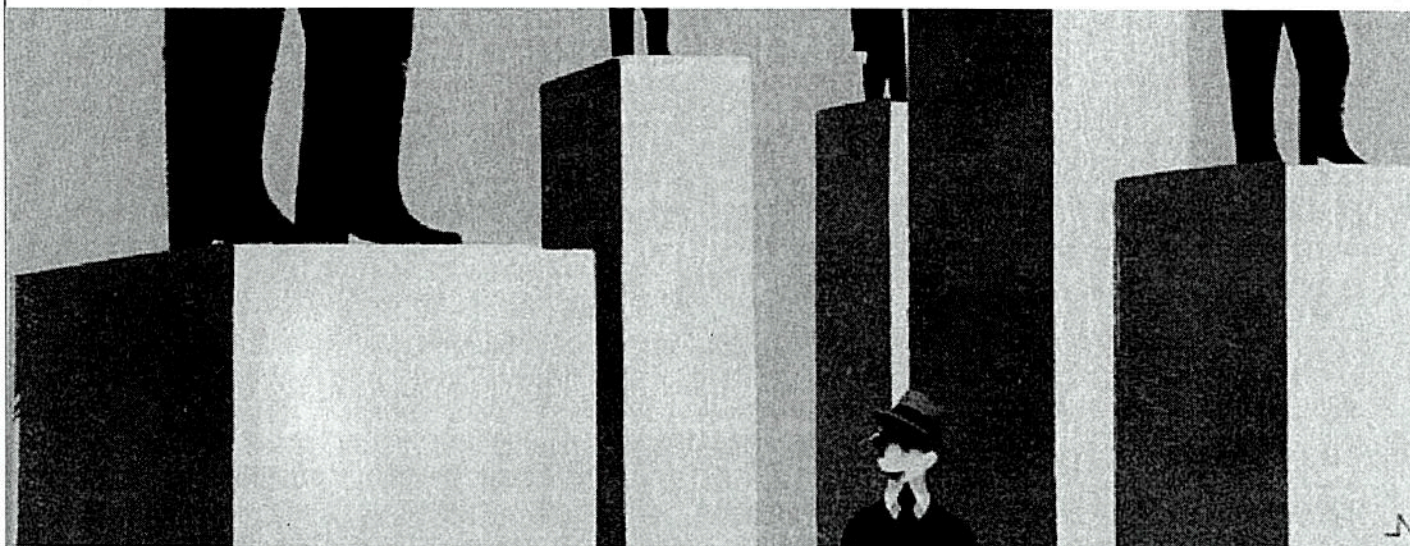


How companies act on global trends: **A McKinsey Global Survey**



Almost 70 percent of executives around the world say that global social, environmental, and business trends are increasingly important to corporate strategy, according to a McKinsey survey. Yet relatively few companies act on the global trends they think will affect them most; among those that do act, only 17 percent report significant benefits.

One reason might be underinvestment in trends. For instance, many companies that pursue growing consumer segments in emerging markets build operations there but don't develop lower-cost products.

Companies that don't act on trends they think will be important cite a shortage of skills and resources, higher strategic priorities, or a lack of possible responses to these trends.

How companies act on global trends: **A McKinsey Global Survey**

Executives say that global trends have become increasingly important, but few companies are addressing them successfully.

Most business executives around the world agree that global social, environmental, and business trends are generally more important to corporate strategy than they were five years ago. But relatively few companies act on these trends, and many of those that do appear to be acting tentatively and have yet to see significant positive results, according to the latest *McKinsey Quarterly* survey.¹

Take, for instance, the growing number of consumers in emerging economies. Almost eight respondents out of ten consider this trend important for global business, and six in ten think it will have a positive impact on their companies' profits. Yet little more than one-third say that their companies have taken active steps to address it.

The survey also revealed that only 17 percent of the executives report that actions their companies have taken on such trends have

produced a significantly positive result. One reason might be that companies are not making all of the (or the right) strategic moves to realize the full opportunities of the trends. Almost seven executives out of ten, for example, say that their companies addressed the consumer trend by building operations or expanding existing ones in emerging economies. But just slightly more than four in ten report that their companies developed new, lower-cost products or services for customers in these economies—which is often a prerequisite for serving the huge and fast-growing middle-income segment in, for instance, China and India.

Why don't companies act on trends that their executives say are important? Respondents often cite higher strategic priorities and a lack of skills and resources or say that their companies simply haven't yet decided whether or not to act.

¹ The *McKinsey Quarterly* conducted the survey in March 2008 and received 1,306 responses from a worldwide representative sample of business executives, 41 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.

