

Pinpointing the global forces that drive progress

August 2017

Companies that pay close attention to the trends and shifts affecting growth and productivity can help create a new societal deal for prosperity.

Although the world has seen broad-based progress over the past several decades, pushing society to the next level will require businesses to connect the dots between digital disruption, shifts in global growth, and the global trends that affect it all. In this episode of the *McKinsey Podcast*, senior partner Sven Smit and senior expert Ezra Greenberg speak with *McKinsey Quarterly* editor in chief, Allen Webb, about how companies need to focus keenly on sweeping global forces that affect growth, productivity, and societal prosperity.

Podcast transcript

Allen Webb: Hi, I'm Allen Webb, editor in chief of the *McKinsey Quarterly*. I'm in Seattle today, and I'm delighted to be speaking with two longtime colleagues and friends—Sven Smit, a senior partner in the firm's Strategy Practice, who is based in Amsterdam, and Ezra Greenberg, a senior expert in Stamford, Connecticut.

Sven and Ezra, along with their colleague Martin Hirt, were the coauthors of a recent *McKinsey Quarterly* article called “The global forces inspiring a new narrative of progress.” The article's been one of the more widely read pieces this year on McKinsey.com. It was the culmination of a major effort to connect the dots between critical global trends and to distill some larger themes, such as global growth shifts, the acceleration of industry disruption, and the need for a new societal deal, and then to try to help make sense of them all. Sven and Ezra, thank you very much for spending some time with us today.

Sven Smit: Looking forward to our talk.

Ezra Greenberg: Thanks, Allen.

Allen Webb: Let's start at the top. Why do you think business leaders need to focus on big cross-cutting trends?

Ezra Greenberg: Oftentimes, when we get into the strategy discussions with the senior teams, one of the things that I'm finding, over the last few months of talking about this work, is that everybody does tend to gravitate to what they know. When they're trying to think about how to formulate their strategy going forward, it's easy to get trapped on the thing that's close to you. We find that our approach helps move us back a few steps and open the aperture to make sure we're not closing out ideas. It's a notion of really just making sure that the senior executives who are responsible for the big global decisions are actually seeing the entire landscape and are not closing too quickly on, "OK, what am I going to do tomorrow?"

Sven Smit: It's a good challenge because business leaders could say, "I'm working in a very particular field; should I not look only at the microtrends that matter to my particular field?" When we check this now, in multiple sectors with multiple companies, and also with our colleagues coming from multiple sectors and multiple geographies, it resonated that most companies would feel a strong point of view on at least half, if not more, of these nine broad-based trends and that everyone who lives in society, for example, is concerned with the new societal deal, so that one, for example, just hits everyone, one way or the other. The exact extent of each trend and how it transmits will be different, and that makes it specific to each business. But we believe these nine things are hitting most businesses in a positive or in a negative way.

Allen Webb: You mentioned strategy discussions that are informed by these trends. How do you think the strategy process should incorporate knowledge of your nine trends and the way they interact?

Ezra Greenberg: The challenge here is oftentimes we'll do an off-site, and everybody will think big thoughts. Then they'll come back, and they'll do their job, but they won't move to action. Part of the trick is to figure out the way to incorporate the thinking and the implications of these trends into an ongoing strategy process.

A colleague of mine gave us this example of a medical-devices company that came to the idea that there were five big things that they thought were really important from a trend perspective. In their quarterly strategy meetings and their annual reviews, they were testing all their ideas against (and coming back to) that and making sure that they were being internally consistent. Do they have to change? Should they follow the same trends? They used [this approach] as a helpful guidepost to shape their strategy. So it's something that, for it to be successful, you have to keep your eye on it. And you have to integrate it into the regular planning process or it just becomes a fun exercise.

Sven Smit: I used to summarize what you just said with a very simple credo, which is "it's easy to paint a wall; acting on the writing on the wall is the hard part." And the internalization of many of these trends into the actual resource allocation of companies is very different than having a great day talking about trends.

