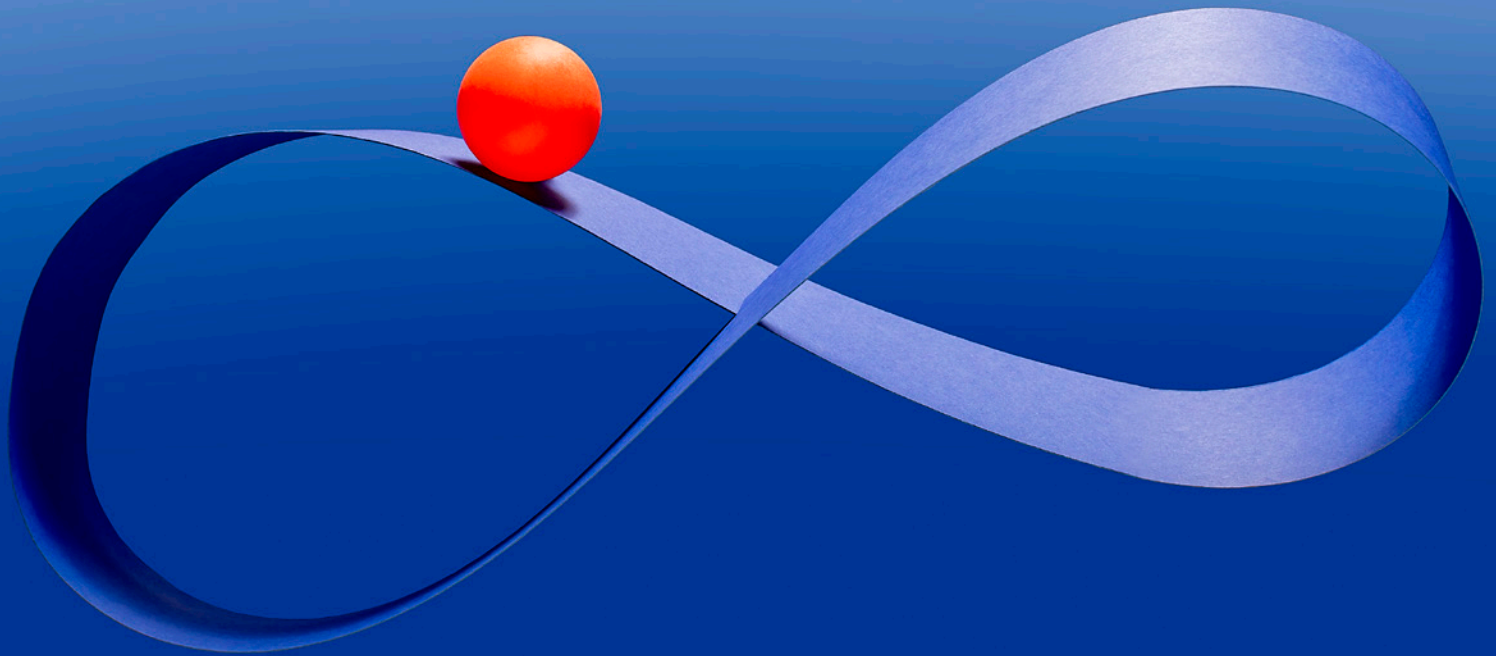


Industrials & Electronics Practice

# Resilience during uncertainty: What industrial leaders must know

McKinsey's Global Resilience Survey reveals how leaders in advanced industries view the current landscape and highlights the challenges ahead as they manage uncertainty.

*by Mihir Mysore, Andreas Raggl, Mikael Robertson, and Michael Thun*



**The recent** McKinsey Global Resilience Survey reveals some striking insights about the impact of disruptive trends on corporate sentiment within advanced industries. We surveyed more than 300 individuals in executive and senior-leadership roles across automotive and assembly, commercial aerospace, industrial and electronics, and semiconductors (see sidebar “Our methodology”). One significant finding: only 31 percent of leaders feel they are ready to meet the challenges ahead. Here’s a look at some of the most important findings, as well as a review of potential strategies for increasing resilience.

