

Global Survey of Business Executives



Confidence is down, distractions are up.

July 2005

Executives around the world are markedly less confident about the economy's prospects than they were even three months ago. In the fourth consecutive decline registered since March 2004, confidence fell by 10 percent overall during the most recent quarter—and even further in Europe and emerging markets. More than 7,800 executives—a fifth of them CEOs or other C-level executives—from 132 countries responded to this survey.

Many executives, including a fifth of the North American respondents, also indicated that they feel nearly overwhelmed by the volume of the e-mail and voice mail they receive and the number of meetings they attend. More than half say that they waste at least half a day a week on unnecessary communications. The larger the company, the bigger the problem.

This issue is particularly acute because the vast majority of executives surveyed also believe that creating growth calls for collaboration across product, functional, and geographic divisions. Since effective communication is central to collaboration, companies must know where their current methods are failing. One significant weakness is the sharing of knowledge across divisions. Several other organizational bottlenecks, such as difficulty in matching talent to opportunities, are also creating barriers to effective collaboration.

It's notable that CEOs, CFOs, and other C-level executives take a different view of these issues: they are less concerned about organizational complexity, for example, and more convinced that current structures are effective.

Detailed responses to the survey appear on the following pages.

The McKinsey Global Confidence Index

The confidence of executives in the global economy has fallen dramatically since March (Exhibit 1). Notably, European respondents are less confident: for the first time since the survey began, those who think that Europe's economy has become worse greatly outnumber those who think it has improved, and more expect that it will continue to worsen in the next six months. These results may reflect the economic jitters that have been a significant factor in the European Union's recent political turmoil. (Respondents began answering the survey questions on June 1, just after French voters rejected the proposed EU constitution and the day when Dutch voters did the same.) European executives continue to be somewhat more confident about the future of their individual industries than of their national economies.

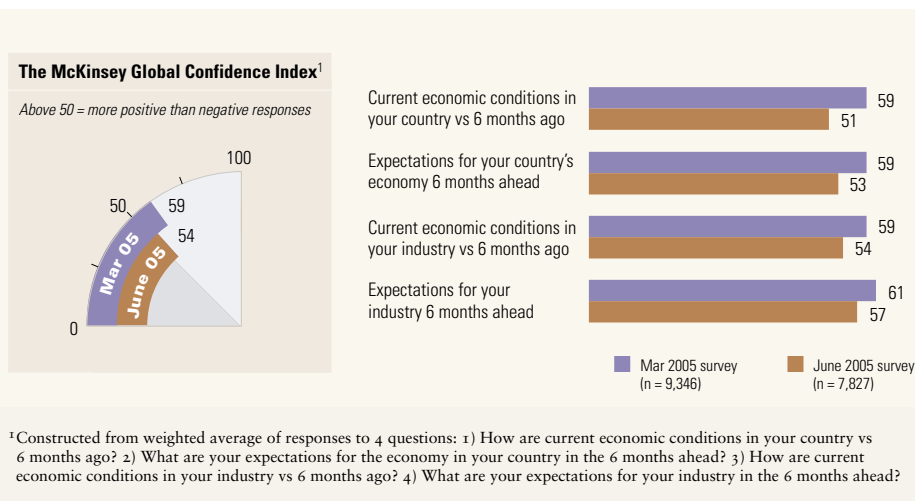
European executives were not the only ones who became considerably more gloomy during the spring about the prospects for the economy (Exhibit 2). Confidence among executives in the developing world fell even further, though they are still more confident than their counterparts in other regions. Executives in China and India are less confident than they were three months ago—in part, perhaps, because

of rising protectionist sentiment in the United States and Europe. But the confidence of executives in other developing economies fell the most: by 13 percent. In a tough global economy, these countries face the possibility of not only lost exports but also rising oil prices, which would tend to hurt them more than others. Executives in IT and telecommunications remain the most confident about the future, though they too are far less so than they were a year ago, since the two industries have continued to consolidate and face new sources of competition.

On the subject of hiring, executives are less bullish than they were a year ago: in May 2004, 43 percent of the survey respondents said that they planned to increase the workforce over the following six months, while only 34 percent say so this time around. Meanwhile, 19 percent now say they will decrease the workforce, though only 12 percent had such plans in 2004.