Allen Webb: Ezra, you mentioned the example of a company that had decided that five of these trends were particularly relevant for them. How do you think leaders should make that determination? How do you decide “OK, of all these things, these are the ones that really are critical for us”?

Ezra Greenberg: There’s both kind of a top-down and a bottom-up way. As Sven said, we believe that these trends are applicable across industry and across countries, and we think it’s a very good starting point. It’s a very good way to test. But, also, we encourage our clients to go through the exact exercise that we went through.

Sven Smit: We went through a process of first collecting a large, large number of trends—say, 1,000-plus. And you know, it’s very easy to get to 1,000 trends. Just battery technology would have ten, so we didn’t even go to that level of detail. But we looked at the 1,000 bigger things that are going on.

We distilled, and then we ended up with 75. Then a group of 40 people studied these trends on their iPads as they came into a big meeting where we did something which is called a collision workshop. And people basically said which of these trends—75 and maybe also others that they came up with, so they could still insert new ones—do you think are particularly important to the shaping of the world going forward? What are your facts for that result?

There were whiteboards. And then, as ten people on the whiteboard or six people on the whiteboard threw trends on, you moved them to clusters of things that make sense. We ended up with, maybe we’re in the 8-trend world, maybe we’re in the 12-trend world. We wordsmithed it, made it smoother, tested it on people to learn whether it resonated. And kept on going.

Ezra Greenberg: It’s this initial creative spot of getting everybody to contribute, which is really where the magic comes from. We found that when we do it with our colleagues and when we do it with clients—that’s the part which is exciting, and then folks get to own it.

Allen Webb: One more question about the strategy process and the use of these trends—how do I know, if I’m the senior executive, if my leadership group isn’t spending enough time on trends? What would be some warning signs that we’re moving along with our heads in the sand?

Sven Smit: If you have a management team that talks only about market share, and there are 20 basis points or 100 basis points of outperformance in market share, and they do it and they always say, “It’s because of us; we’re just better,” they’re not particularly focused on the context.

And then, of course, you have an intuition. Everybody that is a board member reads. Everybody who wants to listen to the management team reads. Say you just don’t hear them talk about China. You must have a feeling that they’re missing it, and we all know it’s big. So you have your own reference list of stuff that might be going on that they never talk about. That’s a good indicator, too.

Allen Webb: Why did you call your article “a new narrative of progress”? What kind of progress are you talking about, and why do you think it’s important for business leaders to think in terms of progress or a new narrative?

Sven Smit: We’ve seen broad-based progress over the last century, over the last 30 years. The articulation of the core trends that are driving progress is, in a way, the narrative. With all the changes that have happened over just the last ten years, coming out of the financial crisis and so on, it felt like the narrative that we chose for what’s shaping the world was substantially different from a version that we had five years ago and a version that we had ten years ago, so that it did feel like a new narrative rather than just an updated narrative.

Ezra Greenberg: There are a few things that have happened which have changed since the last time that we did this, right after the global financial crisis. There is this question of where the growth is going to come from and where we should look for global growth and how globalization is going to impact that.

There’s a lot of talk now [implying] that globalization has come to an end. We don’t actually believe that; we just believe it’s changed. The nature of globalization is evolving, and that’s one of the things that’s changed. How we’re combatting the challenges of resources has changed as well. And then there’s a really big point on technology disruption. But one of the themes that came out of the work that we were doing is this notion that we need to have a new idea of how we’re going to put the pieces of puzzles together so that there’s more shared growth and shared prosperity. And that’s why we need a new formula. The old formula is not working.

Allen Webb: In your experience, what proportion of companies, roughly, do you think have a process that takes trends into account sufficiently, and what proportion struggle with it?

Sven Smit: My experience with this is not statistical; it’s just work with lots of these teams. It’s that almost all companies have a conversation about trends. They basically go at somewhere in the strategy process and ask themselves what’s going on and what’s important. They might even score this trend as particularly bad or this trend as pretty good. What are we going to do about it? They might even have that conversation. But then, somewhere in the transition between that conversation and let’s call it the financial plan, they almost forget about the trends.

