

## 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.<sup>1</sup>

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.

### 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.<sup>2</sup> As in previous surveys,<sup>3</sup> respondents rated developments linked to economic growth in emerging markets and trends related to knowledge and technology as most significant.

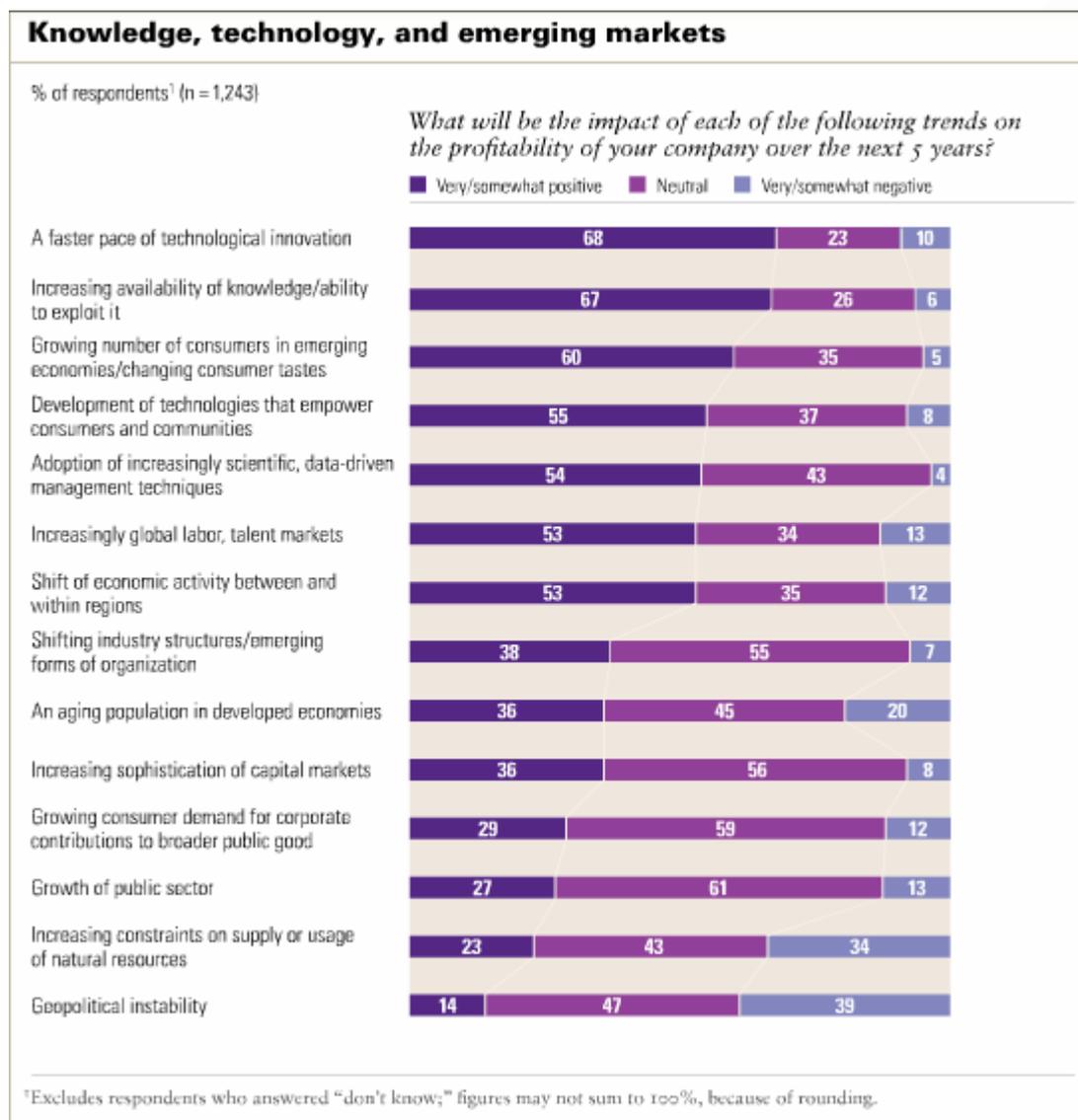
For example, 77 percent of the respondents cite growing numbers of consumers in emerging markets as important or very important to global business; this trend once again tops the list. The shift of economic activity between and within regions and the increasingly global nature of labor and talent markets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

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.

