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McKinsey Global Survey results:

Five forces reshaping the global economy

The core drivers of globalization are alive and well, but executives are still grappling with how to seize the opportunities of an interlinked world economy.

An ongoing shift in global economic activity from developed to developing economies, accompanied by growth in the number of consumers in emerging markets, are the global developments that executives around the world view as the most important for business and the most positive for their own companies' profits over the next five years. Executives also identify two other critical positive aspects of globalization: technologies that enable a free flow of information worldwide and, increasingly, global labor markets. These four trends, of the ten we asked about, also are the ones that the biggest share of respondents—around half—say their companies have taken active steps to address.

In this sixth annual survey asking executives about the forces shaping the world economy,[1] there is little change in how respondents view the importance of global trends compared with previous years—either for business in general or for their own companies' profits (Exhibit 1). Clearly, the financial crisis and economic downturn have not shaken these key trends. Continued faith in the positive effects of globalization combined with a move away from short-term planning likely reflects rebounding optimism about global economic prospects and is consistent with the findings of other McKinsey surveys on the economy.[2]

In addition to our annual questions on individual global trends, this year's survey explores for the first time five interconnected themes that highlight the opportunities and challenges faced by global economic integration itself and by companies seeking to profit from it: growth in emerging markets; labor productivity and talent management; the global flow of goods, information, and capital; natural-resource management; and the increasing role of governments.

Jean-François Martin

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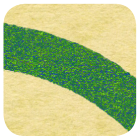
[1] The online survey, in the field in March 2010, generated responses from 1,416 executives around the world, representing the full range of industries, regions, functional specialties, and seniority.

[2] See, for example, "Economic Conditions Snapshot, April 2010: McKinsey Global Survey results," mckinseyquarterly.com, April 2010.

The findings show that the global economy faces significant challenges as it continues to integrate. For example, most respondents—63 percent—expect increased overall volatility to become a permanent feature of the global economy, and another 23 percent see sharply higher levels of volatility that will undermine the economy's robustness. In addition, high levels of public debt are a headache in Europe and North America, where most executives fear the debt will have a negative impact on GDP growth.

There are specific corporate challenges too. Half of the respondents are only somewhat optimistic they will be able to find the right talent to meet their companies' strategic goals. Likewise, only half of the executives reported that their companies have taken steps to address the shift in global economic activity from developed to developing economies—the force that is reshaping the global economy more than any other.

