficient energy consumption. "We deliberately took as a starting point the fact that we would focus only on issues aligned to the business footprint of our parent," he said. "So, for us, that means tackling energy poverty issues and energy environment issues." It partners with a nonprofit organization called Envirofit, for example, to help create an affordable and cleaner-burning alternative to the cookstoves used extensively in poorer regions of the world. Applied in such directions, Shell's resources and brand resonate for additional benefit.

And what becomes of philanthropic opportunities that fall outside this framework? AIDS, for example, is a terrible disease but cannot be said to be an impact of a particular corporate activity. Yet many companies have made ameliorating its effects in Africa a philanthropic priority. Some observers salute the Project Red campaign as evidence of growing corporate social responsibility. Others might say, "You're naive—it's just cause branding." Our position is that there's nothing wrong with good marketing, especially when it serves society. But we wouldn't classify these as acts of *responsibility*, because none of the computer makers, jeans fashioners, or skateboard makers supporting Project Red is responsible for AIDS in Africa. Outside the third ring, profitable companies can afford to be generous—and should be—but however laudable their philanthropy, we doubt it buys them any "offsets" for the negative externalities they fail to address.

We're in This Together

As organizations become more oriented to-

The Beauty of Market Solutions

When your neighbor plants a beautiful lawn that you see from your window, you're the beneficiary of a positive externality; when he mows that lawn while you're trying to concentrate, you're the victim of a negative one.

This duality scales up to larger cases. For example, airlines lobbied recently to expand a small airfield near both our houses in Massachusetts: One of us joined HUSH, a group of local residents who organized because they feared the noise; the other rooted for the increase in air service, because it meant easier travel logistics. It's a typical divide on a NIMBY issue: You want the benefit, but I won't stand for the externalities, at least Not In My Back Yard.

Fights like this become political when there is no market in which these conflicting values can be exchanged. An issue must be internalized, however, if five questions about it can be answered in the affirmative:

Can the cause be determined and attributed?

Can those affected be identified?

Are affected parties unable to opt out of the impact?

Can the impact be measured?

Can a price be put on it?

When the answer to all these questions is "yes," there's often a straightforward solution: A payment can be negotiated, to be extracted either by a market mechanism or by a civil action like a tax.

This is the idea behind the carbon tax. Most emissions can be measured and traced, so the challenge lies in assessing the incidence and the cost of the impacts. Some are literally global—if you believe there is a nonzero impact on climate—and others are more local, like smog in the San Gabriel valley. Setting a market price for emitting a ton of carbon is one way of ensuring corporate responsibility. When a company pays the tax (or purchases a license to emit or trades emissions credits in an exchange), it internalizes the impact of its activities.

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ward the gradual internalization of externalities, we predict that an interesting shift will occur. Reflect for a moment on the recent emergence of "social enterprises," a new class of organization designed first and foremost to produce social benefits. Unlike a charity, a social enterprise does not rely on donors; it aims to turn a profit sufficient to sustain its ongoing operations. For example, Grameenphone was founded on Iqbal Quadir's realization that nothing could do more for economic development in Bangladesh than a communications network. This motivation spawned the largest mobile phone company in the country, earning returns for all its investors.

Now consider that if a traditional business, founded on the pursuit of profit, takes on greater responsibility for externalities, it becomes quite a near neighbor to a social enterprise, founded for social benefit but taking on the challenge of being commercially viable. The bright line that has traditionally been drawn between for-profit and charitable organizations starts to blur.

One implication is that over time, a common performance yardstick visible to all sectors—consumers, business managers, philanthropists, regulators, citizens—will begin to take hold. And as it does, many kinds of benefit-engineering (analogous to financial engineering) will emerge: Today you can offset the carbon footprint of your flight; tomorrow Brazilian villages will package their carbon fixation for sale to emitters, and who knows what the carbon default swap of the future will be? It will remain the job of government to set the standards for measurement and ensure that they are properly carried out and made public. The markets, once in possession of full information, should be able to do the rest.

This is the thought we will leave you with: As the boundaries between businesses and the nonprofit sector erode, adversarial relationships will become cooperative. A consensus will emerge that we are all responsible for our world and must work together to make it better—and we'll all wonder how we could ever have thought otherwise.

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