

The organizational challenges of global trends: *A McKinsey global survey*



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Executives are grappling with a wide range of organizational challenges created by new economic and social patterns, a *McKinsey Quarterly* survey shows.

The respondents say that intensifying competition for talent, shifting centers of economic activity, and increased technological connectivity are the most important trends for their companies. Moving quickly and dealing with regional diversity are two of the most common concerns.

Two-thirds of the executives say that their companies aren't sure of the right organizational response to emerging global trends—but the vast majority believe that responding effectively is critical for competitive advantage.

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Executives know that their companies must come up with the right organizational response to maintain a competitive edge.

Companies around the world are struggling to confront the organizational challenges presented by global trends such as growing competition for talent, shifting centers of economic activity, and an increasingly networked business environment, a *McKinsey Quarterly* survey¹ shows. Although the challenges are manifold, two themes—how to move quickly and how to deal with geographic and regional diversity—emerge most frequently.

Yet more than two-thirds of the executives we surveyed say that their organizations do not have a clear view of the changes needed to meet these and other looming social and economic developments. Almost half admit that their companies have not installed the right people to lead a response, and around a third do not know who's accountable for dealing with such issues.

Nonetheless, nine out of ten executives insist that organizational change is either “extremely important” or “very important” to building or maintaining competitive advantage.

¹The *McKinsey Quarterly* conducted this survey in November 2007 and received responses from 1,317 executives around the world—80 percent of them senior executives (including board members). Thirty percent were either CEOs or CFOs. The data are weighted to reflect the proportional representation of segments in the total population of respondents.

Which global trends matter most?

We asked respondents to the survey, covering 93 countries in all the main regions of the world, to choose the three trends that will most affect their companies over the next five years. The respondents then chose the single biggest organizational challenge each trend presents for their companies.

By far the most significant trend—cited by 47 percent of the executives—is the intensifying battle for talented people. Shifting centers of economic activity and increasing technological connectivity were the next most important trends, each with 34 percent.² Only ballooning

public-sector activity (4 percent) appears to be of little concern in business circles (Exhibit 1).

Some regional differences are striking. Executives in the developed countries of the Asia-Pacific region³ and in developing countries are even more concerned about the competition for talent than their counterparts in Europe and North America are. That might seem odd, given the plentiful supply of young people entering the job markets of the developing world, but other McKinsey research has shown that many of them do not have robust qualifications or appropriate skills. Executives in the Asia-Pacific region and in developing countries are markedly less worried

Exhibit 1

Top business trends

% of respondents who chose given trend as 1 of top 3, n = 1,317

Which of the following trends will have the most effect on your business over the next 5 years?



²In a survey conducted earlier this year, similar trends emerged as the most likely to affect profitability. See “Acting on global trends: A McKinsey Global Survey,” mckinseyquarterly.com, April 2007.

³Asia-Pacific includes Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, South Korea, and Taiwan.

than their counterparts elsewhere about the challenge of an aging population. Given widespread forecasts that the growth of the middle classes in emerging markets will drive their economic expansion,⁴ it's perhaps not surprising that a changing consumer landscape is one of the top three trends for executives there; for the panel as a whole, it ranked only as number seven.

Industry contexts also influenced the responses. High-tech executives, for example, are more concerned than those in other sectors about the impact of technological connectivity and ubiquitous access to information. Manufacturers are especially struck by the growing demand for natural resources. An aging population ranks among the top three concerns of executives in the financial-services industry.

⁴See Eric D. Beinhocker, Diana Farrell, and Adil S. Zainulbhai, "Tracking the growth of India's middle class," mckinseyquarterly.com, August 2007; and Diana Farrell, Ulrich A. Gersch, and Elizabeth Stephenson, "The value of China's emerging middle class," mckinseyquarterly.com, June 2006.

The organizational challenges

The executives say that the trends they face have prompted a wide variety of organizational challenges—in very few cases does any single organizational issue jump out of the responses (Exhibit 2). Yet the broad challenge of moving quickly and dealing with geographic and regional diversity clearly preoccupies many of the 1,317 executives who completed the survey.

More than a quarter (28 percent) of those who said that increased technological connectivity was among the most important economic trends, for example, added that changing the organizational and operational models to keep pace with technological change was the biggest challenge. A quarter of those who chose the increasing complexity and scale of their organizations as one of the top three trends are

Exhibit 2

Most pressing challenges

% of respondents selecting given challenge for each trend¹

Top organizational challenge presented by given business trend			
Trend	Top challenge		Range between top challenge and runner-up, percentage points
Ubiquitous access to information will change economics of knowledge, n = 363	Ensuring information, knowledge, wisdom are shared across business as quickly, effectively as possible	51	23
Public-sector activities, will balloon, n = 56	Finding right cost base, pricing model for products, services	44	9
Demand for natural resources will grow, as will strain on environment, n = 334	Managing operations in a way that is environmentally sound	41	18
New global industry structures will emerge, n = 229	Creating, capturing value from networked businesses	40	23
Consumer landscape will change, expand significantly, n = 274	Managing complexity of tailoring products or services to different local conditions, preferences, without diluting the brand	36	13
Population in developed economies will age, n = 271	Recruiting next generation of workers	30	11
Technological connectivity will increase, n = 443	Developing ability to change organization, operating model quickly enough to keep pace with technological change	28	9
Role, behavior of business will come under increasing scrutiny, n = 234	Improving enterprise-wide risk-management processes	27	2
Growing competition for talent, both technical, managerial, n = 644	Dealing with shortages in specific skills	26	3
Organizations will become larger, more complex, n = 235	Increasing speed of decision making, response to external changes	25	6
Centers of economic activity will shift globally, regionally, n = 461	Managing an organization with operations at different stages of growth, market development	20	3

especially concerned about the need for quicker decision making and responses to external change. More than half of the executives who placed ubiquitous access to information and the way it's changing the economics of knowledge among the top three trends are striving to share information across their businesses quickly and efficiently.