### **Continued uncertainty, with short-term pessimism giving way to slightly more optimism**

The survey showed that leaders have a pessimistic outlook about their companies’ near-term prospects because of a combination of factors: macroeconomic forces, supply chain disruptions, people and

workforce issues, capital and balance sheet considerations, geopolitical forces, energy prices, and low growth expectations (Exhibit 1a). Respondents did find some reason for encouragement in trends related to rising demand, the potential unearthed by breakthrough technologies, and shifting customer preferences (for more information, see sidebar “The trends affecting advanced industries”).

When asked about long-term prospects, respondents still place the trends in the same categories, but they are a bit more optimistic (Exhibit 1b). For instance, they are more likely to say that adverse trends will have a somewhat negative impact, rather than very negative.

### **Top leadership support, but variable levels of preparedness**

The survey also showed that developing resilience attracts attention at the highest levels, with approximately two-thirds of respondents stating that CEOs or other top executives are accountable for resilience programs.

Despite this interest, resilience efforts have yet to gain traction within advanced industries. Only about 31 percent of survey respondents feel fully prepared for future disruptions, with the remainder feeling partially prepared (44 percent) or even underprepared (25 percent).

### **Strong efforts hampered by a narrow focus and an overemphasis on defense**

To get a deeper understanding of resilience approaches within advanced industries, we asked survey respondents to evaluate their companies using the McKinsey Resilience Framework. It covers six business dimensions: finance; operations; organization; digital and IT functions; business model and innovation; and branding and environmental, social, and governance (ESG) issues.

## **Our methodology**

**We surveyed** more than 300 respondents across the commercial aerospace, automotive and assembly, industrial and electronics, and semiconductor sectors.

The sizes of the companies varied by subsector. About 200 were large organizations (more than \$5 billion in yearly revenue), and the remainder were midsize to small companies. The majority were public, with the rest either private equity–owned, family-owned, or venture capital–backed companies or companies in pre-IPO preparation.

Most respondents were located in Europe or North America. The roles of survey respondents included members of the C-suite, business unit and franchise leads, and functional heads.