Some are better at it. But the tightness of the translation of the trends to how does that then actually land in the plan, and in a set of actions, is somewhat less. I think hardly any company misses the top three trends in their industry. But are they handling ten? Hmm. Maybe not.

Allen Webb: In your article, you described the nine big forces at work as crucibles. I’m curious to know why you used that term and why you think it’s helpful.

Ezra Greenberg: The idea of the crucible is a space where different forces are coming together to create change. And as you heard Sven describe the process that we went through to try to synthesize up these forces, underlying that is sets of tensions. We call them crucibles not trends because they’re a combination and synthesis of trends. And these trends are

sometimes pulling in opposite directions from each other, right? What we're convinced of is that these crucibles create the spaces for which, we believe, executives will make some of their most important decisions.

But we don't have certainty in terms of how the opposing forces are going to work themselves out. So it's important not to get overly predictive about, well, this is what's going to happen. What's better is to actually understand the forces at work and try to make the decisions with those things in mind.

Sven Smit: You could have the thought that as the world gets richer, there will be more demand for agricultural land because of richer people eating more meat, which then leads to more inputs, and that would be a trend that has a certain direction. Clearly, there's an increased demand for meat. And at current productivity, that will change the demand for land. The reality is, agricultural productivity at the moment is improving faster than the demand increased by the shift of wealth and the shift of meat. And the net result is, when you talk about the resource of land, there's far more balance than a single trend would actually suggest.

And I think one of the things that goes wrong in many trend analyses is that a single trend gets celebrated, but you can't invest in it. Let me take a very popular one. Lots of people will talk about aging. But you can't invest in aging. You can invest in a healthcare business that, on one side, benefits from aging, but then, on the other side, might not benefit from regulation. The net result might be that you don't invest, so it's this convolution of trends that adds up to the story. That's why it's a little more complex, and that's often called a crucible.

Allen Webb: You called one of the nine crucibles "the dark side." It encompasses things like terrorism, cybersecurity. Why do you think this dark side has become more important, and how do you think that, specifically, ought to factor into senior leaders' planning?

Sven Smit: The name is a bit cagey, maybe referring to science fiction or something like that. But the reality is cybersecurity was not at this level on the agenda ten years ago, and there was not a real equivalent of it. Burglary and so on was maybe on somebody's agenda and the physical safety of a plant. But cybersecurity is hitting known process industries. Cybersecurity is hitting many industries. And it's just very big. At the same time, we have terrorism at some scale happening. Total deaths are maybe not as high as in history, but one person with a truck can do a lot of damage.

And at the same time, you have geopolitical forces that have a darker side to them too, that we all experience every day. And they are profound enough to have serious business implications. Entire companies have lost their right of existence due to cybersecurity. And entire companies have been engulfed in the negative side of what might have happened with terrorism, and so we believe this is something that you have to put on the agenda, at the minimum from a risk-management perspective. But in cyber, you will have to be proactive to just mitigate the potential risk. And the size of the investment is now no longer tiny. It's becoming a real business, in and of itself, protecting from the dark side.

Ezra Greenberg: It's a product of how we went about doing it in this bottom-up fashion. I mean, this came out of the discussion, right? And it may not be on other folks' lists as they think about it in a top-down way. But when you put together people who work with business leaders and talk to business leaders and the other outside folks we had in the room, it was just a theme which was as Sven described; it's the environment in which we live. And so if it's going to be relevant to senior executives, you have to take the good with the bad.

Allen Webb: On a more optimistic note, you also talked about stretching toward a new societal deal. And I wondered if you could say a little more about that. What are the dimensions of the deal? Who should be striking this deal? And for business leaders, what's their role in trying to come to that deal?

Sven Smit: It's a rich packet of questions in there. But I think the notion is, there was a form of a societal deal which was about some form of growth that led to prosperity. It led to the health of the people. It led to happiness and all that stuff. And you could measure it in all kinds of different ways.