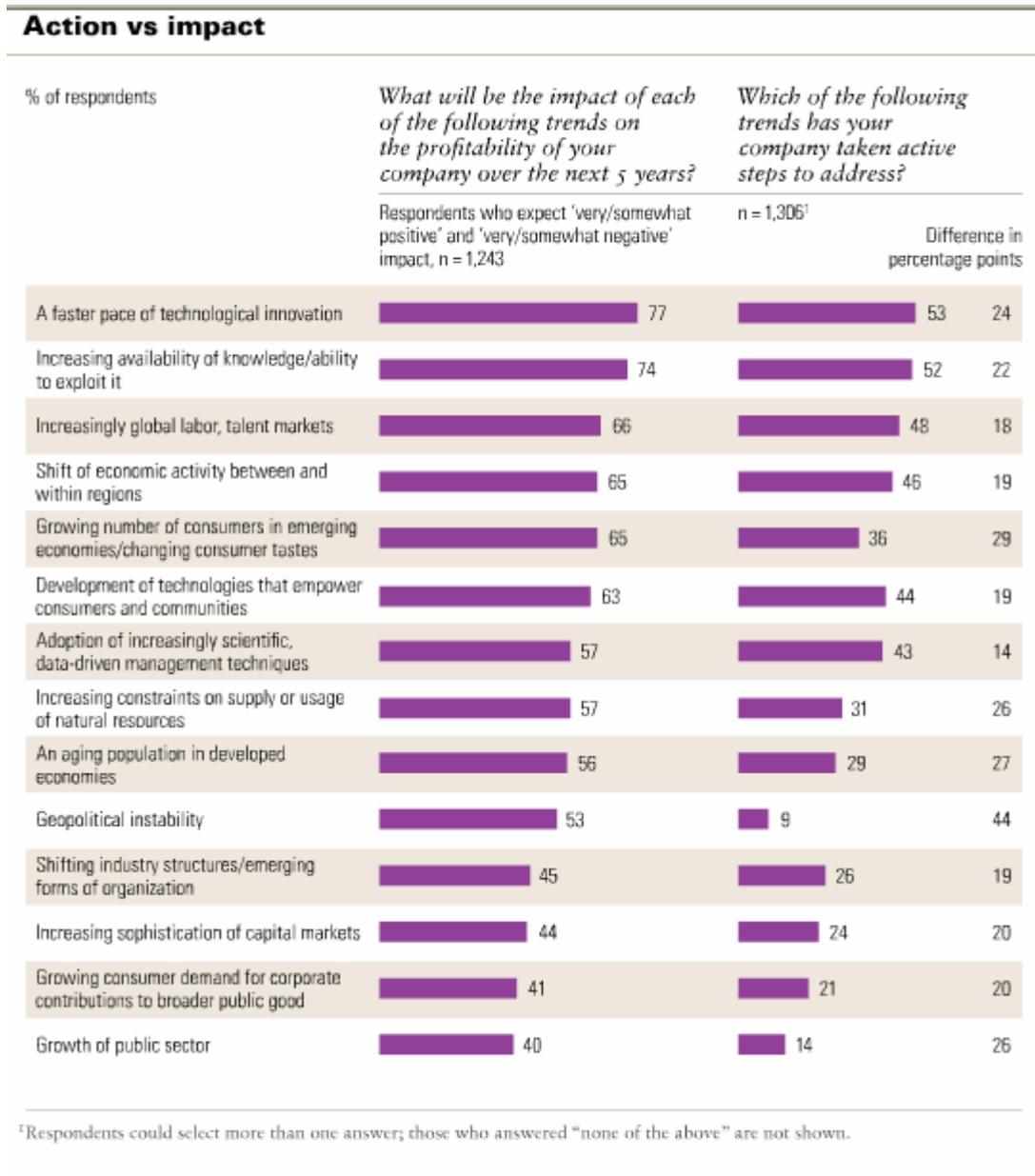


One interesting development this year is that more executives now view growing consumer demand for corporate contributions to the broader public good as an opportunity rather than a risk. In a reversal of last year's responses to a similarly worded trend, 29 percent view this demand as positive for profits, 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.

## Less action

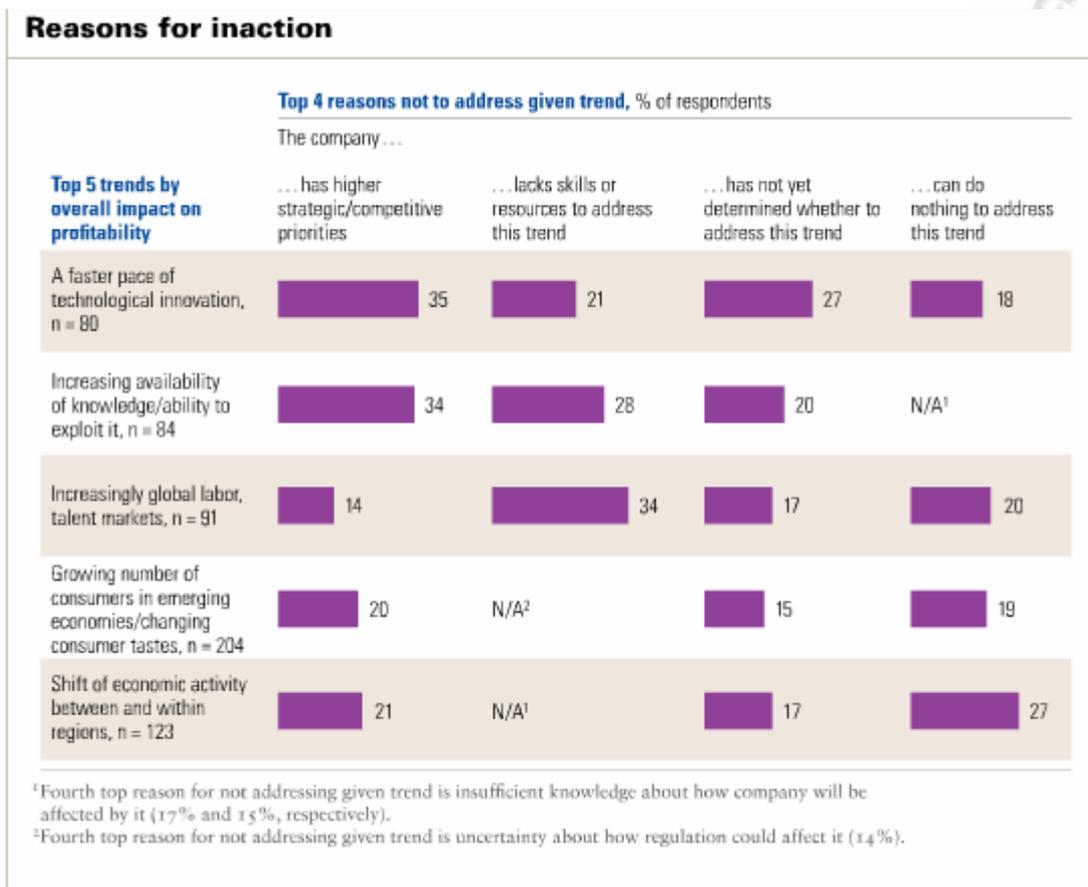
A wide difference exists between assigning importance to trends and taking active steps to address them (something that we also found in previous surveys). For example, while around 75 percent of the respondents say that a faster pace of technological innovation and the increasing availability of knowledge 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. 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