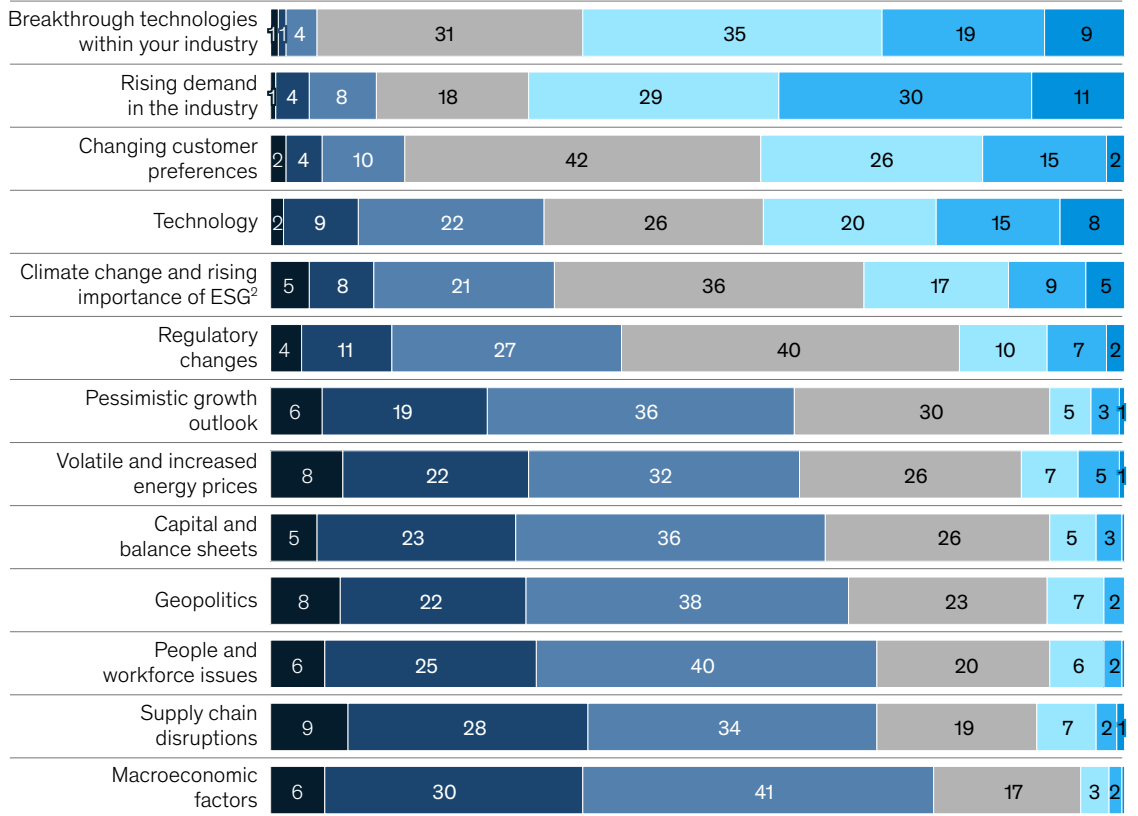
Exhibit 1a

## Survey respondents tend to believe that the negative impact of certain trends on their organizations will decrease over time.

Expected impact of trend on respondents' organizations,<sup>1</sup> % of respondents

Short term (within 2 years)

Very negative Negative Somewhat negative Neutral Somewhat positive Positive Very positive



Note: Figures may not sum to 100%, because of rounding.

<sup>1</sup>Question: Which of the current trends or uncertainties do you think will impact your organization the most in the short term (within the next 2 years)?

<sup>2</sup>Environmental, social, and governance.

Source: McKinsey Global Resilience Survey, July 2023, n = 331

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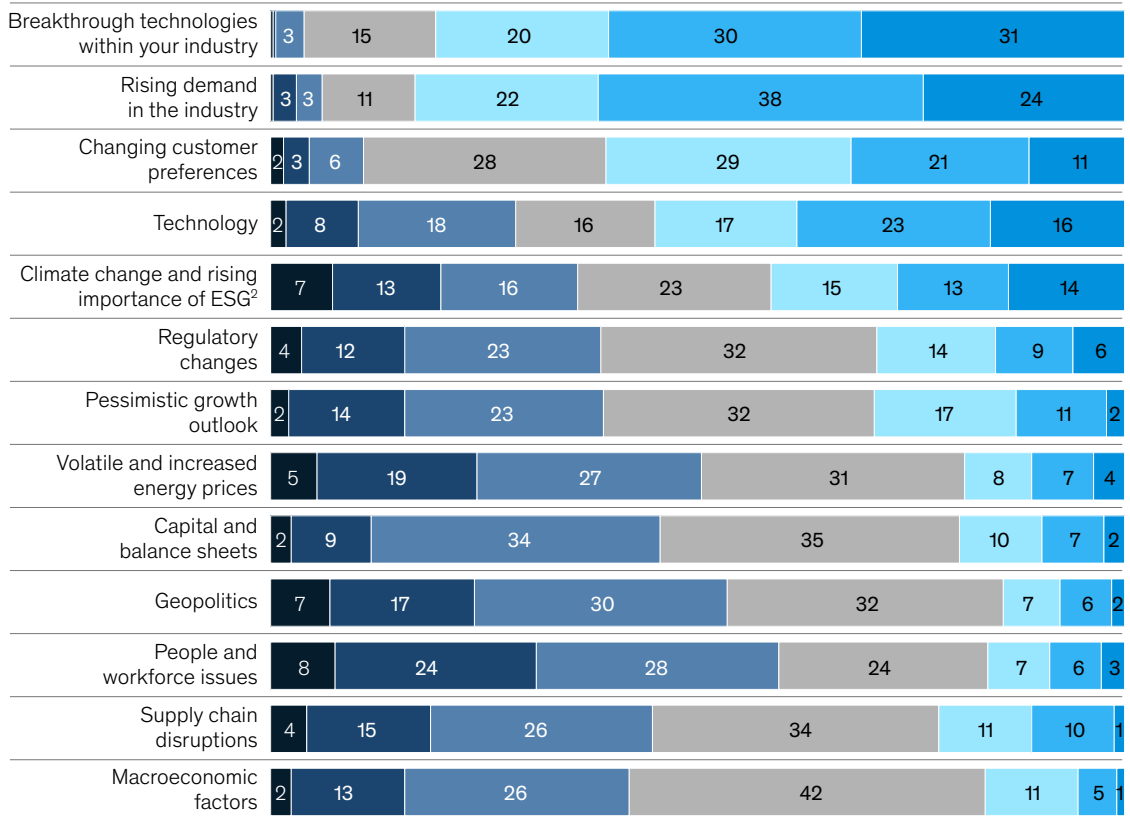
Exhibit 1b

