

Acting on global trends: **A McKinsey Global Survey**



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Business executives around the world agree that knowledge and technology trends, as well as those linked to economic growth in emerging markets, will have a positive impact on the profitability of their companies, the latest *McKinsey Quarterly* survey shows.

But there is a gap between the impact that executives assign to these trends and the extent to which they have taken active steps to seize the opportunities.

Their responses to questions about 14 macroeconomic, political, social, environmental, and business trends also reveal that executives view some—including geopolitical instability and a social backlash against corporate activity—more as risks than as opportunities.

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Executives see opportunities as well as risks in the global business landscape, yet many are not addressing them.

Business executives around the world largely agree that technological innovation, the free flow of information, and the rise of a new class of consumers in emerging markets are developments that will have a positive impact on the profitability of their companies, according to the latest *McKinsey Quarterly* survey.¹

However, the survey also shows that there is a relatively wide gap between the impact that executives assign to these trends and the extent to which their companies have taken active steps to seize the opportunities.

In their responses to questions about 14 macroeconomic, political, social, environmental, and business trends, executives from different industries also reveal significant differences in their assessments of the impact of the trends, as well as the actions their companies are taking to address them. For example, executives in the energy and mining industries are far more

likely than most other respondents to see a social backlash against corporate activity as a threat to profits—and far more likely to have taken some steps to address that threat—than executives in other industries who are also concerned about it.

To meet the competitive challenges these trends are creating, executives say, one important response is forming strategic partnerships. Indeed, many companies are reaching outside their own organizations in a range of directions. Structural changes, including consolidation within industries and the formation of upstream and downstream partnerships, are widespread. However, when sourcing their knowledge, respondents report (somewhat counter to this theme) that partnerships with other businesses and academic institutions play a relatively modest role.

¹ The *McKinsey Quarterly* conducted the survey in March 2007 and received 3,693 responses from a worldwide representative sample of business executives—37 percent of whom are CEOs, other C-level executives, or board directors. All data are weighted by GDP of constituent countries to adjust for differences in response rates.

Important trends

It is crucial for companies to anticipate correctly the future implications of trends shaping the global landscape so that they can ride the currents rather than swim against them.

When asked about the importance of the 14 trends for global business over the next five years, respondents cite trends linked to economic growth in emerging markets as key (Exhibit 1). Increasingly, the rising number of consumers in emerging economies, global

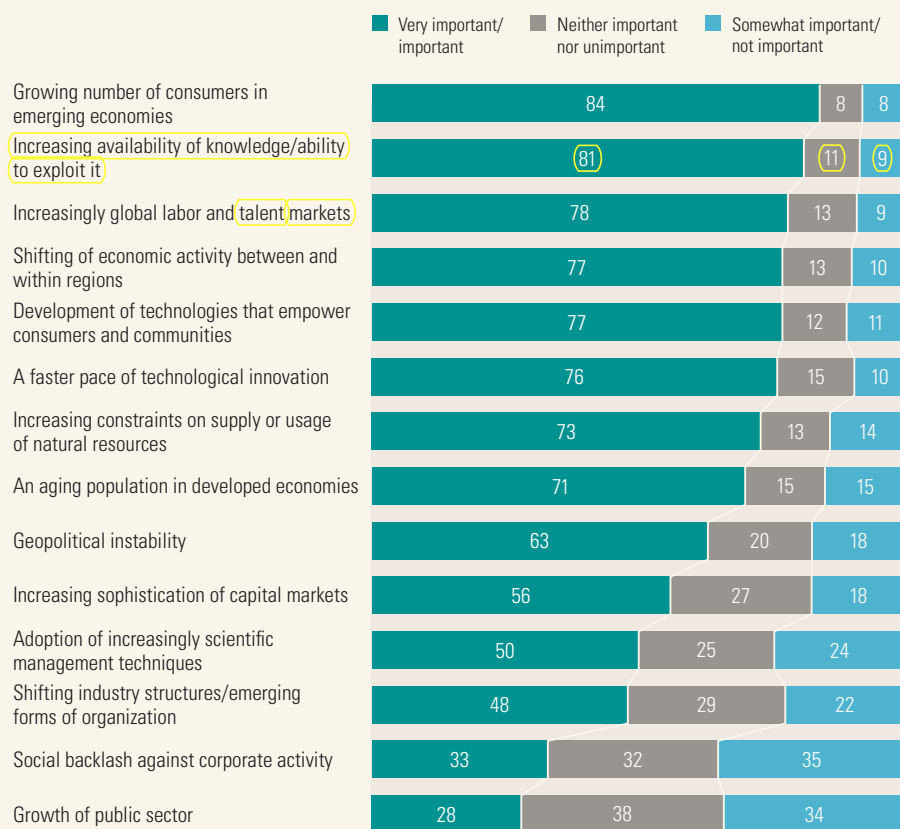
labor and talent markets, and the shifting economic activity between and within regions make up three of the top four trends, all rated as “important” or “very important” by more than 75 percent of the panel. The panel also puts trends in **knowledge** and technology at the **top of its list**, with 75 percent of the respondents rating three trends in this area as “important” or “very important.”

