

# Global Survey of Business Executives

## *The McKinsey Quarterly*

### **An executive take on the top business trends: A McKinsey Global Survey**

*Executives report an accelerating pace of change in an increasingly competitive business environment, driven by knowledge and information trends and the forces of globalization. Their confidence in economic conditions has risen for the second consecutive quarter.*

**Executives appear to see significant opportunities** in an environment they describe as rapidly changing and intensely competitive. For the second quarter in a row, their overall confidence in economic conditions has risen and hiring plans are robust. Their economic outlook for the next six months is a bit less positive, however, and the findings suggest executives may be unprepared for all of the risks they face.

*The McKinsey Quarterly's* latest global survey<sup>1</sup> also shows that more executives plan to hire in the next six months than reported such plans six months ago. Those most likely to be hiring are executives at the smallest companies and executives in China and India. Executives in China are the only ones who think conditions—globally, in their country, and within their industries—will be better in six months than they are now.

The vast majority of executives say that their companies are facing a more competitive environment than they were five years ago, citing reasons such as more capable competitors and a rise in the number of low-cost competitors. Executives believe that over the next five years the most important trends shaping the global business environment will be greater ease of obtaining information and developing knowledge (also a significant factor in increasing the pace of change), growth in the number of consumers in emerging economies, and geographic shifts of economic activity.

Despite the increasing flow of talent, goods, and capital around the world, most respondents say that their companies have not taken active steps to prepare for global catastrophes such as a pandemic. Companies are, however, more prepared for risks specific to their own industries.

Detailed responses to the survey appear in the following pages.

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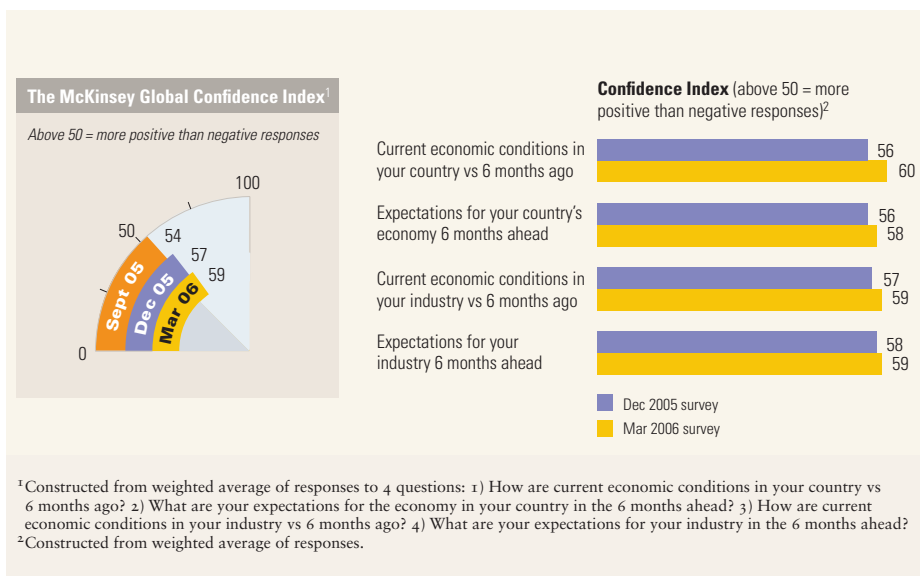
<sup>1</sup> *The McKinsey Quarterly* conducted the survey in March 2006 and received 3,470 responses from a worldwide representative sample of business executives, 44 percent of whom are CEOs or other C-level executives.

## The McKinsey Global Confidence Index

For the second quarter in a row, executives' overall confidence in economic conditions has risen (Exhibit 1), and hiring plans are robust, especially at the smallest companies. Even so, the overall economic outlook six months out is a bit less positive.

As a whole, this survey reflects a fairly positive steady state. More executives plan to change the size of the workforce over the next six months than had plans to change it six months ago, with a bigger bump in hiring: 44 percent now (compared with 35 percent then) say they plan to increase their workforce, while 20 percent (compared with 18 percent) say they plan to decrease it.

EXHIBIT 1



## The McKinsey Global Confidence Index

Notably, the smallest companies in the survey are the most enthusiastic about hiring: 53 percent of companies with annual revenue below \$10 million plan to hire, versus 31 percent of companies with \$30 billion or more in revenues. These small companies have become increasingly likely to hire over the past six months. The differences are even more striking among the executives who plan to decrease the size of their workforce: 32 percent of those at the largest companies plan to do so, as opposed to only 5 percent of those at the smallest. What's more, C-level executives (CEOs, CFOs, and so forth) are more optimistic than other executives are about increasing the size of the workforce (Exhibit 2).