## Survey respondents tend to believe that the negative impact of certain trends on their organizations will decrease over time.

Expected impact of trend on respondents' organizations,<sup>1</sup> % of respondents

Mid to long term (2–5 years)

■ Very negative ■ Negative ■ Somewhat negative ■ Neutral ■ Somewhat positive ■ Positive ■ Very positive



Note: Figures may not sum to 100%, because of rounding.

<sup>1</sup>Question: Which of the current trends or uncertainties do you think will impact your organization the most in the mid to long term (within the next 2–5 years)?

<sup>2</sup>Environmental, social, and governance.

Source: McKinsey Global Resilience Survey, July 2023, n = 331

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Two findings from the survey stood out. First, most respondents plan to prioritize financial and operational resilience over the next two years, with more than 80 percent stating that they want to improve in these areas (Exhibit 2). Over the longer term, no single dimension stands out as a clear priority. Business model and innovation tie with brand, reputation, and ESG for the top dimension, but the other dimensions are not far behind.

Second, when asked about their planned resilience actions over the short term, respondents focus on defensive actions, such as cost management and risk avoidance in almost all dimensions (Exhibit 3). Operations is the only dimension in which companies are more likely to play offense, such as by proactively adopting technology and analytics to solve supply

chain risks, but even this preference is slight. The focus on defensive strategies continues over the long term.