Exhibit 1

Importance for global business

% of respondents (n = 3,693)¹

As measured by the impact on global business during the next 5 years, how important do you expect each of the following trends to be?



¹Figures may not sum to 100%, because of rounding; excludes respondents who answered “don’t know.”

Good or bad for profits?

When it comes to corporate profitability, the importance of the trends shifts: a majority of executives believe each of the six trends will have a “very positive” or “somewhat positive” impact on their profitability over the coming five years, but **knowledge** and technology trends are at the **top** of the list. Respondents view the **increasing availability of knowledge** and the faster pace of technological innovation as the two most positive trends, with the development of technologies that empower consumers and communities in fourth place (Exhibit 2). Interestingly, executives rate a management

trend—the adoption of scientific management techniques—higher for its positive impact on profitability (61 percent) than for its importance to global business as a whole (50 percent).

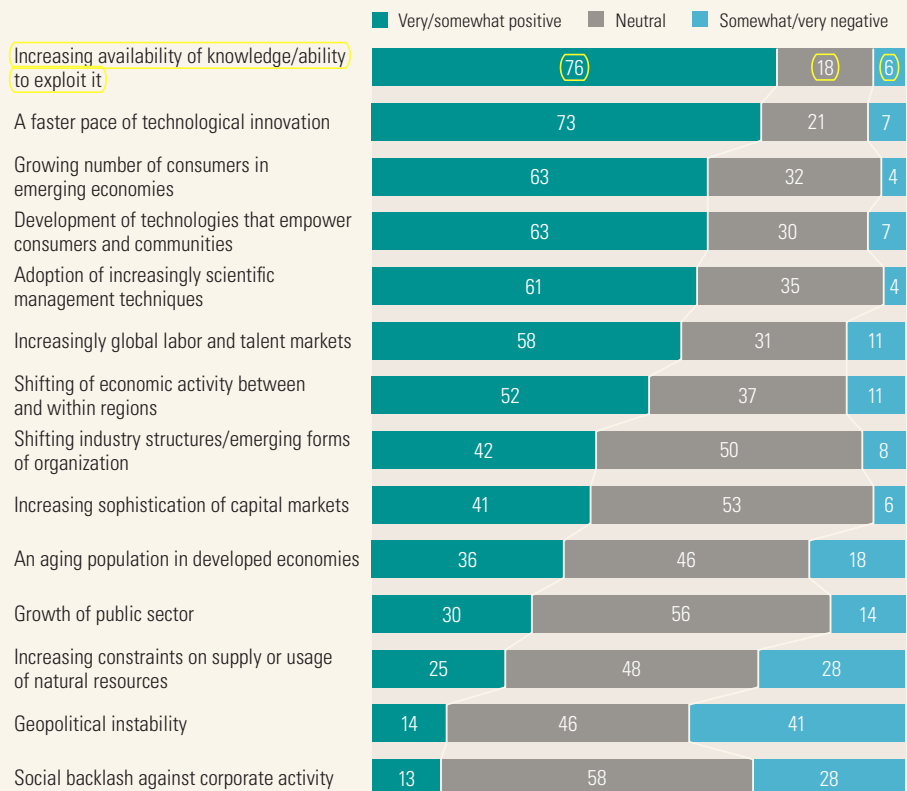
Among the 14 global trends, executives view some to be risks rather than opportunities. More than 40 percent of the respondents see geopolitical instability as negative for profits, while only 14 percent perceive it positively; 28 percent see a social backlash against corporate activity negatively, compared with 13 percent who view it as an opportunity.

Exhibit 2

Impact on company profits

% of respondents (n = 3,693)¹

What will be the impact of each of the following trends on the profitability of your company over the next 5 years?



¹Figures may not sum to 100%, because of rounding; excludes respondents who answered “don’t know.”