As for the subject of changes in the workforce, IT and telecom executives are the most volatile: both are more likely than others to say that they will increase it during the next six months as well as to say that

EXHIBIT 1



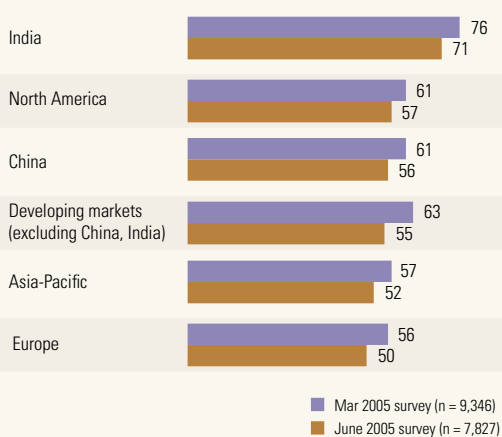
The McKinsey Global Confidence Index

they will decrease it (Exhibit 3). A year ago, only 13 percent of the telecom and IT executives were planning to shrink the workforce, a percentage lower than that of many other industries. Now, 24 percent plan to do so, five percentage points more than the average. Such shifts may stem not only from

the competitive intensity and general volatility of these two industries but also from the fact that telecom and IT executives are the least inclined of all the respondents to say that their companies match talent to opportunities effectively (for the views of other executives on this question, see page 7).

EXHIBIT 2

Confidence index by region, % of respondents¹

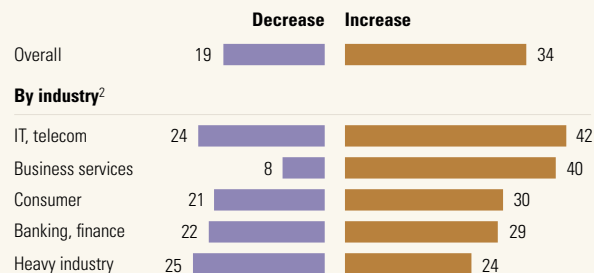


¹All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions.

EXHIBIT 3

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

% of respondents¹



¹All 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.

²**Banking, finance:** asset management, banking, financial services, insurance, private equity; **business services:** construction, consultancy, engineering, legal, real-estate management; **consumer:** agriculture, consumer packaged goods, health care, media/entertainment, pharmaceuticals, retail, travel/logistics; **heavy industry:** automotive, chemicals, manufacturing, metals/mining; **IT, telecom:** computers and technology, IT services, software, telecommunications; respondents who answered "other" for industry are not shown.

The harried executive

Everyone has heard stories about executives who do nothing but go to meetings or feel compelled to send e-mail from the beach during vacations. Is all this communication useful? And how pressed do executives really feel?

Most are clearly busier than ever: 64 percent of the survey respondents say that the volume of e-mail, voice mail, and meetings has increased significantly over the past five years. A quarter say that it has increased at least somewhat.

In fact, many executives now find their communications hard to manage (Exhibit 4). Far more than executives at small companies, those at the largest ones (with annual revenues of more than \$21 billion) are likely to feel overwhelmed: a quarter say that their communications are nearly or completely unmanageable.

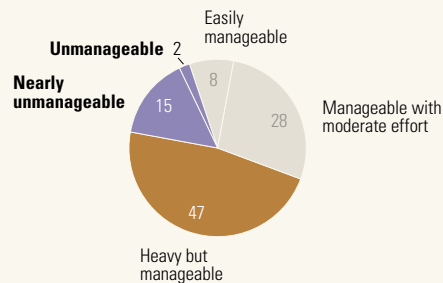
Further, a majority of executives say that they are wasting a significant amount of time on their e-mail, voice mail, and meetings: nearly 40 percent say that they are spending between half a day and a full day every week on communications without value; an additional 16 percent say that they waste one to two and a half days a week (Exhibit 5). Executives who report that their e-mail is nearly or completely unmanageable are wasting so much time on it that 80 percent admit having difficulty fulfilling their key responsibilities.

Budgeting is clearly time sink: 44 percent of all survey respondents, and 54 percent of those from companies with annual revenues of \$30 billion or more, say that their companies spend too much time on it.

EXHIBIT 4

How would you characterize the flow of e-mail, voice mail, and meetings at work?

% of respondents¹

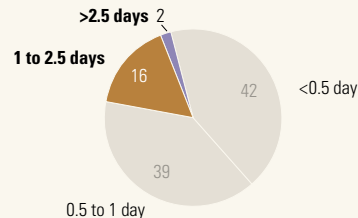


¹All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions; respondents who answered "other" are not shown.