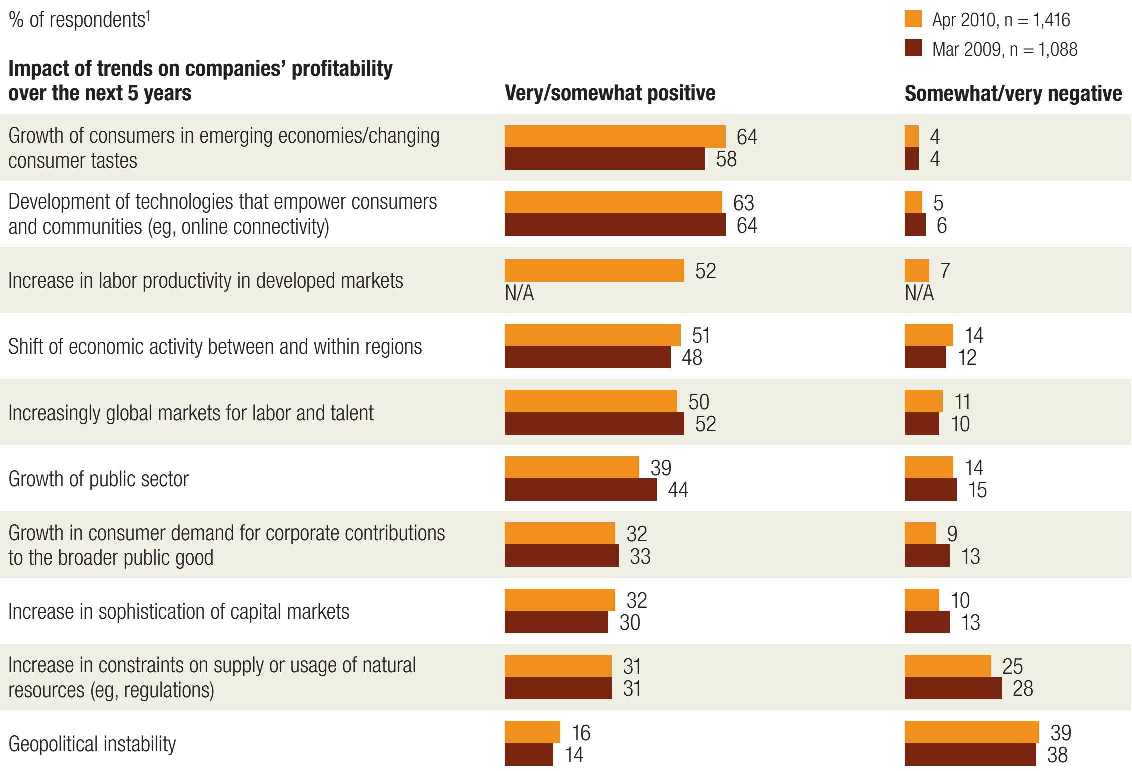


Growth and risk management in emerging markets

Emerging markets, with populations that are young and growing, will increasingly become not only the focus of rising consumption and production but also major providers of capital, talent,

Exhibit 1

How global trends affect profits



[1] Respondents who answered "neutral" or "don't know" are not shown.

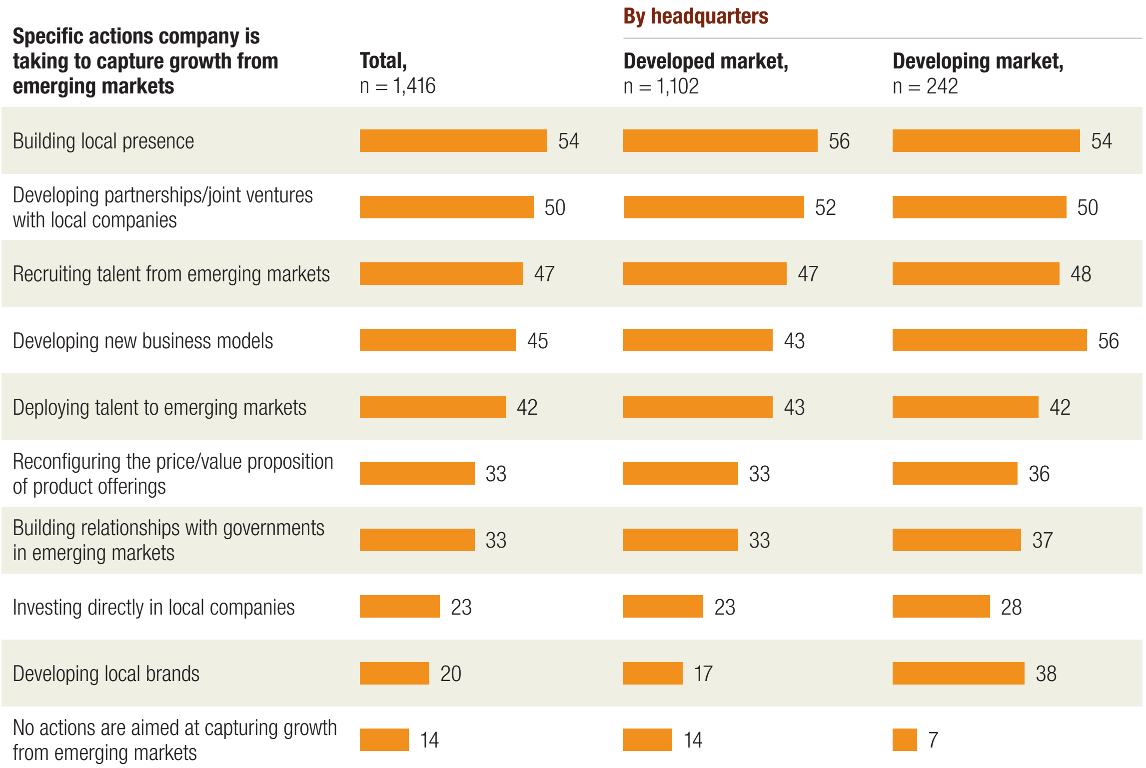
and innovation. This will make it imperative for most companies to succeed in emerging markets. However, no more than 40 percent of executives at companies headquartered in developed economies expect a quarter or more of revenues over the next five years to come from emerging markets—and 10 percent expect none.

To capture growth from emerging markets, the actions most often taken—each cited by around half of the respondents—are building a local presence, developing partnerships or joint ventures with local companies, recruiting talent from emerging markets, and developing new business models (Exhibit 2). Executives representing Chinese and Indian companies report they are developing new business models at a significantly higher rate than companies from any other region. Perhaps more surprising, respondents at companies headquartered in North America report significantly lower rates of actions to capture emerging-market growth than those from any other region, with fully 20 percent reporting

Exhibit 2

Growth in emerging markets

% of respondents[1]



[1] Respondents who answered "don't know" are not shown.

no actions at all taken to capture emerging-market growth. In addition, large and public companies significantly outpace small and private ones in pursuing actions to capture emerging-market growth.