The importance of trends

Almost 70 percent of the executives agree that global trends have become more or much more important to corporate strategy over the past five years, while 23 percent report that the importance of these trends has remained the same, and 6 percent say it has diminished. Executives in Latin America and in the manufacturing sector worldwide are most likely to indicate that these trends increased in importance—around 75 percent say that they have.

We asked executives to rate the importance of 14 trends for global business during the next five years.² As in previous surveys,³ respondents rated developments linked to economic growth in emerging markets and trends related to knowledge and technology as most significant.

For example, 77 percent of the respondents cite growing numbers of consumers in emerging markets as important or very important to global business; this trend once again tops the list. The shift of economic activity between and within regions and the increasingly global

nature of labor and talent markets also remain among the top six trends, along with the increasing availability of knowledge and a faster pace of technological innovation. All of these are rated as important by over 70 percent of the respondents.

Notably, there is one newcomer in the top group: increasing constraints on the supply or usage of natural resources. This trend has moved from seventh to second place—perhaps a reflection of rising commodity prices and the intense debate about climate change over the past 12 months.

Impact on the bottom line

In terms of impact on corporate profitability, the trends' importance shifts. For example, concerns are growing about constraints on the supply or usage of natural resources; 34 percent view this trend as likely to have a negative impact on profits over the next five years, compared with 28 percent who said the same one year ago. Still, this trend lags behind many others in its overall impact (Exhibit 1).

²The 14 trends are the shift of economic activity between and within regions (for instance, to Asia or within the European Union), the growth of the public sector, the growing number of consumers in emerging economies/changing consumer tastes, the development of technologies that empower consumers and communities (for instance, online connectivity and self-serve), increasingly global labor and talent markets, the growing consumer demand for corporate contributions to the broader public good, increasing constraints (for instance, environmental regulations) on the supply or usage of natural resources, shifting industry structures/emerging forms of corporate organization, the increasing sophistication of capital markets, the adoption of increasingly scientific and data-driven management techniques, the increasing availability of knowledge and the ability to exploit it, geopolitical instability (for instance, cross-border conflict and terrorism), an aging population in developed economies, and a faster pace of technological innovation.

³See "Acting on global trends: A McKinsey Global Survey," April 2007; and "An executive take on the top business trends: A McKinsey Global Survey," April 2006, both available at mckinseyquarterly.com.

On the positive side, almost 70 percent of the executives expect one knowledge trend and one technology trend to have the most positive impact on their companies' profits over the next five years, followed by trends linked to growth in emerging markets. These trends, and the adoption of increasingly scientific management techniques, are all viewed by more than half of the respondents as positive for profits.

One interesting development this year is that more executives now view growing consumer demand for corporate contributions to the

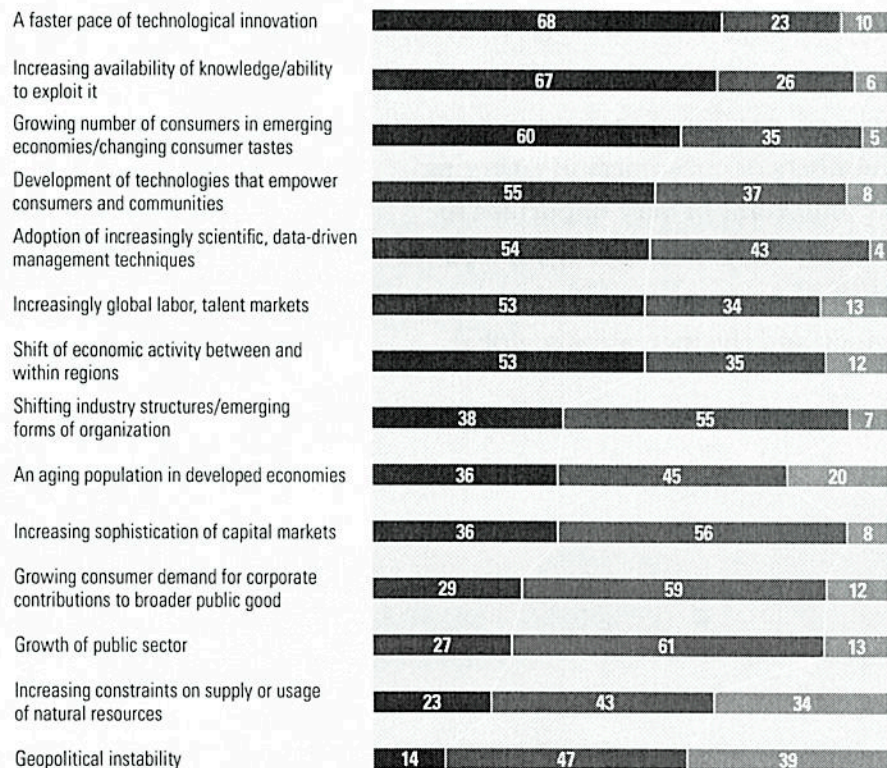
broader public good as an opportunity rather than a risk. In a reversal of last year's responses to a similarly worded trend,⁴ 29 percent view this demand as positive for profits, while 12 percent perceive it as negative.