It is notable that executives regard most trends as more important for global business than for determining the profitability of their own company. Seventy-three percent of executives identify increasing constraints on the supply or use of natural resources as “important” or “very important” for global business, but only 53 percent see this trend

as having any positive or negative impact on the profitability of their companies. Similarly, 71 percent view an aging population in developed countries as “important” or “very important,” but only 54 percent believe that demographic change will have an impact on the profitability of their own business.

The action gap

While executives view many trends as opportunities and see significant risk in others, their companies have not taken active steps to address them to the extent that would appear warranted. While 76 percent of the respondents expect a positive impact on profits from the increasing availability of knowledge and the ability to exploit it, only 59 percent say their companies have acted on this opportunity (Exhibit 3). The gap is even wider between the 63 percent of executives who view consumers in emerging markets as a future source of profits and the 41 percent who say their companies have pursued this opportunity.

Executives appear better prepared to manage the riskiest trends in their industries than they are to seize the ones they see as opportunities. For example, executives within the pharmaceutical and energy and mining industries are the ones most concerned with the social backlash against corporate activity—more than 40 percent see this trend as negative for the profitability of their companies. They are also the most likely, at well over 30 percent, to report that they have taken active steps to address it.

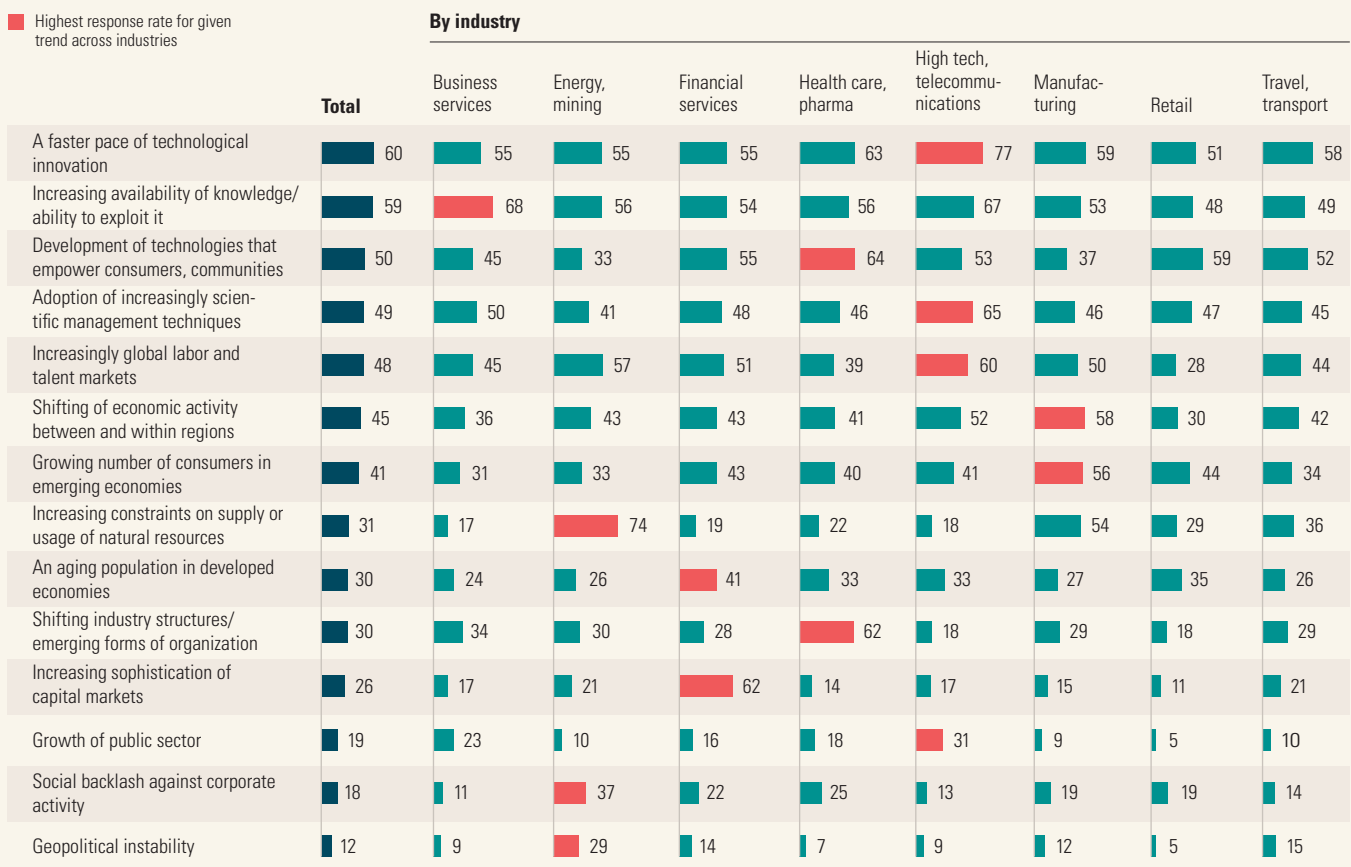
Exhibit 3

Taking action

% of respondents (n = 3,693)¹

Which of the following trends has your company taken active steps to address?