On risks faced by their companies in emerging markets, executives cite breach of intellectual property (40 percent), volatility of currency or exchange rates (38 percent), geopolitical instability (26 percent), and lower safety and quality standards (26 percent) as the top four. Executives at North American, high-tech, and telecom companies are most concerned about IP, while companies in the financial sector worry most about currency volatility and energy companies about geopolitical instability.

Labor productivity and talent management

Low birth rates and graying workforces in most developed economies will make it hard for them to achieve steady growth unless they continue to make sizable gains in labor productivity. A majority of all respondents, 62 percent, do expect moderate gains in the next five to ten years in developed economies, and another 13 percent expect the gains to be significant.

Nonetheless, developed and developing economies alike must become more innovative at sourcing talented employees, whether by tapping global labor markets or making better use of older workers. Just less than 40 percent of executives are "very" or "extremely confident," and around half are "somewhat confident," that their companies will have the right kinds of talent to meet their strategic goals over the next five years. Notably, respondents at companies based in developing markets largely share the same views as those from developed markets on this point.

The greatest projected talent shortfalls are in three functions—management, R&D, and strategy—with significant variations between executives in different regions (Exhibit 3). Interestingly, executives in China are much more concerned about a shortage of management talent than they are about R&D specialists. For India, it is the reverse.

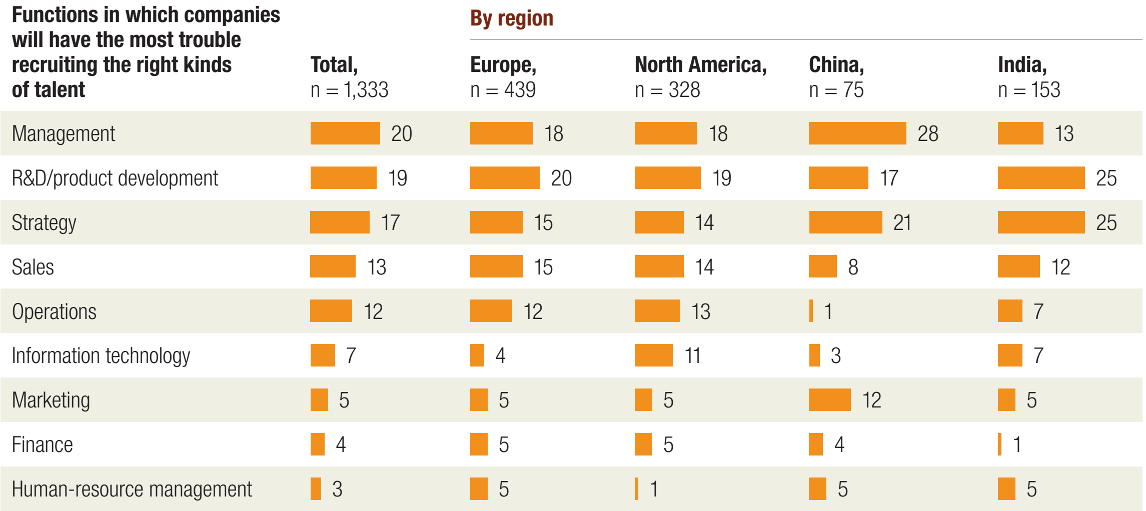
When indicating where their companies will find the talent they need, executives most often cite talent from emerging markets to work there (44 percent), new talent entering developed labor markets (41 percent), and talent from developed markets deployed to emerging markets (35 percent). North American companies, their executives say, are counting more than all others on sourcing talent in developed economies, including retrained talent (30 percent) and talent from increased labor pools due to delayed retirement (25 percent). This is consistent with the lower number of actions North American companies are taking to capture emerging-market growth.

Companies are shifting their strategic planning from crisis mode to a more balanced consideration of short-term profitability and long-term strategic issues: one-third now focus equally on the short and long terms, compared with one-fifth in 2009.

Exhibit 3

Where the talent shortfalls are

% of respondents who ranked given function no. 1[1]



Functions in which companies will have the most trouble recruiting the right kinds of talent	Total, n = 1,333	By region Europe, n = 439	North America, n = 328	China, n = 75	India, n = 153
Management	20	18	18	28	13
R&D/product development	19	20	19	17	25
Strategy	17	15	14	21	25
Sales	13	15	14	8	12
Operations	12	12	13	1	7
Information technology	7	4	11	3	7
Marketing	5	5	5	12	5
Finance	4	5	5	4	1
Human-resource management	3	5	1	5	5

[1] Respondents who answered "don't know" are not shown.

