

# McKinsey Quarterly

## HOW TO WIN WITH GEN AI

The people, plans, and partners for success

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# McKinsey Quarterly

## **Making generative AI work**

Across industries, leaders are working hard to ensure that their companies get the most from generative AI (gen AI). They are far beyond the stage of admiring the technology's potential. They are now focused on how to use it to create value.

Doing so requires a multifaceted approach to gen AI. There are the required organizational changes. There are risk factors to evaluate and manage. There are choices as to where in the organization to apply the technology. And those are only three of the areas in which leaders face critical decisions. In fact, the power of gen AI may force leaders to reexamine traditional practices across the entire company.

In this issue's cover package, our authors look at several pieces of the gen AI puzzle. In "People before tech: Reshaping talent in the age of generative AI," Aaron De Smet, Bryan Hancock, and Sandra Durth, with Angelika Reich and Marino Mugayar-Baldocchi, address the looming question: What will this mean for employees? It's understandable that leaders focus on the productivity improvements that gen AI can induce. But an essential strategic consideration is understanding how gen AI is changing the way employees view their work experience. Here are just two of the findings of McKinsey's extensive research: the pool of gen AI talent is poised to expand rapidly, and gen AI creators know just how attractive they are in this market, making retention a challenge. The article is full of such valuable insights.

In "Strategic alliances for gen AI: How to build them and make them work," Ben Ellencweig and Guilherme Cruz, with Carlo Palermo and Joshan Cherian Abraham, unpack an often-overlooked part of winning with gen AI: how to manage the partners and ecosystems that are critical to success. Many ideas about how to work with traditional vendors no longer hold true when dealing with gen AI providers. Companies looking to create value from AI must collaborate with a range of partners to ensure they have what they need to succeed, and they must ensure that those partners work well together in an ecosystem that might be far more extensive than some leaders imagine.

Two other stories round out our package. One offers a vision of how gen AI can fuel the creative design of physical products. The practical details involved in using gen AI to design great products are a great example of the good planning it takes to make the most of the technology. And the other is Lareina Yee's forward-looking interview with LinkedIn cofounder Reid Hoffman. Hoffman offers a vision of why AI can be, as he puts it, "the steam engine of the mind."

The rest of our issue looks at a range of current challenges. "Can your company remain global? If so, how?" tackles today's fractured geopolitical landscape and looks at what it takes to develop resilience that will see organizations through continued disruption. "Better together: Small businesses can interact with larger companies for greater productivity" is an adaptation of a McKinsey Global Institute report that examines the ways that small and large businesses can interact to create meaningful opportunities for both. Historically, small businesses have seen lower productivity than large ones have. But by interacting with each other, both can see increased benefits. The article lays out a path to a win-win economic fabric.

As always, this issue is full of other stories designed to help you address the most important issues you face, whether they are timeless or contemporary. You can also enjoy *McKinsey Quarterly* in a digital edition with all the elegance of the print magazine in a smart, engaging package that helps reduce our collective carbon footprint. This new *Quarterly* offering is available via a free membership and includes bonus stories that we couldn't accommodate in the print edition. It's easy to sign up at [McK.co/MQMembership](https://mck.co/MQMembership), where you can also learn about the other benefits of membership—including exclusive access to free downloads of McKinsey's 100 most important reports. And, of course, we hope you'll continue your learning on [McKinsey.com](https://mckinsey.com), where you can go deeper on any subject we cover in the print *Quarterly*.



**Rick Tetzeli**

Editorial director,  
*McKinsey Quarterly*

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The number of employees who use generative AI is expected to soar, freeing many to focus on higher-level cognitive work. Can organizations use this moment to make jobs more people-centric?

*Aaron De Smet, Bryan Hancock, and Sandra Durth, with Angelika Reich and Marino Mugayar-Baldocchi*



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**Generative AI fuels creative physical product design but it is not a magic wand**

Generative AI tools can shorten physical product design life cycles significantly and spark innovation, but the knowledge and discretion of design experts are necessary to mitigate potential pitfalls.

*Jack Donohew, with Bryce Booth, Chris Wlezien, and Winnie Wu*

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Silicon Valley pioneer Reid Hoffman sees AI as an even bolder shift than the Industrial Revolution.



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Geopolitical uncertainty is forcing global companies to take a hard look at the decades-long strategy of geographic expansion.