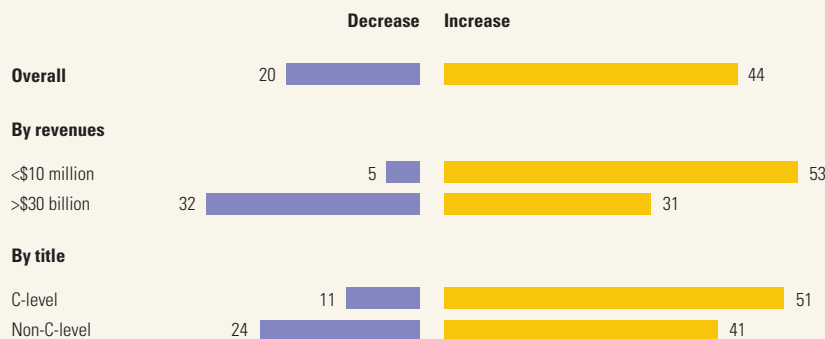
Executives in Europe are the most likely to be planning a decrease: a full quarter of them say that they are. The ongoing political battles in Europe over workers' rights and social taxation likely stem from the same underlying economic shifts that are causing many European executives to reduce the size of the workforce.

EXHIBIT 2

### Who's hiring?

% of respondents<sup>1</sup>

*In the next 6 months, do you expect your company's workforce to increase or decrease?*



<sup>1</sup>All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents who answered "stay the same" or "don't know" are not shown.

## The McKinsey Global Confidence Index

Confidence among executives in China bounced back in the past quarter. After a notable drop in December 2005, executives there are once again as positive as the global average about the current condition of their industries, and their confidence in the country's economy has also increased dramatically (Exhibit 3). China is the only country where executives believe conditions will be better in six months, either globally or in their own country and industries. At the industry level, most executives around the world expect conditions to remain at the same, fairly positive level, but broader economic conditions are generally expected to falter slightly. Executives in developed countries in Asia and the Pacific expect the biggest drop.

### EXHIBIT 3

#### China's mood improves

Confidence index of respondents in China (above 50 = more positive than negative responses)<sup>1</sup>

*How would you rate current economic conditions in your country vs 6 months ago?*



*How would you rate current conditions in your industry vs 6 months ago?*



■ Dec 2005 survey<sup>2</sup>  
■ Mar 2006 survey

<sup>1</sup>Constructed from weighted average of responses.

<sup>2</sup>Data shown here differ from the level of confidence reported in the December 2005 findings, because the data were weighted differently.

## Forces shaping the business environment

Executives around the world see innovation and the free flow of information as the primary drivers of an accelerating pace of change in the global business environment. At the same time, executives continue to confront familiar and powerful forces that bear the unmistakable signature of an emerging global market—plentiful, cheap, and mobile capital; expanded access to talent and labor pools; and a reduction in trade barriers.

The survey findings paint a picture of an increasingly competitive business world, characterized by great opportunity and risk. But while executives appear to have opportunities at the front of their minds, they may be underrating some of the equally great risks involved.

The respondents cited a broad range of factors that they see as contributing most to the accelerating pace of change. Of these, innovation in products, services, and business models as well as the greater ease of obtaining information and developing knowledge figure most prominently, with 41 percent of the responses (Exhibit 4).

### EXHIBIT 4

#### Why so fast?

% of respondents who say pace of change in global business environment is accelerating (n = 3,453)<sup>1</sup>

*What single factor contributes most to the accelerating pace of change in the global business environment today?*



<sup>1</sup>All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents who answered “other” are not shown.

## Forces shaping the business environment

Against the backdrop of accelerating change, 85 percent of respondents describe the business environment in which their companies operate as “more competitive” (45 percent) or “much more competitive” (40 percent) than it was five years ago. The intensity is increasing for small as well as big companies, and in all industries. Executives report notable differences, however. Judging by the responses, telecommunications is the toughest industry: more than six in ten of its representatives see it as much more competitive. At the other end of the scale is the business services industry: just over three in ten of its representatives say their industry is much more competitive, and marginally less than half view it as more competitive.

While the executives clearly agree that competitive intensity is increasing within their industries, they have differing takes on which factor contributes most to this development (Exhibit 5).

Close to 25 percent single out the improved capabilities of their competitors—as measured by knowledge and talented employees, for instance—and almost as many note a growing number of low-cost competitors.