■ Highest response rate for given trend across industries



¹ Respondents could select more than one answer; those who answered “none of the above” are not shown.

Structural changes

Shifting industry structures and emerging forms of corporate organization are characteristics of an increasingly competitive global economy.

Nearly five out of ten respondents view this trend as important for global business, and four out of ten believe it will have a positive impact on the profitability of their companies.

Over half of all executives say their industries have consolidated in the past five years, and as many expect this development to continue. In contrast, less than 10 percent of respondents have seen or expect fragmentation in their industries. Examining the responses by industry, executives in the travel and transport, health care, manufacturing, and automotive industries expect the pace of consolidation to increase. Executives in the energy and mining, financial-services, pharmaceuticals, and retail industries

expect less consolidation during the next five years.

Strategic partnerships are an important example of emerging forms of corporate organization. Six out of ten executives report that their companies have more partnerships today than they had five years ago, and 75 percent say a need to strengthen their competitive position has prompted changes to their partnerships. A majority of companies in all the surveyed industries have added to their portfolio of partnerships, with pharmaceuticals as the most active, at 72 percent.

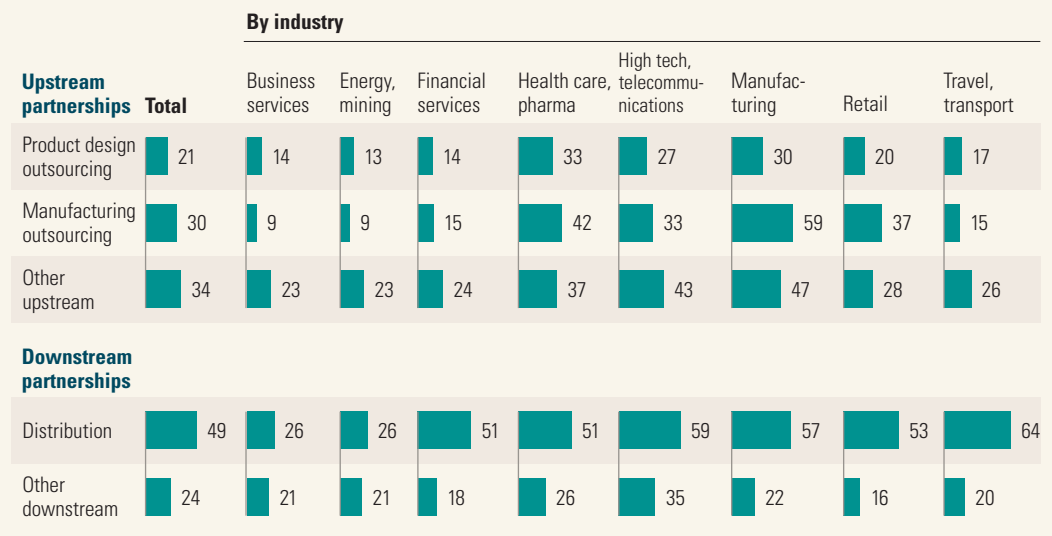
Almost half of the companies have entered into distribution partnerships, three out of ten into manufacturing outsourcing, and two out of ten into product design outsourcing (Exhibit 4).

Exhibit 4

Strategic partnerships

% of respondents (n = 3,335)¹

What types of strategic partnerships has your company entered into?



¹ Respondents could select more than one answer; those who chose "other partnerships" are not shown.

The telecom and travel and transport industries were most active at entering distribution partnerships, with two-thirds of executives in each category saying they had done so.

Partnerships to outsource manufacturing were, perhaps surprisingly, particularly common in

both the manufacturing and pharmaceutical industries. Almost six out of ten respondents in each of these industries say they had entered such partnerships. The pharmaceutical industry was also the most active in establishing strategic partnerships to outsource product design.