Global flows of goods, information, and capital

Executives are generally optimistic that the relatively free flow of goods and capital—two core drivers of globalization—will survive the financial crisis and the economic downturn. However, few see much further progress occurring in the next five years, a finding that is consistent with the modest hopes for multilateral cooperation also seen in this survey.

Sixty-two percent of respondents expect moderate increases in global trade flows, but just 20 percent see a significant increase. As for the integration of capital markets, a majority—59 percent—expect capital flows of the major developed economies to be integrated while many other countries continue to restrict capital flows. Another 18 percent predict that capital markets will be mostly integrated, with only a few countries restricting flows. Respondents in North America and Europe are least optimistic, with only 1 and 2 percent, respectively, expecting fully integrated, seamless capital markets; in contrast, 5 percent of executives in China and Latin America think this will be the case.

The free global flow of information has already resulted in radical pricing transparency and new networks of engaged consumers, and this probably is only the beginning. Disruptive changes in consumer behavior could have great impact on business over the next five years. Executives expect that the most powerful effects on their companies will be increased innovation, greater consumer awareness and knowledge, and increased product and service customization (Exhibit 4).

Natural-resource management

Executives' concerns about the impact that increasing constraints on the supply or usage of natural resources will have on their companies' profits appear to be subsiding despite the prominence of these issues in the public debate today. Twenty-five percent of respondents now expect this trend to have a negative effect on their company's profits, down from 28 percent in last year's survey and 33 percent two years ago.

Energy and manufacturing continue to be outliers. Forty-five percent of manufacturing-sector executives expect negative effects on profits. Among energy executives, few are indifferent: 34 percent expect a negative impact, but a much larger share—59 percent—see a positive impact on profits.

Only one-third of all respondents—and four out of ten in North America—profess not to consider natural-resource constraints to have a significant role in their strategies. When executives select the actions their companies are taking to ensure access to the resources they need, the most common response is that they are conserving energy to reduce the need for natural resources (Exhibit 5).

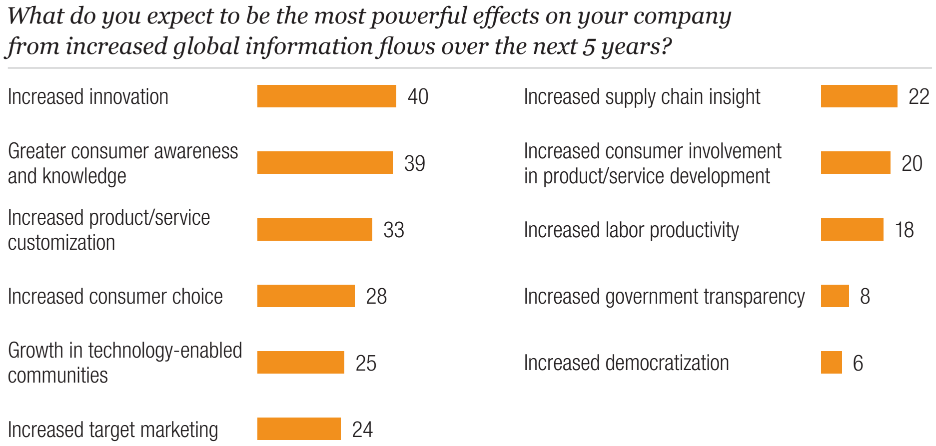
The increasing role of governments

Executives in Europe and North America are haunted by the perception of crippling public-debt levels: 54 and 61 percent, respectively, think that public-debt levels will have a "significant"