EXHIBIT 5

### What fuels competitiveness?

% of respondents who describe the business environment of their companies as ‘more’ or ‘much more’ competitive than 5 years ago (n = 2,963)<sup>1</sup>

*What single factor contributes most to the increasing competitive intensity in your industry today?*



<sup>1</sup> All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents who answered “other” are not shown.

## Forces shaping the business environment

EXHIBIT 6

### Competitive factors differ by industry

% of respondents who describe the business environment of their companies as 'more' or 'much more' competitive than 5 years ago (n = 2,963)<sup>1</sup>

*What single factor contributes most to the increasing competitive intensity in your industry today?*

	Industry <sup>2</sup> of respondent's company							
	Business services	Consumer	Banking, finance	Health care	Heavy industry	IT	Telecom	Other
Improved capabilities of competitors (eg, better knowledge or better talent)	27	21	27	18	25	30	18	20
More low-cost competitors	25	25	11	18	36	24	27	14
More competitors	18	13	15	10	9	11	9	18
Growing size of competitors	7	13	14	10	8	10	9	8
Growing number of innovative market entrants	10	9	9	9	3	10	17	10
Regulatory changes (eg, market or industry deregulation, trade agreements)	4	4	12	22	8	3	17	10
Rising consumer awareness and activism	3	5	5	9	3	4	1	14
Growing number of attractive and accessible markets	3	4	5	1	6	5	2	2

<sup>1</sup> All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents who answered "other" are not shown.

<sup>2</sup> **Banking, finance:** accounting, asset management, banking, insurance, personal financial services, private equity, stock brokerage/exchange; **business services:** advertising, conglomerates and holding companies, construction, consultancy, engineering, legal, marketing, real-estate management, research and development, transportation and logistics, wholesale services; **consumer:** agriculture, cable and satellite, consumer packaged goods, e-commerce and portals, gaming, media and entertainment, retail, travel and tourism; **health care:** hospitals, pharmaceutical and medical products; **heavy industry:** automotive, chemicals, electric power, electronics, energy (petroleum, natural gas, other), manufacturing, metals and mining, pulp and paper; **IT:** computer hardware and software, IT services; **telecom:** telecommunications; **other:** academia, government, nonprofit organizations, among others.

Opinions about the competitive challenges differ by industry (Exhibit 6). More than one-third of heavy-industry representatives, as opposed to just one in ten in financial services, single out low-cost competitors as the most important factor. Telecom executives are almost twice as likely as respondents from other industries to be concerned about innovative market entrants. Managers in health care view regulatory changes as the most important factor behind growing competition in their industry.

## Trends to watch

To a large degree, the global business landscape is shaped by macroeconomic, social and environmental, and business trends. Correctly anticipating their future impact on global business and on the profitability of individual companies can enable companies to succeed by riding the currents rather than swimming against them.<sup>2</sup>

Respondents rate two macroeconomic trends (the growing number of consumers in emerging economies and the shift of economic activity between and within regions) followed by a business trend (the greater ease of obtaining information and developing knowledge) as the three developments they expect will be most important for global business during the next five years (Exhibit 7). However, when assessing the impact on the profitability of their own company, they

EXHIBIT 7

### The impact of 10 trends

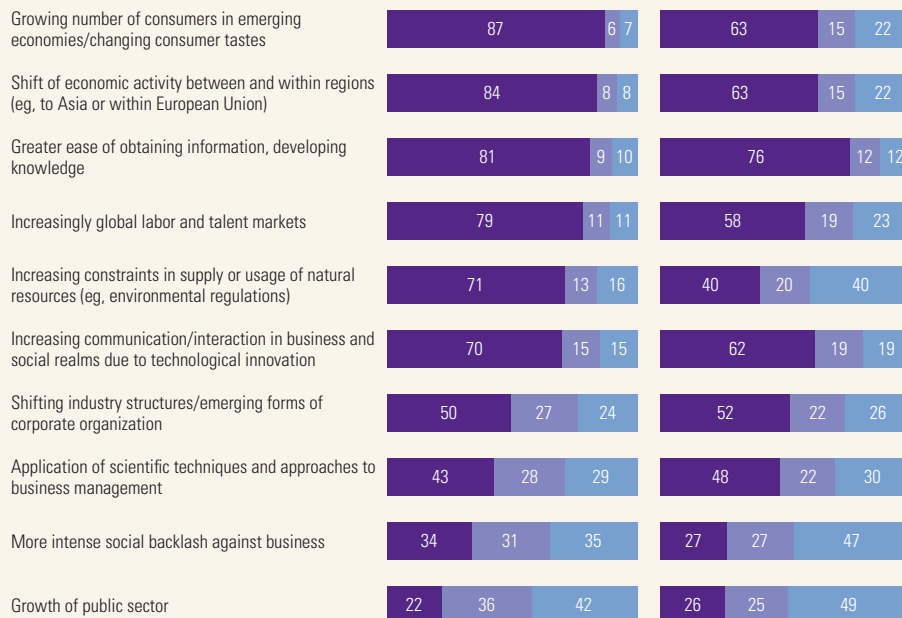
% of respondents<sup>1</sup>

■ Very important/important  
■ Neither important nor unimportant  
■ Somewhat important/not important

*During the next 5 years, how important do you expect these trends to be in terms of impact on . . .*

*. . . global business?*

*. . . the profitability of your company?*



<sup>1</sup> All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100% because of rounding.