EXHIBIT 5

How much of your time is spent on e-mails, voice mails, and meetings that are not valuable?

% of respondents¹



¹All 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 answering "none" are not shown.

Collaboration: Necessary but difficult

Executives at today's large corporations¹ know that to create value and seize growth opportunities, teamwork across the organization is needed (Exhibit 6), but its increasing size and complexity is a hindrance.

That need is most acute at the largest corporations: 84 percent of executives at companies with annual revenues of more than \$30 billion stressed the importance of collaboration, as opposed to 75 percent of those at companies with revenues below \$1 billion. Yet executives are trying to work together in organizations that have become increasingly complicated. Indeed, 56 percent of our respondents say that their companies have become so complex over the past five years that seizing growth opportunities has become harder. At the larger companies, an even higher proportion thinks so—nearly 70 percent of respondents at companies with annual revenues of \$21 billion to \$30 billion, for example.

One significant problem is that executives can't get the information they need. For instance, 40 percent said that their companies don't share distinctive knowledge across business units effectively, and

39 percent said that they have difficulty finding the knowledge needed to make company-wide decisions. Business-development and strategy executives—those likeliest to need information from far-flung corners of a company—are the most prone to say that they have trouble finding knowledge and that it isn't shared effectively (Exhibit 7).

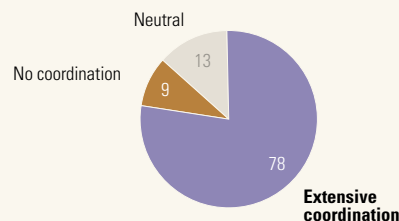
Other roadblocks also impede effective collaboration. A key problem is that different business units tend to have different structures, such as varying definitions of roles and functions that are actually similar. Overall, more than three-quarters of the executives in our sample say that this problem complicates collaborative efforts. Again, it is more pronounced at larger companies: 86 percent of the respondents from those with annual revenues of \$21 billion to \$30 billion say that differing structures are a problem, as compared with only 68 percent at the smallest companies.

Furthermore, nearly 60 percent of all executives in our sample say that their companies don't measure collaboration effectively. In addition, 38 percent think

EXHIBIT 6

To what extent do your company's significant growth opportunities require effective coordination across product, functional, and geographic lines?

% of respondents¹



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

¹The remaining survey questions were answered only by respondents who work for companies with annual revenues of \$20 million or more.

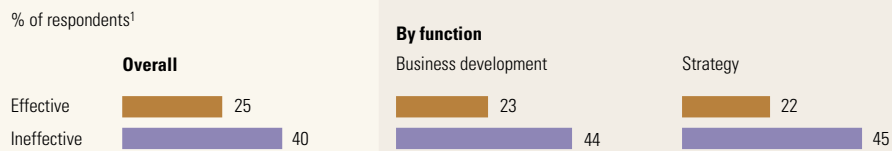
Collaboration: Necessary but difficult

that their companies are ineffective at matching talent with opportunities. Strategy executives—43 percent of them—are the most likely to find their companies ineffective in this respect, and almost as high a proportion of executives in marketing and business development agree. One conclusion is that the more executives focus on seizing forward-looking opportunities, the less likely they are to think that they will find the necessary talent.

Finally, since the collaboration needed to build intangible assets such as customer relationships can demand an open-ended time commitment, a strong focus on quarterly results may also be a problem. Nearly two-thirds of the respondents say that their companies focus on short-term results to the detriment of long-term ones. (For results on the effectiveness of strategy development and top-management meetings, see “Additional findings” below.)

EXHIBIT 7

How effective is your company at sharing its distinctive functional, geographic, product, and client knowledge across units and functions?



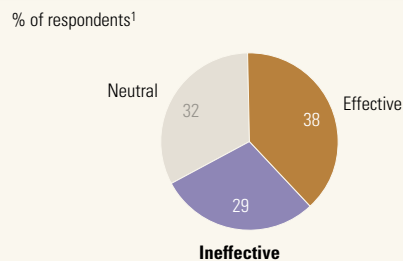
Is it difficult or easy to find the information needed to make decisions on company-wide issues?



¹ 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 answering “neutral” are not shown.