Among the plurality of executives who stress the importance of increased global competition for good people, two specific organizational challenges stand out: shortages of technical and

managerial skills and ways to “monetize” best talent (as opposed to assets and capital). Shortages of skills are most acute for the high-tech respondents and least acute for those in the financial-services industry. A third of all respondents selected shifting centers of economic activity as an important trend, and for them the single biggest challenge is managing operations at different stages of growth and market development, closely followed by managing change across the whole organization.

Ill-prepared to change

Many other questions in the survey investigated organizational preparedness for the challenges ahead—and the extent to which organizations have already started to change in response. Significantly, for example, more than one-third of the executives believe that to meet the challenges their organizations face, it will be necessary to tackle a full range of “hard” and “soft” issues—changing the capabilities of employees and leaders and the value propositions for employees, processes, and structures (Exhibit 3). Changing the capabilities of employees and leaders figured most prominently in the responses of those who say

their companies need only partial change. Several of the answers appear to reflect confusion about how to manage these issues. Surprisingly, perhaps, as many as 36 percent of the respondents (and 44 percent of those from the financial-services sector) say either that it’s not clear or that they don’t know who in their organizations is accountable for meeting the challenges posed by the trends. Only 19 percent of the executives say that their organizations have a clear view of how to change to meet the challenges, though more than a third (36 percent) claim that their organizations have the right people in place to lead the necessary changes.

Exhibit 3

How to adapt?

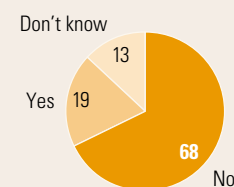
As your organization meets the challenges presented by business trends, in which areas do you expect to see the most change?

% of respondents,¹ n = 1,317



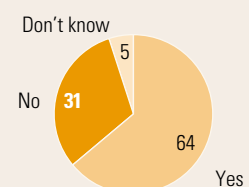
Does your organization have a clear view of how it will have to change in each of these areas?

% of respondents, n = 1,317



Is it clear within your organization who is accountable for ensuring that the challenges presented by these trends are met?

% of respondents, n = 1,317



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

Interestingly, more than 72 percent of those whose companies are still looking for people to lead the changes expect them to be hired externally (Exhibit 4). While some observers might interpret this finding as a sign that companies are desperately casting around for quick fixes, it seems more likely to be an acknowledgement that deep-rooted change requires leadership and skills not found inside most organizations. That point is buttressed by the finding that among those who think that their companies already have the right people, almost 80 percent admit that those people don't have the right skills.

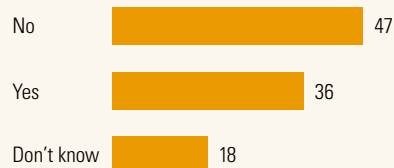
Asked whether their organizations had already begun to take action to meet the challenges, more than half of the respondents (53 percent) say that some changes had already been made, though almost a third report that their organizations had only got as far as talking about change. Some respondents listed specific actions that are under way, almost two-thirds of them related to personnel changes, change-management plans, or strategic rethinks.

Exhibit 4

The talent imperative

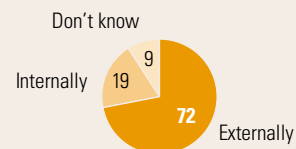
Does your organization currently have the right people in place to lead the changes necessary to meet the challenges you face?

% of respondents,¹ n = 1,317



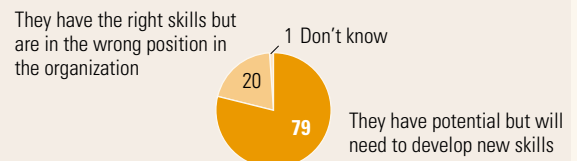
If not, where, primarily, will your company find the necessary people?

% of respondents, n = 1,317



If yes, what is the current status of these people?

% of respondents, n = 1,317



¹Figures do not sum to 100%, because of rounding.

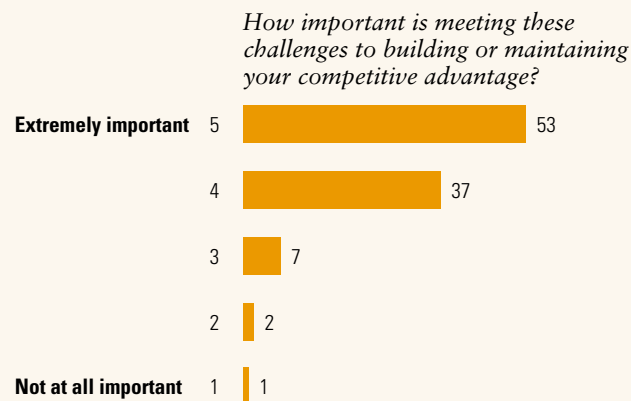
Amid the diversity of trends, organizational challenges, and stuttering corporate responses revealed by the survey, there is one area of near-unanimity. Asked about the importance of meeting organizational challenges to building or maintaining competitive advantage, 53 percent

of the respondents thought it was “extremely important” and 37 percent “very important” (Exhibit 5). A mere 2 percent indicated that these issues are of little importance. Clearly, companies must boost their organizational abilities to maintain their edge.

Exhibit 5

Maintaining a competitive advantage

% of respondents



The contributors to the development and analysis of this survey include **Colin Price**, a director, and **David Turnbull**, a consultant, in McKinsey’s London office.
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