© Julian Elliott Photography via Getty Images

Unlocking the future:
The keys to making cities great

Effective urban leaders focus on doing three things well.

Shannon Bouton, Jay Dearborn, Yakov Sergienko, and Jonathan Woetzel,
McKinsey & Company

More than half the world lives in cities, and that figure is likely to increase to 60 percent by 2030, adding 1.4 billion more people than today. The rush to urban centers, particularly in emerging economies, is driven by a desire for a better life with more opportunities—as economies start to centralize in cities, so do people. The McKinsey Global Institute (MGI) has estimated that between now and 2025, the world's urban population will grow by 65 million people a year, or almost 179,000 every day.[1] Meeting the needs of this changing demographic will be challenging. What has to happen to make a good city? Or a great one?

Those are urgent questions. Because cities are where the future is, urban environments need to evolve to match human aspirations. To consider how to do this, MGI interviewed a wide range of urban leaders and experts and researched in depth dozens of cities in Asia, Europe, the Middle East, North America, and South America. Some of the cities we looked at are certainly considered great; others have achieved notable results on specific topics.

It is worth noting that cities are dynamic environments; they are always works in progress. As conditions change, so must cities. Today's status as a great city does not guarantee tomorrow's. In a sense, the leading characteristic of both great and improving cities is an ingrained sense of dissatisfaction: there is always room for improvement. And greatness is all about the individual trajectory, not emulation.

Given this dynamic, we have identified three things that effective urban leaders do well. These principles apply widely, regardless of economic conditions or geography.

1. Achieve smart growth. All cities need economic growth for their residents to earn a livelihood and enjoy a good quality of life. Smart growth is about finding the best way to do that sustainably.

Good economic strategy attracts investment. Great strategy identifies and attracts the best growth prospects. But how do you do this? Tax breaks may be necessary, but they are not sufficient. What is more important is to figure out the city's competitive advantages and then construct a winning offer to businesses that also makes economic sense for the city. For example, cities can support businesses by connecting them to distinctive talent and critical business resources. Some cities in the American Southeast, for example, attracted foreign carmakers not only because of lower labor costs but by pointing to specific strengths: talent, proximity to centers of innovation, and good transport. As part of the package, targeted public investment can be useful. The US state of Georgia built a job-training facility for would-be autoworkers; South Carolina has established an apprenticeship program in cooperation with manufacturers. In a different context, Dubai has created the infrastructure to make itself the world's largest port, as well as an international business and tourist center.

Once a city determines what it wants to be known for, one way to approach economic development is to take the attitude that the business community as a whole is a client and that economic development is about making that client successful. Bogotá does so by providing a one-stop shop for investors, including help with permits and training. And in Rio de Janeiro, as one official put it, "Our main question is how can we, the city, serve them well?"

Another critical element is to plan for change. Successful cities anticipate how economic growth will influence the changing needs of the city. Environmental management should be integrated into the plan; this means developing an agenda that uses a variety of policies—such as regulations, zoning laws, market mechanisms, and incentives—to set environmental goals and standards. It is better (and cheaper) to deal with green issues, such as air quality and land and water use, before they become problems. All too many cities have had to take expensive remedial action to fix problems that could have been prevented.

Traffic congestion, for example, is not only time consuming, frustrating, and ups the cost of doing business, but the resulting air pollution also damages residents' health. Sometimes cities can make significant improvements just by using current infrastructure better. Singapore's congestion system has proved that pricing can reduce traffic and improve its flow. High-density development—building up, rather than out—is also a valuable strategy. In effect, it uses land more intensively, and land is one resource that cannot be grown.

2. Do more with less. There may not be a single city anywhere that believes it has enough money to accomplish all it wants and needs to do. To deal with budget pressures, cities need to make every effort to collect, manage, and spend their resources effectively. São Paulo has increased value-added-tax revenues not by raising the rate but by improving tax collection; since 2007, it has offered a rebate on sales tax paid by consumers who send in their paper receipts. This has helped reduce underreporting by stores.

High-performing cities assess and manage expenses well—what in business terms would be called "cost efficiency"—in good times and bad. Several specific actions have proved successful: for instance, outsourcing administration to lower-cost centers emphasizing strategic procurement, and using zero-based budgeting (in which the budget is built from scratch and every line item must be approved).