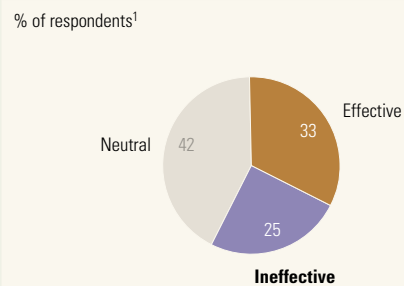
Additional findings

How effective is the strategy-development process of your company in identifying its significant growth opportunities?



¹ 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.

How effective a use of time are your company's top-management meetings?



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

Top bosses see things differently

Over the past year, McKinsey global surveys have consistently found that CEOs, CFOs, and C-level executives in general don't see the world as other executives do. Lower-level executives, it would seem, are shielding the most senior ones from the complexities their decisions can create; after all, few people want to admit that something is more difficult than the boss thinks it is. Yet many of the most senior executives may just not understand the complexity facing lower-level colleagues who must deal with problems such as a high number of direct reports and the need to collaborate across business units with people who work very differently.

C-level executives, for example, are more likely than others to say that the size and complexity of their companies make it easier to seize growth opportunities: 35 percent, as compared with

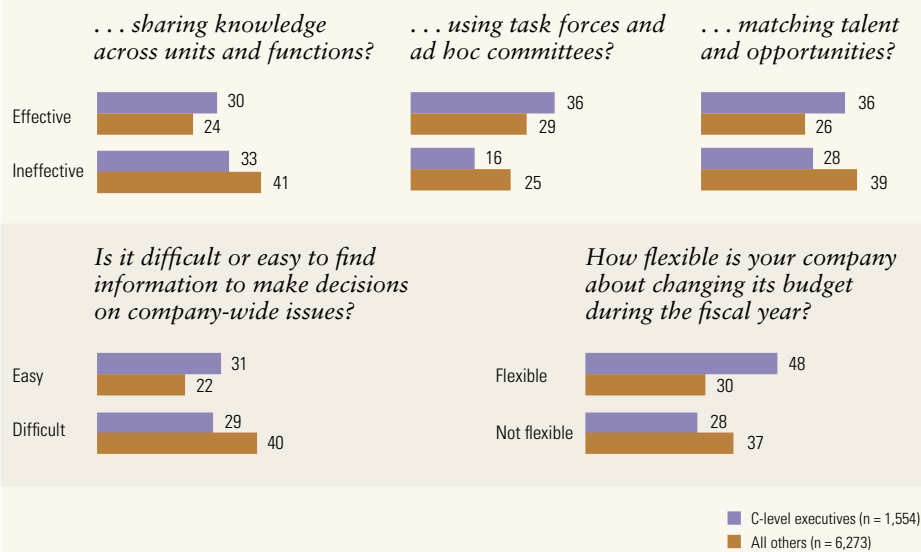
28 percent of all other respondents. Although strong majorities of both C-level and other respondents believe that such opportunities call for coordination across business units, only 27 percent of C-level executives think it must be extensive, as compared with 39 percent of all others. What's more, only 15 percent of the most senior executives say that differing structures among business units greatly complicate collaboration, while 26 percent of the lower-level ones think that they do.

Such discrepancies may be explained by differences of opinion about how effectively companies share knowledge, match talent to opportunities, make task forces work, provide for budgetary flexibility, and the like. Lower-level executives are more skeptical about these things across the board (Exhibit 8).

EXHIBIT 8

How effective is your company at . . .

% of respondents¹



¹All 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 answering "neutral" are not shown.

Globalization, not homogenization

Executives around the world broadly agree on the overwhelming increase in the volume of their communications as well as the areas in which their companies are responding well—or poorly—to increasing size and complexity. But some notable regional differences are apparent.

Not surprisingly, perhaps, given North America's business culture and technological infrastructure, executives there are the most overwhelmed by e-mail, voice mail, and meetings: a fifth say that their communications are nearly unmanageable. Yet respondents in China are by far the likeliest to spend more than one day a week on useless communications—38 percent, compared with only 15 percent in both North America and Europe.

Respondents from North America and Europe generally resemble one another more than they resemble those from any other region in assessing the need to collaborate and their companies' ability to do so. Respondents in India have consistently been the most confident in our surveys, and this one isn't different in that respect. These executives are also generally more confident than others about the effectiveness of their organizations. One reason may be that so many companies in India are family owned, which would tend to create a more cooperative atmosphere. Another may be that respondents there are by far the most likely to say that individuals are held accountable for meeting company-wide goals (Exhibit 9). **Q**

EXHIBIT 9