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*Mark Patel*

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*Eric Buesing and Julian Raabe, with Maximilian Haug and Paul Hurst*

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### Better together: Small businesses can interact with larger companies for greater productivity

When the world's micro-, small, and medium-size businesses work with one another and larger firms, all can benefit—as can the global economy.

*Anu Madgavkar, Marco Piccitto, and Olivia White*

## BOOK ALERT

How CEOs Learn to Lead  
From the Inside Out

## THE JOURNEY OF LEADERSHIP

DANA MAOR • HANS-WERNER KAAS  
KURT STROVINK • RAMESH SRINIVASAN  
SENIOR PARTNERS AT MCKINSEY & CO.

McKinsey's next major book, ***The Journey of Leadership: How CEOs Learn to Lead from the Inside Out*** (Portfolio/Penguin Group), will publish in the United States and the United Kingdom on September 10. The book, by Dana Maor, Kurt Strovink, Ramesh Srinivasan, and senior partner emeritus Hans-Werner Kaas, is the first-ever explanation of McKinsey's step-by-step approach to transforming leaders both professionally and personally, including revealing lessons from its legendary CEO leadership program, the "Bower Forum," which has counseled more than 500 global CEOs over the past decade.

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*Lucy Pérez*

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## The green logistics challenge

Moving products sustainably and profitably is an elusive goal. All industries can learn from the quest.

*Andrea Bertelè and Matteo Pacca, with Benjamin Weber*

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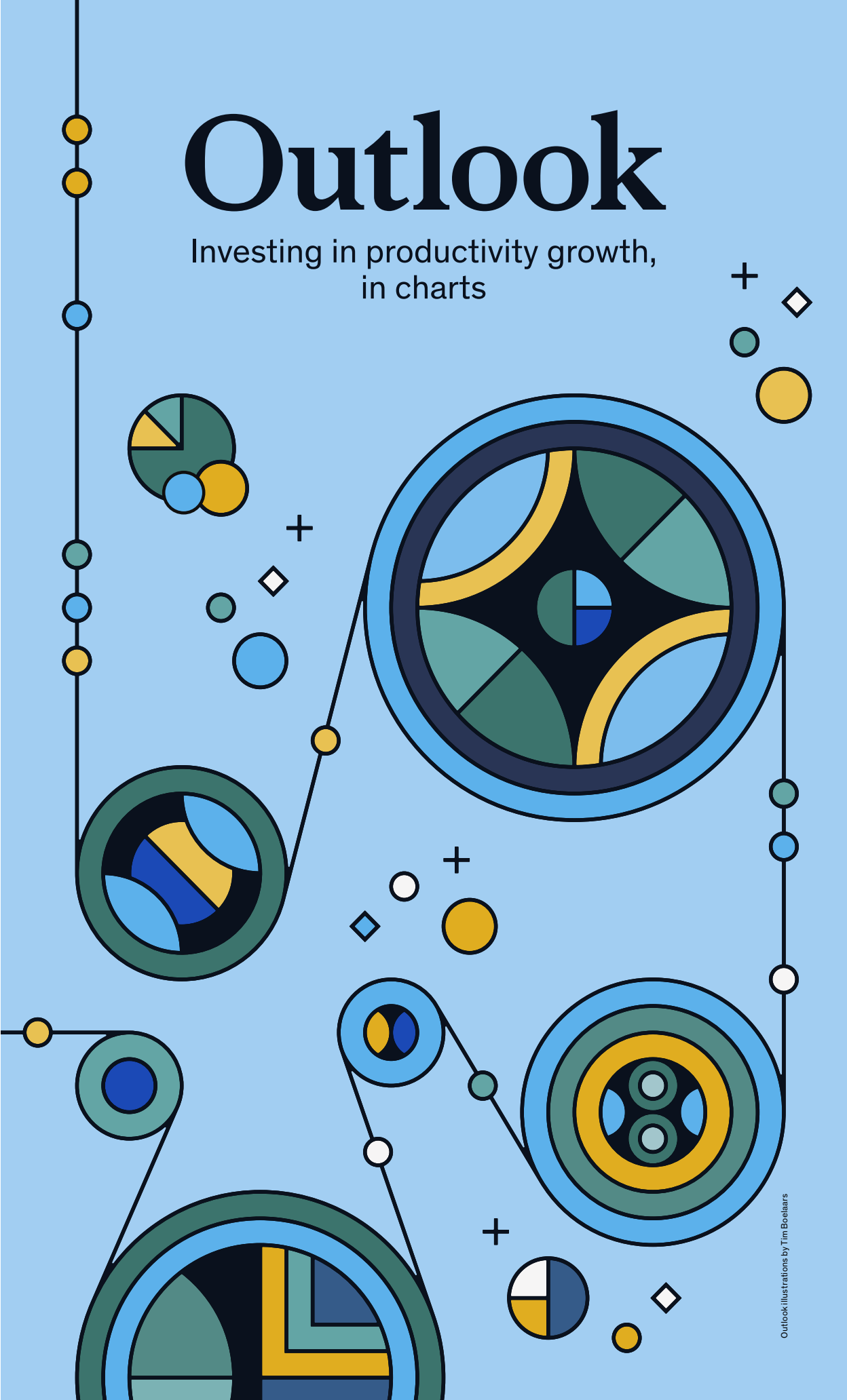
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# Outlook