In addition, great city leaders accept that not every service, from information services to park maintenance, needs to be provided directly by government personnel, and they acknowledge that the mandate for government changes over time. Although authorities may be wary of giving up control, well-designed public–private partnerships have proved capable of delivering infrastructure and services at lower cost and higher quality. The key is to define concrete, measurable goals using cost-benefit analysis and rigorous performance metrics. Britain has done this with road-building partnerships, establishing high-level guidance and setting out the conditions under which toll roads can be built. Regardless of where the money is coming from, there is no substitute for good governance and investment accountability—that is, the ranking, design, delivery, and management of capital investments. This may sound obvious, but it is not nearly as common as it should be. MGI has noted that, in some countries, half or more of electricity is lost in transmission and distribution. Reducing those losses is a lot cheaper than building new power plants. MGI estimates that as much as $400 billion a year could be saved just by speeding up permitting and by structuring projects to encourage time and cost savings.[2] One example of how this can work in practice comes from San Francisco. The city created a capital-oversight body to hold developers and other city entities accountable for delivering on the investments. Among other things, they are required to make available to the public annual development reports and ten-year master plans.

Technology can be a game changer. The right data can be analyzed to help increase revenues, lower capital spending, and improve services. This can be as simple as using sensors to adjust street lighting depending on ambient-light conditions—which results in lower costs and no loss of quality. To take another example, New York City is using data on clogged basins to identify which restaurants might be illegally dumping grease. In site visits, with the support of data, inspectors were right 95 percent of the time, leading to better time management, fewer clogged basins, and more revenue (from the collection of fines). And Bucheon City in South Korea makes real-time traffic information available, allowing drivers to choose the least congested route and improving traffic flow.

3. Win support for change. This is, of course, easier said than done. Established business, community, and political interests might prefer (and fiercely defend) the status quo. City leaders need to be persistent and resilient; if they can deliver fast, positive, and visible results, they can build support for more change. Doing this requires high-performing civil servants who are seen to be accountable for their work. Singapore, which has one the of world's most highly regarded civil services, benchmarks public-sector pay against equivalent pay in the private sector so that it can compete for top talent. Compensation and promotion are based on merit, not longevity, and the city-state promotes public service as a high-status and well-compensated career choice.

Even the most skilled and motivated city workers, however, need guidance to be effective.

Outstanding city leaders have a coherent vision that includes not only an idea of where they want to go but also of how their history can inform that journey. They build on their values and knowledge of the priority issues affecting their city to inspire constituencies. Seoul's Park Won-soon, a former labor activist, is committed to making his city more open and democratic, broadcasting almost every meeting over the Internet. Former New York City mayor Michael Bloomberg once noticed that he got three different answers to a question on who should be picking up garbage. In response, he set up a dedicated phone line so residents needed to make only one call to report any kind of issue in the city.

This vision can be personal and to a certain extent must be; mayors need to be committed, even passionate, about where they want to take their cities. But it also needs to be a vision that stakeholders can make their own. Consensus with the local population and business community can help to improve transparency, information, communication, and partnerships. "Listen to the neighborhoods." That's what the late Thomas Menino, mayor of Boston from 1993 to 2014, once told McKinsey. "Make people believe and understand that you are making their lives better."[3] One technique is to experiment with pilot projects to demonstrate success (or failure), soften opposition, and work out any difficulties before deciding whether to roll out an effort more broadly. That is whar Curitiba's three-time mayor, Jaime Lerner, did with the Brazilian city's bus-rapid-transit plan. The Rede Integrada de Transporte began in one neighborhood; it now covers the whole city, and other municipalities have copied the system.

Cities are essential to global economic growth and productivity. They are where most of the world's population live, work, and play, and they are important to everyone else, too. They are the world's economic engine, consuming the majority of global power and resources, while generating 80 percent of GDP and 70 percent of greenhouse-gas emissions.

Making cities great is the critical infrastructure challenge of this century.

[1] For more, see *How to make a city great*, McKinsey Global Institute, September 2013, on mckinsey.com.
[2] For more, see *Infrastructure productivity: How to save $1 trillion a year*, McKinsey Global Institute, January 2013, on mckinsey.com.
[3] *How to make a city great*.

Shannon Bouton is the global manager of the McKinsey Center for Innovation and the Environment, based in Detroit; **Jay Dearborn** is a principal in McKinsey's Philadelphia office, **Yakov Sergienko** is a principal in the Moscow office, and **Jonathan Woetzel** is a director in the Shanghai office.