In search of knowledge

Many executives focus on knowledge, innovation, and technology trends as important drivers of future profits, which might suggest that companies are reaching beyond their companies to source knowledge. However, two out of three executives say internal development is their companies' most important source of knowledge. Little more than two out of ten report that external sources—partnerships with other businesses, cooperation with academic institutions, or relationships with investors such as venture capital firms—are most important (Exhibit 5).

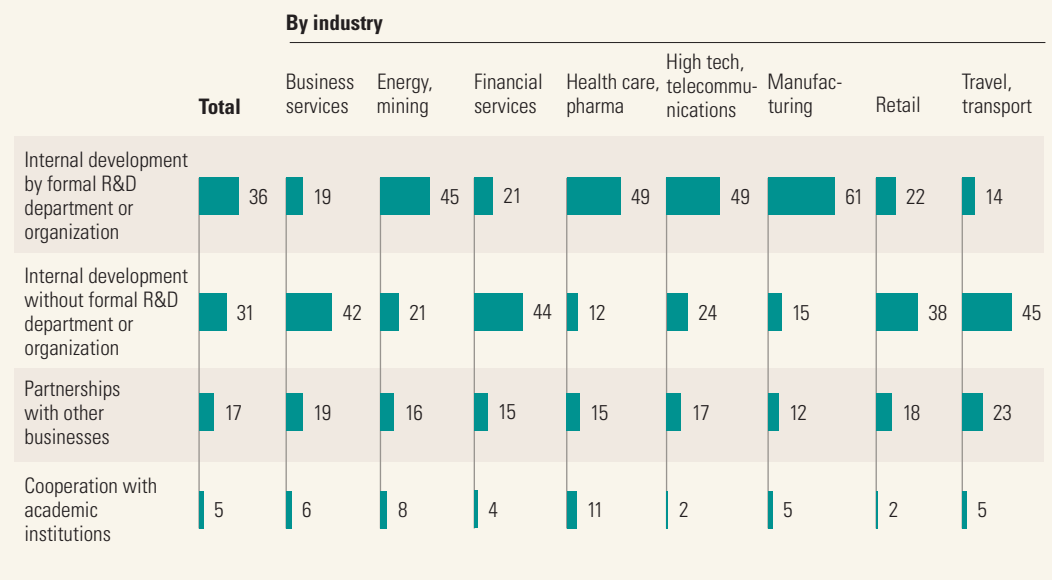
While all respondents are biased toward internal knowledge creation, there are significant splits among industries about the ways this knowledge is gathered. Industries with an engineering or scientific focus—particularly pharmaceuticals and manufacturing—are most likely to use formal internal R&D processes. In industries with a strong people focus, including business and financial services and retail, some 40 percent of executives favor an informal approach.

Exhibit 5

Sources of knowledge

% of respondents (n = 3,693)¹

What is the most important source of knowledge for your company?



¹Figures do not sum to 100%, because respondents who answered "investors in my company" or "other" are not shown.

Sophisticated capital

Capital markets have become increasingly sophisticated, with many potential implications for companies. Just over half of the respondents see this trend as important for global business, and executives across the globe share a similar view of how it is affecting their companies. Across all regions (with the exception of Latin America), at least 40 percent of respondents think their companies are facing rising

performance expectations. Further, a third or more respondents around the world believe that changes to capital markets are providing advantageous new business opportunities, but only in India and Latin America did that advantage outweigh the pressure of rising expectations. Indian company executives were particularly bullish, with nearly 60 percent seeing new opportunities (Exhibit 6).

Exhibit 6

The role of capital markets

% of respondents (n = 3,693)¹

Capital markets have become increasingly sophisticated. Which of the following implications apply to your company?

	Total	By region						
		Asia-Pacific	China	Europe	India	Latin America	North America	Rest of world
My company faces rising performance expectations.	43	40	45	41	45	33	46	43
My company's regulatory burden has increased.	39	38	32	39	24	30	44	29
My company can take better advantage of new business opportunities.	35	36	32	32	58	40	35	47
The performance of my company has become increasingly transparent.	32	34	34	34	48	36	28	38
It is easier for my company to source capital.	30	29	31	29	49	36	30	36
My company has better access to new geographical markets for sources of capital.	22	23	31	22	44	21	18	30
My company is better able to hedge its business risks.	21	19	23	21	32	27	18	26
My company has better access to nontraditional sources of capital (eg, private equity).	19	21	14	16	31	22	21	25
It is harder for my company to source capital.	7	7	5	7	5	11	7	8
There is little difference in how my company operates.	23	23	22	24	14	19	23	20

¹ Respondents could select more than one answer.



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