Exhibit 4

Effects of global information flows

% of respondents,[1] n = 1,416

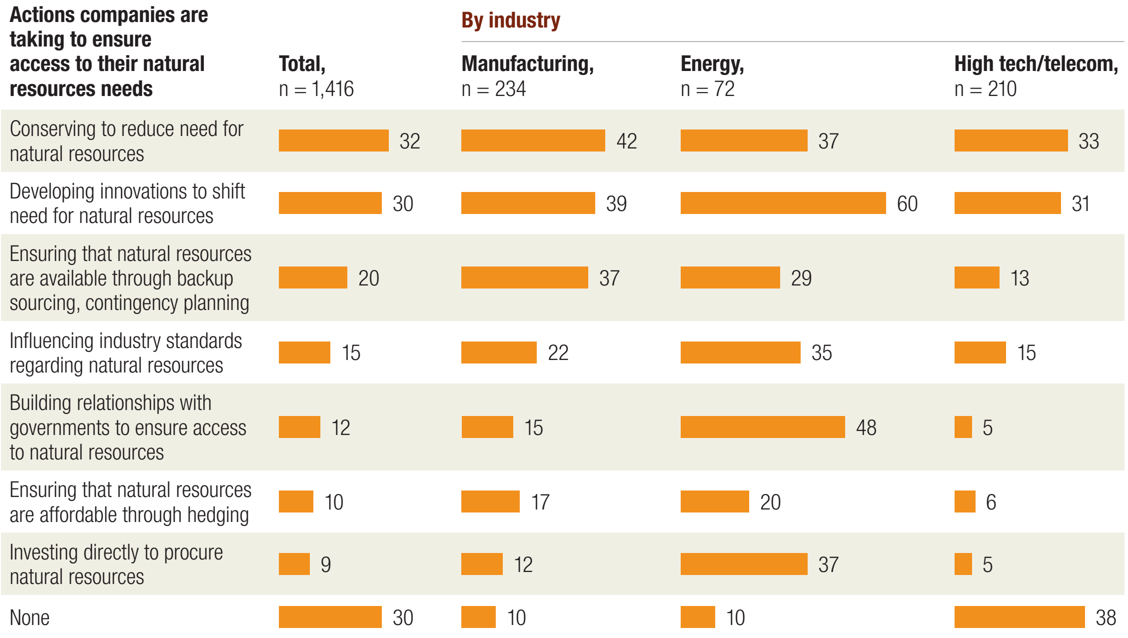


[1] Respondents who answered "don't know" are not shown.

Exhibit 5

Dealing with natural-resource constraints

% of respondents[1]



[1] Respondents who answered "don't know" are not shown.

or "severely negative" impact on GDP growth in their home markets. In contrast, 45 percent of respondents in China and 24 percent in India expect that the level of public debt will have a "positive" impact or "no impact" in their home markets.

In a pattern consistent across nearly all regions, executives view government's role in their companies' home markets over the next five years somewhat differently than do executives from other regions. For instance, 64 percent of all respondents characterize the Chinese government as the principal actor in that country's economy (Exhibit 6), compared with only 49 percent of respondents based in China.

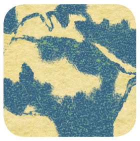
Respondents were also asked whether government actions in the previous 12 to 18 months have increased the likelihood of companies to invest in certain countries. China scored highest, with 27 percent of all respondents saying their companies are "more" or "much more likely" to invest there. Smaller groups of respondents say the same for India (25 percent), Brazil (24 percent), and the United States (21 percent). Russia fares the worst, with only 9 percent saying their companies are "more likely" to invest there; 25 percent say their companies are "less likely" to invest.

Exhibit 6

Different government roles

% of respondents, n = 1,416

Expected role of country's government in the market over the next 5 years	**China**		**India**	
	Executives based in China, n = 77	Executives based elsewhere, n = 1,416	Executives based in India, n = 158	Executives based elsewhere, n = 1,416
The government is the principal actor in determining markets and outcomes	49	64	5	13
The government will play an activist role in target sectors	48	26	52	50
The government will intervene only in crisis environments	0	3	28	16
The government will play no role in markets beyond establishing basic regulatory frameworks	3	1	15	6
Don't know	0	7	0	16



Finally, only between 20 and 30 percent of executives say multilateral cooperation (governmental and nongovernmental) will be "very" or "extremely effective" in addressing the following big global issues: climate change, financial crises, free trade, nuclear proliferation, and terrorism. Respondents in North America hold out the dimmest hopes for success. Executives in emerging markets are much more optimistic about multilateral institutions' ability to achieve progress on each of these issues.

Looking ahead

- Capturing the opportunities offered by growth in emerging markets—the trend executives say is the most important—will require retooling existing business models and reconfiguring companies' price/value equations.

- Managing the risks of that trend also will be crucial: respondents express a great deal of trepidation about geopolitical instability and market volatility in emerging markets, so strategies to assess the likelihood of these conditions and manage their risk will be vital.

- Technology will continue to materially reshape consumer awareness, choice, and interactivity models, and companies should be striving to tap the power of technology to improve their competitive advantage. ☐

The contributors to the development and analysis of this survey include **Renée Dye,** a consultant in McKinsey's Atlanta office, and **Elizabeth Stephenson,** a principal in the Chicago office. The authors would like to acknowledge the contributions of Ian Bremmer, president of Eurasia Group, to this analysis.