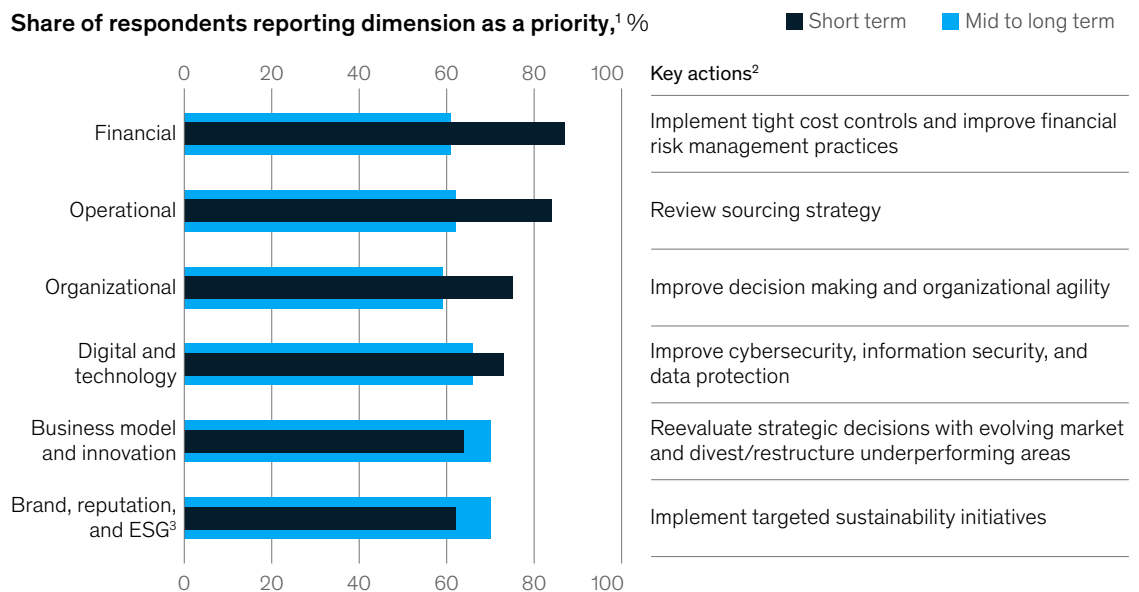
These two tendencies—an overly narrow focus on operations and finance, especially in the short term, and a posture that leans toward the defensive—may seem prudent, but they could limit growth and hurt a company’s long-term prospects.

### Lessons from resilience leaders—becoming faster, bolder, and more balanced

So what can companies in advanced industries do differently? Separate McKinsey research in both Europe and the United States has identified the

Exhibit 2

## Respondents view financial, operational, and organizational resilience as most important in the short term, but priorities will shift over the long term.



<sup>1</sup>Question: Which of the following resilience dimensions have you decided to take action on in the short term (within the next 2 years) and in the mid to long term (next 2 to 5 years)?

<sup>2</sup>Within next 2 years.

<sup>3</sup>Environmental, social, and governance.

Source: McKinsey Global Resilience Survey, July 2023, n = 331

Exhibit 3

## Respondents lean toward defensive measures in several dimensions.

### Most common resilience strategy by dimension<sup>1</sup>



<sup>1</sup>Based on total number of actions taken across all respondents within each dimension. Defensive = primarily defensive measures taken; offensive = primarily offensive measures taken; neutral = equal defensive and offensive measures taken.

<sup>2</sup>Environmental, social, and governance.

Source: McKinsey Global Resilience Survey, July 2023, n = 331

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characteristics of resilient companies.<sup>1</sup> While no business has perfected every element of resilience, some leading companies have emerged that consistently outperform the pack on total shareholder returns (TSR) and other performance metrics.<sup>2</sup> Here’s a look at some of their strategies.

#### Striving for resilience in all dimensions

A weakness within finance, operations, and organization could seriously hurt a company’s bottom line or even jeopardize its survival, so it’s unsurprising that most of our survey respondents prioritize these dimensions. But their companies might obtain greater benefits by following the example of resilience leaders and taking a broader, more balanced approach to improvement. Even when faced with immediate threats, such as supply chain disruptions that threaten to shut down production lines, resilience leaders devote serious attention to other dimensions, such as ESG or digital and IT, because problems in these areas could jeopardize their longer-term success. Consider talent. Companies may downplay this dimension if they have sufficient staff and

receive many job applications for every opening. On closer examination, however, they might find that demographic trends or other factors could leave them short of employees in a few years. Companies that take a balanced resilience approach are more likely to detect such issues early, allowing them to avoid or mitigate problems ahead of time or respond more quickly at the first sign of trouble.

#### Complementing defense with a robust offense

Research suggests that resilience leaders often go on the offense, especially during times of crisis. They are among the first to respond to trends and take decisive actions that radically depart from existing strategies, such as changing the business model, developing new products, or acquiring a complementary business at a time of low valuations. First movers assume some risk, but they also get a chance to shape their industry and gain a large market share lead. In highly globalized sectors, including most segments within advanced industries, such early moves can provide a particularly strong competitive advantage.