Investing in productivity growth,  
in charts



# An uneven productivity miracle

A handful of emerging economies propelled the world's gains.

**O**ver the past quarter century, global median economy productivity has jumped sixfold. From 1997 to 2022, median economy productivity rose to approximately \$41,000 per employee, from about \$7,000, which is equivalent to an annual growth rate of 7.3 percent.

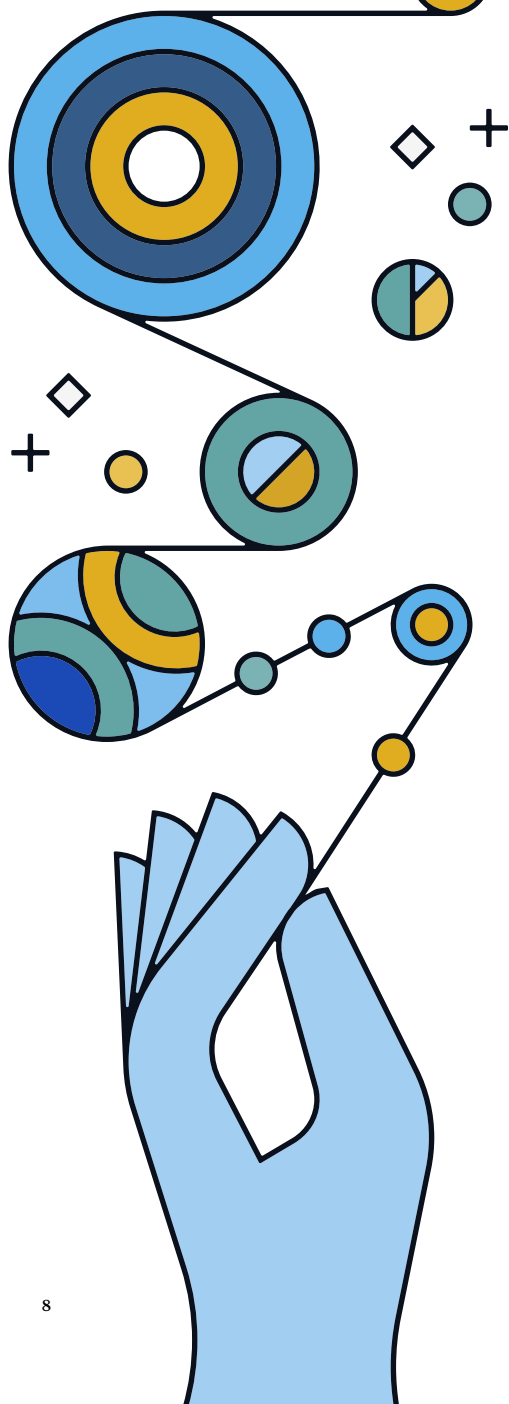
But the world's strong productivity growth over the past 25 years hasn't been evenly shared. Instead, it's been driven by standout regions. Thirty emerging economies, with 3.6 billion people, are in the "fast lane" of improvement; if they maintained this pace, they would converge with advanced-economy productivity levels within roughly the next quarter century.

China and India accounted for nearly half of aggregate global productivity growth. Other regions—Central Europe, Eastern Europe, and emerging Asia—also made rapid progress, narrowing their gap with advanced economies. This enabled more than one billion people to escape poverty over the past 25 years in China and India alone. In Europe, fast-lane economies include Estonia, Latvia, Lithuania, Poland, and Romania. Beyond China and India, Asian fast-lane economies include Bangladesh, Cambodia, and Vietnam. The fast lane also includes a few top performers from sub-Saharan Africa, such as Ethiopia and Rwanda.