<sup>2</sup>Ian Davis and Elizabeth Stephenson, "Ten trends to watch in 2006," *The McKinsey Quarterly*, Web exclusive, January 2006 ([www.mckinseyquarterly.com/links/21586](http://www.mckinseyquarterly.com/links/21586)).

## Trends to watch

place this business trend first and rate a related social development (the increasing communication and interaction in business and social realms due to technological innovation) almost as highly as the two macroeconomic trends. The result appears to reinforce this survey's findings about the growing role of information and knowledge in driving the pace of change and shaping the global business environment. A significant finding about another important trend—increasingly global labor and talent markets—is that it ranks somewhat higher than average in India and North America as well as in the IT and business services industries.

Notably, executives expect most of the ten trends to be substantially more important to global business overall than to the profitability of individual companies. A significant exception is the application of scientific techniques and approaches to business management.

## Preparing for risk

Managing risks will be one of the keys to corporate success in a fast-moving, increasingly competitive, and global economy. Yet only three respondents in ten report that their companies have taken active steps to prepare for any one of the following scenarios that could harm virtually any company: a pandemic, a natural disaster, or increased geopolitical instability, such as terrorism (Exhibit 8).

EXHIBIT 8

### Risky business

% of respondents<sup>1</sup>

*For which risks has your company taken active steps to prepare?*

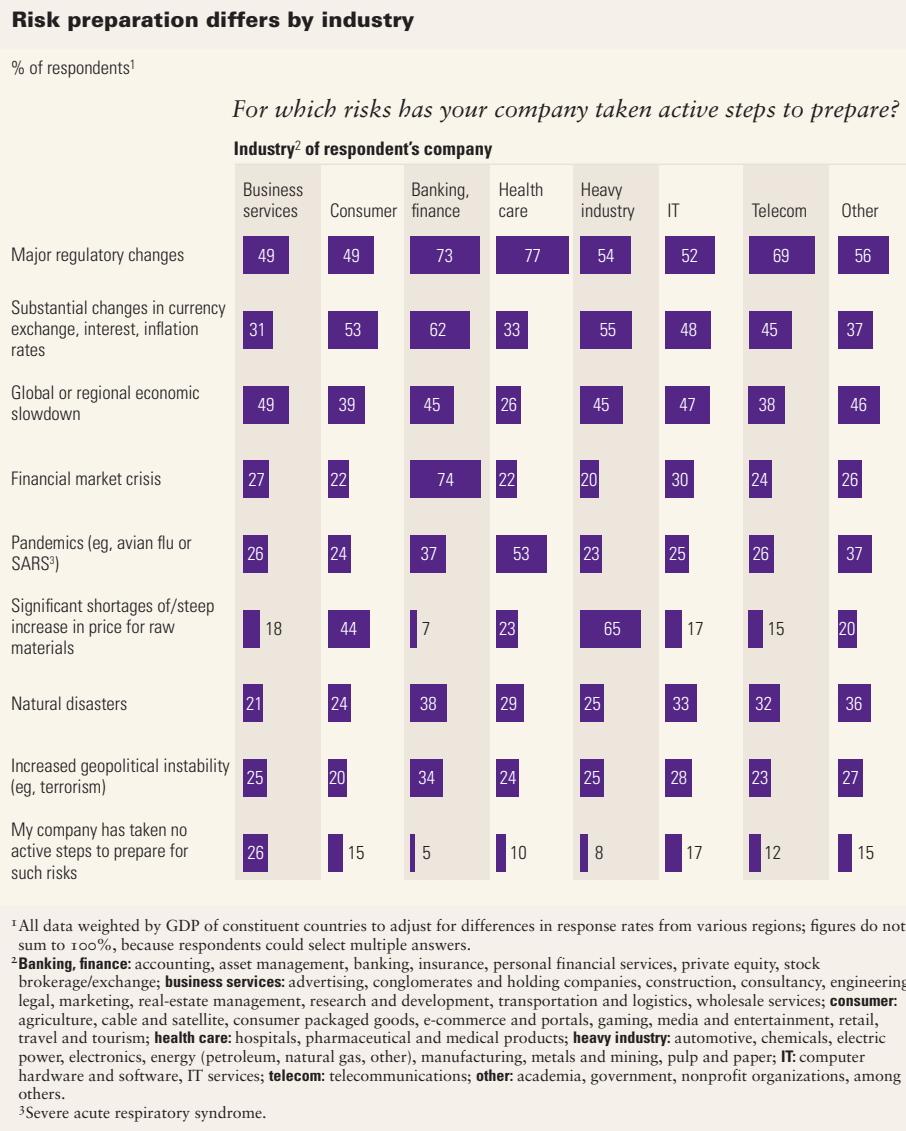


<sup>1</sup> All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because respondents could select multiple answers.

<sup>2</sup> Severe acute respiratory syndrome.

## Preparing for risk

EXHIBIT 9



The state of preparedness is significantly higher for what appear to be core risks in individual industries (Exhibit 9). Around 70 percent of executives in health care, financial services, and telecommunications say that their company has taken active steps to prepare for major regulatory changes. More than half of the respondents in the health care industry report preparations for pandemics (for example, avian flu or SARS<sup>3</sup>). In heavy industry, 65 percent of executives say their company is prepared for significant shortages or steep increases in the price of raw materials. Generally speaking, bigger companies are better prepared than smaller companies. At companies with annual revenues of less than \$1 billion, more than 20 percent of respondents report that their company has not prepared for any such risks. At companies with annual revenues of more than \$1 billion, less than 5 percent were equally unprepared.