But, basically, there was progress for everyone. In the Western world, all classes rose; in the emerging markets, the middle class came up. And there was also wealth at the high end of the spectrum. And we, basically, have now had a decade where, in the Western world, the middle class didn't prosper. It actually went backward, to some degree, which fuels all kinds of discussions which are now called populism. Those discussions are fueled. And at the same time, in some of the emerging markets, transitions are being made for manufacturing economies and service economies, which are also a new formula against which a deal needs to be made, in which everybody can be included and participate in prosperity. At the moment, I think if you were to ask lots of people whether they feel they know where their future prosperity's going to come from, they will probably not be able to articulate it.

And they're frustrated. And that's what they also expressed with their votes. They therefore become anti-immigrant. They don't do that because there's something fundamentally wrong with immigration. But they feel it might go against their prosperity, and so we need a deal in which a new form of growth is being articulated. That makes the pie bigger, and, at the same time, it is an articulation of why that bigger pie would affect everybody in an inclusive sense. And that narrative doesn't fully exist. Why I'm optimistic about it is that we're actually having the conversation. And when humanity has a conversation, over time it sort of gets it right.

Ezra Greenberg: I've spent a lot of time looking at productivity. And when it comes down to it, productivity is going to be a very important lever to impact growth because, as we know, you could either grow the number of people or the number of output per person. And what we found over time is that, you know, who creates productivity? Well, it's businesses that create productivity, and we used to call it management functions and tasks, right?

It's all of the decisions that businesspeople make in terms of organization and new products and innovation, which actually are the key element that's going to drive that important part of the equation. Now, productivity is not the only side. There's lots of other pieces that are required

for this deal, including the demand side and thinking about how wages are paid across the income spectrum, et cetera. But the productivity piece is a really important one. And the only people that can deliver productivity are businesses.

Allen Webb: Earlier, you said that you thought that there was a set of forces that most companies have a handle on, the top three or so, which people generally know. And then, there's some that are missed. I wondered if you could talk a little more about that. Which are the things that you described that you think are misunderstood or overlooked most often? And which ones do you think people have a pretty good handle on?

Sven Smit: On the resource discussion, I think there's this general feeling that resources are short and/or limited. I just gave the example of agricultural productivity, which basically makes land less scarce than it looks. And it's quite a lot of productivity things going on, and technology changes going on, that are changing the equation of resources, just as the shale-gas revolution changed the equation on oil. And I could go on and on and on. Some of these equations have changed to a point that I'm not sure you can, with high validity, say that the resources are fundamentally short.

You could see it in the commodity pricing, too. And that was five years ago. We were in a very different place on that. And so I think people are not fully processing [the possibility] that this might be much longer with us. So that's one area. This notion that we called out as C2B, maybe we should call it customer-to-business or consumer-to-business as a frame, where supply chains and the entire dynamic of product design and service design go from the customer back rather than a production unit out. It changes, fundamentally, the way businesses work. Some companies are feeling it and acting on it. Clearly, the online world starts with the click of the customer, but in many other places, that's not yet fully processed.

Ezra Greenberg: The comment that I would add to that was what I said at the beginning, which is this question about globalization. I often get in conversations where people have essentially concluded that it's all about pulling back and local production, and global trade is going to disappear, and the world is going to go into reverse. And I think that once you sit down and you talk through what's actually happening, and the shifting nature of globalization, and the more micro areas that should concern people's businesses, I think that they start to see that maybe the way in which we interact globally is going to shift. But the world is probably not going to go into reverse, and so that's a tricky one because it's all in the headlines that we're all pulling back with trade agreements, et cetera. But we have to be careful not to jump to conclusions there.

I think another one of these issues—and I was at a forum over in California a couple of weeks ago—is the different types of business-model disruptions that are coming down the pike. And we're all familiar with the Airbnbs and the Ubers of the world. And we had a big debate within the team about whether that was a different business model than, let's say, the other horizontal platforms that we see, such as Amazon, et cetera. We made a distinction there, for a very important reason, in terms of the way in which they generate value and how they're able

to exploit excess capacity to better use resources. And the question of whether that business model can be applied to other industries is something that I don't think people are thinking through in a careful way, because it's hard to do.