Yet growth rates in many countries in the Middle East and North Africa, sub-Saharan Africa, and the Caribbean and Latin America were similar to or lower than those in advanced economies, which means that they did not converge at all or even fell behind.

Advanced economies, in turn, were a slow-moving target to catch up to. Their productivity growth has slowed by more than half—or about one percentage point—since the global financial crisis (GFC).

The McKinsey Global Institute's recent report *Investing in productivity growth* provides an overview for private and public decision makers



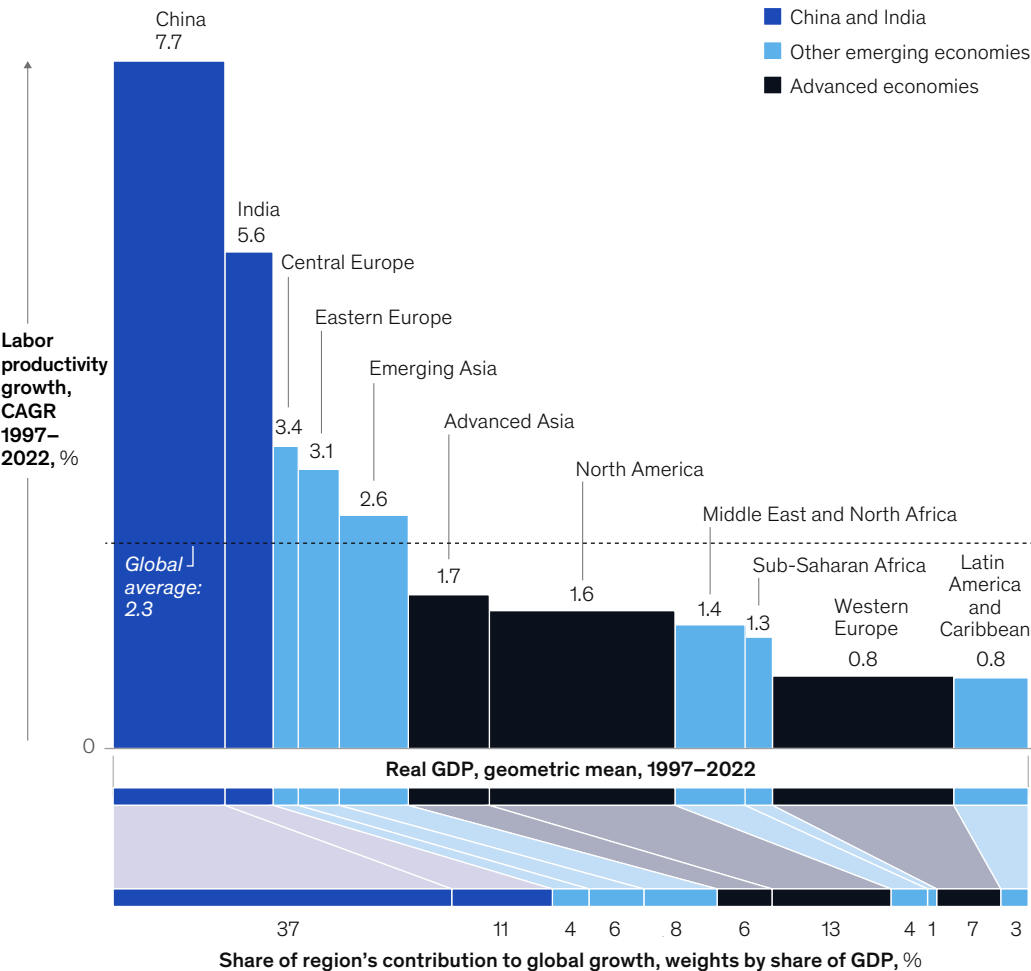
on the most important features of productivity growth, why it has recently slowed—particularly in advanced economies—and what reacceleration would require. It shows an analysis of global productivity performance over the past 25 years and identifies which emerging economies are in the fast, middle, and slow lanes on the highway of convergence with advanced-economy standards of living—focusing on what it takes

to be in the fast lane. Finally, the research explores productivity growth in this new geo-economic era, laying out the main challenges and opportunities for businesses and policy makers.