<sup>1</sup> “A defining moment: How Europe’s CEOs can build resilience to grow in today’s economic maelstrom,” *McKinsey Quarterly*, October 12, 2022;

“Something’s coming: How US companies can build resilience, survive a downturn, and thrive in the next cycle,” *McKinsey*, September 16, 2022.

<sup>2</sup> Martin Hirt, Kevin Laczkowski, and Mihir Mysore, “Bubbles pop, downturns stop,” *McKinsey Quarterly*, May 21, 2019.

Companies in advanced industries may find inspiration in other industries from businesses that have taken bold steps, such as significantly reallocating capital. For instance, an energy company recognized early that a shift from carbon-based products to renewables would inevitably occur. In response, it divested many legacy businesses while demand was still high and allocated more than half of its capital expenditures to green ventures. The company now focuses almost entirely on renewables and has a large market share.

### **Maintaining momentum**

What can companies do to support broad resilience plans that take a long view and contain a balanced mix of offense and defense? Our review of resilience leaders shows that the following actions may be particularly important:

- **Systematically assessing, measuring, and tracking progress.** Resilience leaders monitor results closely (for instance, by assigning KPIs across all dimensions). They also ensure that top leaders review and discuss resilience metrics during regular strategic reviews, rather than only looking at them if a crisis appears imminent or delegating the review to a risk group. Our survey supports the value of tracking resilience initiatives. Overall, 79 percent of respondents whose companies had a plan for measuring the impact of resilience programs state that they feel prepared for future challenges, compared with only 66 percent of respondents at companies that lack such plans. What's more, 57 percent of respondents at companies with strong resilience tracking state that their short-term strategies involve a mix of offensive and defensive measures, compared with only 43 percent of respondents at companies with less stringent tracking.

## **The trends affecting advanced industries**

The trends explored in the survey include the following:

- breakthrough technologies within survey respondents' industries, such as generative AI
- rising demand, such as that resulting from economic recovery
- changing customer preferences
- technology, including cybersecurity threats and automation
- climate change and the rising importance of environmental, social, and governance (ESG) concerns, such as policy shifts and new compliance requirements
- regulatory changes
- pessimistic growth outlook, including the impact of recession and low consumer confidence
- volatile and increased energy prices
- capital and balance sheets, including the impact of rising interest rates and financial stress
- geopolitics, including international tensions and instability in major manufacturing regions
- people and workforce issues, such as talent shortages
- supply chain disruptions, including those resulting from a lack of raw materials or deglobalized supply chains
- macroeconomic factors, including high interest rates or exchange rate fluctuations

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- ***Building capabilities in foresight and adaptation.*** Even the best companies may lag in these areas. To improve, they can analyze data and connect with their external network to monitor trends and build scenarios. One global OEM created a data-based model that sends alerts when it detects any changes in the key performance indicators of its suppliers. This reduces the chance of supplier loss and component shortages. Embedding such insights in both day-to-day operations and strategic reviews is key.
- ***Ensuring clear and transparent communication.*** The best companies are transparent about the strengths and weaknesses of their resilience programs, not just internally but also with external stakeholders. Recently, a life sciences player discussed and shared results of the company's resilience assessment and its ongoing plan for additional improvement (such as leveraging its good financial position vis-à-vis peers,

advancing digitization, and doubling down on M&A and strategic collaboration) in its investor communications.

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History shows that the most resilient businesses outperform their peers during crises and continue to widen the gap in good times. Companies within advanced industries, which are constantly navigating disruption, are attempting to become more resilient, but they may achieve ever greater gains by taking a broader approach in which they more evenly divide their attention among all business dimensions and give greater weight to long-term success. Likewise, they can balance their strong defensive measures with a greater focus on growth opportunities, even when times are tough and they face multiple pressing problems. Companies that make these strategic shifts are more likely to emerge as long-term leaders amid continued change and uncertainty.

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