Other than constraints on natural resources, the only trend that more respondents see as a risk than as an opportunity is geopolitical instability; 39 percent view this trend as negative for profits, while 14 percent view it as positive.

Exhibit 1

Knowledge, technology, and emerging markets

% of respondents¹ (n = 1,243)



¹Excludes respondents who answered "don't know;" figures may not sum to 100%, because of rounding.

⁴ This trend was called "social backlash against corporate activity" in the 2007 survey.

Less action

A wide difference exists between assigning importance to trends and taking active steps to address them (something that we also found in previous surveys). For example, while around 75 percent of the respondents say that a faster pace of technological innovation and the increasing availability of knowledge will have an impact—positive or negative—on their companies' profits, just over 50 percent have done something about either of those two trends (Exhibit 2). The mismatch between impact on profits and action is smallest—at 14 percentage

points—for the adoption of increasingly scientific management techniques and greatest, perhaps not surprisingly, for geopolitical instability, at 44 points.

A second mismatch emerges from the responses of executives whose companies had addressed at least one trend. They were asked whether the actions taken so far had produced a positive result, such as improving profits or increasing consumer acceptance of business activities.

Exhibit 2
**Action vs
impact**

% of respondents

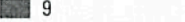
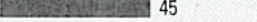
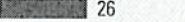
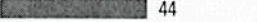
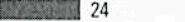
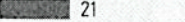
What will be the impact of each of the following trends on the profitability of your company over the next 5 years?

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

Respondents who expect 'very/somewhat positive' and 'very/somewhat negative' impact, n = 1,243

n = 1,306¹

Difference in percentage points

A faster pace of technological innovation		77		53
Increasing availability of knowledge/ability to exploit it		74		52
Increasingly global labor, talent markets		66		48
Shift of economic activity between and within regions		65		46
Growing number of consumers in emerging economies/changing consumer tastes		65		36
Development of technologies that empower consumers and communities		63		44
Adoption of increasingly scientific, data-driven management techniques		57		43
Increasing constraints on supply or usage of natural resources		57		31
An aging population in developed economies		56		29
Geopolitical instability		53		9
Shifting industry structures/emerging forms of organization		45		26
Increasing sophistication of capital markets		44		24
Growing consumer demand for corporate contributions to broader public good		41		21
Growth of public sector		40		14

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

Seventeen percent worldwide reported significantly positive results, 45 percent somewhat positive results, 21 percent very little positive results, and 8 percent no positive results at all. There were major regional differences. In China, 27 percent of the executives claimed significantly positive results, compared with 22 percent in India and Latin America, 16 percent in Europe, and only 12 percent in North America.

Why some companies don't act and some do

Why are some companies not acting on trends they consider important or expect to have a very positive or negative impact on their profits?

Many executives cite higher strategic priorities, but some responses also suggest uncertainty, in many executive suites, about how and when, if at all, to act (Exhibit 3). Indeed, a lack of skills or resources to respond to a trend is an important reason for inaction on the knowledge and technology trends, which the panel at large expects to have the greatest impact on profits. In some cases, inaction may have created a vicious circle: more respondents at companies that haven't acted on the trend toward increasingly global labor and talent markets and who expect it to have a significant effect on their profits say that they lack the skills or resources to do so than cite any other reason for inaction. It is notable, too, that many executives have not yet determined whether to address certain trends they believe will have a very

Exhibit 3
Reasons for inaction

Top 5 trends by overall impact on profitability	Top 4 reasons not to address given trend, % of respondents			
	The company ...	... has higher strategic/competitive priorities	... lacks skills or resources to address this trend	... has not yet determined whether to address this trend
A faster pace of technological innovation, n = 80		35	21	27
Increasing availability of knowledge/ability to exploit it, n = 84		34	28	20
Increasingly global labor, talent markets, n = 91		14	34	17
Growing number of consumers in emerging economies/changing consumer tastes, n = 204		20	N/A ²	15
Shift of economic activity between and within regions, n = 123		21	N/A ¹	17

¹Fourth top reason for not addressing given trend is insufficient knowledge about how company will be affected by it (17% and 15%, respectively).

²Fourth top reason for not addressing given trend is uncertainty about how regulation could affect it (14%).

positive or negative impact on their company's profits, including consumer demand for corporate contributions to the public good and increasing constraints on supply and usage of natural resources.⁵

The impression that many executives are confused about whether and how to go about acting on trends is reinforced by responses to a question on what might influence their companies to address trends that the executives say could have a significant effect on profits. Many cite competitive pressure, opportunities for existing and new businesses, and the possibility of gaining a competitive advantage when asked what might make them address the five trends seen as likeliest to have a positive or negative effect on profits.