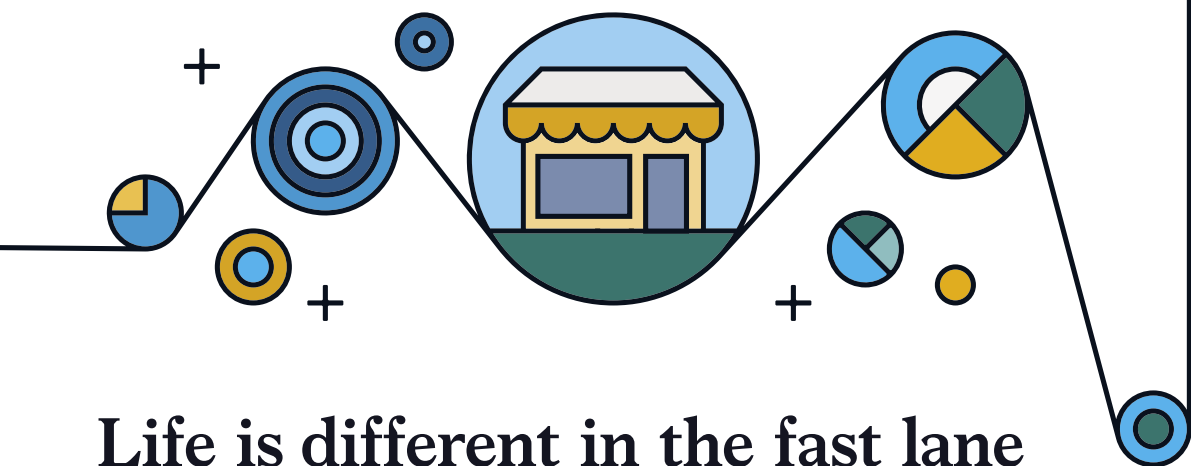
→ This Outlook is derived from “Investing in productivity growth,” on McKinsey.com.

About 50 percent of global productivity growth came from China and India, and 75 percent from all emerging economies combined.

Labor productivity growth, real GDP, and share of contribution to global growth, by region



Note: For details, see Exhibit 2, “Investing in productivity growth,” McKinsey Global Institute, Mar 27, 2024.



# Life is different in the fast lane

Burgeoning emerging economies invest in service sector productivity and more.

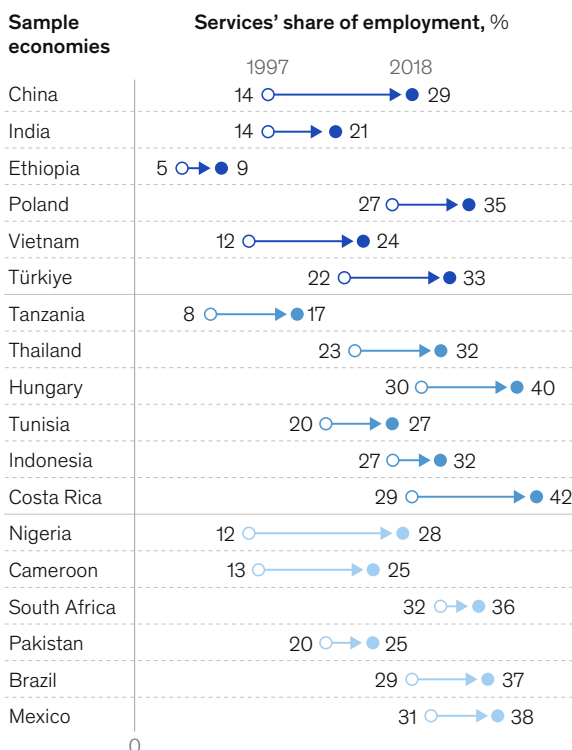
**O**ne central tenet of development economics is that moving workers from agriculture to industrialization is the main way to boost productivity growth. Although manufacturing is still extremely relevant, we find that

many fast-lane economies achieved notably high productivity growth in services, too.

Urbanization—enabled by investments in infrastructure—has meant a major shift in the composition of economies, away from

**Fast-lane economies achieved distinctively high productivity growth in services as those sectors expanded.**

■ Fast lane  
■ Middle lane  
■ Slow lane



Note: For details, see Exhibit 17, "Investing in productivity growth," McKinsey Global Institute, Mar 27, 2024.

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