<sup>3</sup>Severe acute respiratory syndrome.

## Planning ahead

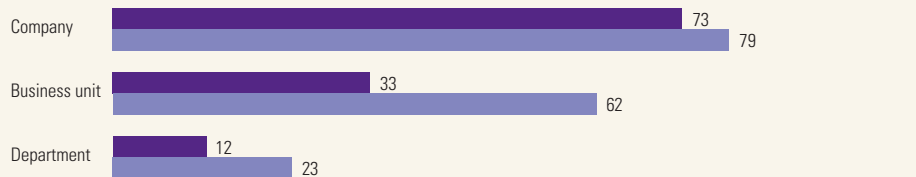
A long-term strategic-planning process can be a powerful tool for identifying growth opportunities and external risks. Asked how their strategic planning is organized, executives revealed significant differences between small and big companies. Those at companies with annual revenues of more than \$1 billion have a process that takes place at more levels of the organization and has a longer time horizon (Exhibit 10).

EXHIBIT 10

### Strategic planning

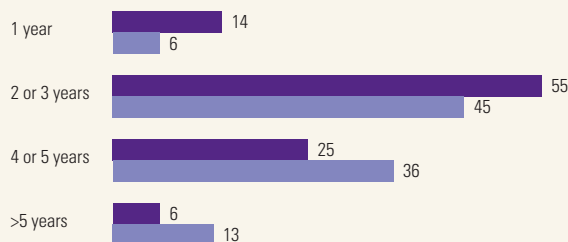
% of respondents whose company has a formal strategic-planning process (n = 3,120)<sup>1</sup>

*At what level does your company's strategic planning take place?<sup>2</sup>*



% of respondents whose company has a strategic-planning process at the company/business unit level<sup>1</sup>

*What period of time does your company's strategic plan cover?<sup>3</sup>*



<sup>1</sup>All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions.

<sup>2</sup>Figures do not sum to 100%, because respondents could select multiple answers; respondents who answered "don't know" are not shown.

<sup>3</sup>Respondents who answered "don't know" are not included.

## Planning ahead

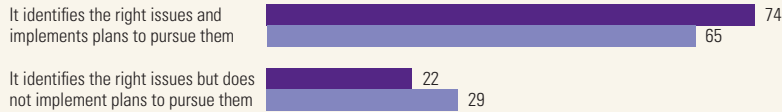
### EXHIBIT 11

#### Results of strategic planning

% of respondents whose company has a strategic-planning process at the company/business unit level<sup>1</sup>

- C-level executives
- All other executives

*How would you describe your company's long-term strategic approach?*



<sup>1</sup> All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; figures do not sum to 100%, because not all responses are included.

When executives are probed about what strategic planning achieves at their companies, an interesting divergence emerges (Exhibit 11). C-level executives are more confident than their lower-ranking counterparts that the process results in concrete measures. Top executives also emphasize the effectiveness of their company's strategic planning in identifying new opportunities for growth. Others, in turn, underline its role in the annual budgeting process. *Q*