Allen Webb: Coming back to the idea that we've got a narrative of progress here, I wonder if you could sketch out a hopeful view of what the world will look like in, say, five [or] ten years if we experience the sort of progress you can imagine. And also a less optimistic view, just to get people's creative juices flowing.

Sven Smit: I think, in a hopeful narrative, in ten years you would see a large part of the Western world growing prosperity, substantially, by growing the pie, as well as that amount coming to the middle class and the lower classes and the poor people. And they individually feel progress in their prosperity, in their health, in their happiness as a result. And that's understood with a narrative that feels positive to people. They understand the growth; it comes from things that make sense. It comes from businesses that have been enabled to be productive. It comes from eliminating stuff that's not helpful and stimulating stuff that is helpful.

[Growth] will feel environmentally consistent. It will feel sustainable in a way. And it doesn't go from dip to dip and from hype to hype. And it's sort of a robust feeling of prosperity, an increase, with bumps that might come on the road. And you would see the same thing in a vast slate of the emerging markets, all with their own models and their own narrative.

Ezra Greenberg: The negative one is actually, unfortunately, a relatively easy story to tell. And that is we have growth stuck, particularly in the developed world. As we try to explain in the piece, there's really just no shared narrative on how to get growth unstuck. If we don't actually come together and figure out that new recipe, then it is quite possible that we could be stuck in, what Larry Summers calls this kind of secular stagnation—not necessarily a great recession where the economy collapses by a big amount, but we just kind of go sideways.

If we go sideways, then our ability to actually go and fix the problems that we've ignored over the last 20 years—in terms of the benefits of globalization, for example, not being equally distributed, which is a problem which can be solved—[will be compromised]. Then it's quite possible that we would continue to see the same kind of disruptive nature within society, and dissatisfaction, and the inability of people to see, as Sven was saying earlier, where their prosperity is going to come from.

Allen Webb: So leaders listening to this podcast, I would like to be in Sven's world. And I wonder if you have suggestions for actions that leaders can take now that will load the dice in favor of that sort of an outcome.

Sven Smit: The first thing that I think is upon all of us is to be part of the dialogue. I do think that when, as I said earlier, humanity talks, humankind makes progress. And I think that means that you can't just be on the sidelines and say, "Those other guys, the politicians or the scientists, they just don't know. And we'll wait; when are they going to fix it?"

You need to be part of the dialogue in a substantive way, not just in a casual way. And by being in the dialogue, the thoughts of everyone will shape that new narrative, and it will emerge from it. That's a little bit of the optimism that I have. But it starts with our leaders being part of the dialogue. Then you can go more substantive, which involves saying, "We know some of the problems that need to be resolved and some of the opportunities that can be captured." And you could more substantively invest in seeking the solutions rather than just being part of the dialogue. And you see some leaders do that.

And weighing in in that more substantive way, I think, is probably part of the obligation, too. It's of course incumbent upon everybody to do that. But you can invest more seriously in that. And thirdly, there are places where you can personally lead—through your company, through your participation in society, through your connection to politics—where you're going to try to just shape, not just having the dialogue, having the informed answer, but you're actually going to try to help shape the direction in which the narrative is taken.

Allen Webb: If you had one piece of advice for a CEO about how to lead his or her organization in the world that you've described in your article, what would it be?

Sven Smit: Shape the conversation so people are aware.

Ezra Greenberg: I would agree. And the subpoint to that would be to be open to the broader forces that are going on around. And you can open the aperture and still have an impact on your business.

Allen Webb: That's a nice note to end on. Sven, Ezra, thank you for your time, and thank you for bringing us clarity and hope. I think we all look forward to seeing how this new narrative plays out. And I am inspired about the potential for progress.

Both: Thank you, Allen. □

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