These happen to be the leading reasons given by companies that actually have taken action on the very same trends, all of which are viewed as positive for profits by a majority of the panel (Exhibit 4). Other factors, however, inspired companies when they acted on trends associated with significant risks. When companies addressed the growing demand that they contribute to the broader public good, for example, the leading factor was corporate reputation, followed by customer requests—suggesting that these companies see value in meeting the public's demands—along with the personal convictions of senior executives. Corporate reputation plays a key role, too, when companies address geopolitical instability and constraints on the supply or usage of natural resources. Action on the former trend is also strongly colored by personal convictions.

Exhibit 4

Why act?

Top 5 trends by overall impact on profitability	Top 5 reasons to address given trend among companies that have already taken action, % of respondents				
	Competitive advantage	Competitive pressure	Presented growth opportunity for existing businesses	Customer requests or preferences	Presented profitable new business opportunity
A faster pace of technological innovation, n = 187	45	51	35	33	42
Increasing availability of knowledge/ability to exploit it, n = 204	50	49	33	30	N/A ¹
Increasingly global labor, talent markets, n = 197	48	62	42	20	24
Growing number of consumers in emerging economies/changing consumer tastes, n = 257	27	38	61	30	48
Shift of economic activity between and within regions, n = 231	41	47	70	27	50

¹Fifth top reason to address given trend is senior executives' personal convictions (±8%).

⁵The results in these two final sentences are based on a small number of responses and should be considered directional.

A cautious approach

Few companies seem to be capturing all the opportunities or addressing all the risks presented by the trends on which they act.

For example, more than half of the executives at companies addressing the faster pace of technological innovation say that they used new technologies to interact more effectively with customers and employees and allocated more resources to speed up innovation in-house (Exhibit 5). But only a third say that they tracked their competitors' use of new technologies or acquired appropriate technology companies. An internal focus and a low priority on managing risks are also evident among

firms acting on the increasing availability of knowledge. Only a quarter of these companies were increasing their focus on managing and protecting intellectual property.

The same tendencies appear in actions on other trends. Around half of the companies that have acted on the trend toward increasingly global labor and talent markets were developing global programs to improve the skills of their current workforce and to source global talent more effectively (Exhibit 6). But only a quarter got around to backing up these efforts with measures to retain global talent. Surprisingly, little more than one-third of the companies had

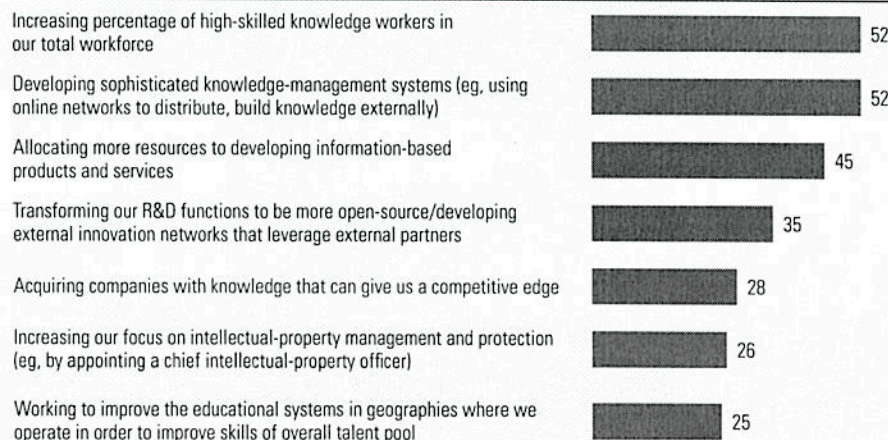
Exhibit 5

More—and more easily exploitable—knowledge

% of respondents

What specific steps is your company taking to address this trend?

Increasing availability of knowledge and the ability to exploit it, n = 204¹



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

addressed this trend by moving operations to low-cost countries or outsourcing work there. Similarly, roughly half of the companies that have addressed the increasing constraints on the supply or usage of natural resources did so by redesigning products, services, and supply

chains to be less resource intensive and more environmentally sustainable. Less than three out of ten had developed or acquired businesses that take advantage of the emerging demand for sustainable products or services.

Exhibit 6

The talent challenge

% of respondents

What specific steps is your company taking to address this trend?

Increasingly global labor and talent markets, n = 197¹



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



Contributors to the development and analysis of this survey include **Elizabeth Stephenson**, an associate principal in McKinsey's Chicago office; and **Adarsh Pandit**, a consultant in the New York office.

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