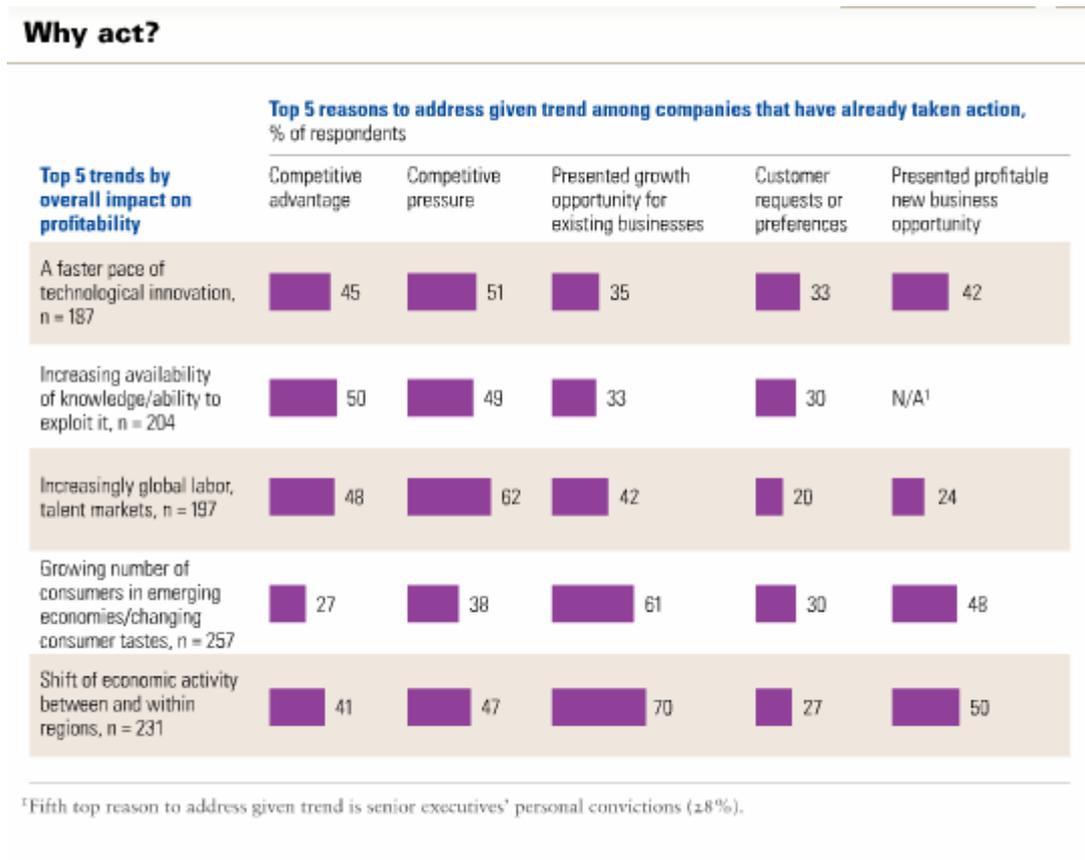
Why are some companies not acting on trends they consider important or expect to have a very positive or negative impact on their profits? Many executives cite higher strategic priorities, but some responses also suggest uncertainty, in many executive suites, about how and when, if at all, to act (Exhibit 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 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.<sup>5</sup>



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.



#### 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.

## 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 = 204<sup>1</sup>**



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

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 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.

## The talent challenge

% of respondents

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

**Increasingly global labor and talent markets, n = 197<sup>1</sup>**



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

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