McKinsey Global Institute

Executive summary

The power of one: How standout firms grow national productivity

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McKinsey Global Institute

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At a glance

— **When firms become more productive, so do economies.** Increasing the value each worker creates also promotes rising wages for workers and profits for firms. These facts are well known to economists. Our other findings are not.

— **A small number of firms contribute the lion's share of productivity growth.** Fewer than 100 productivity "Standouts" account for two-thirds of growth in our sample of 8,300 large firms in Germany, the United Kingdom, and the United States. Many others also play a role: the majority of firms contribute positively.

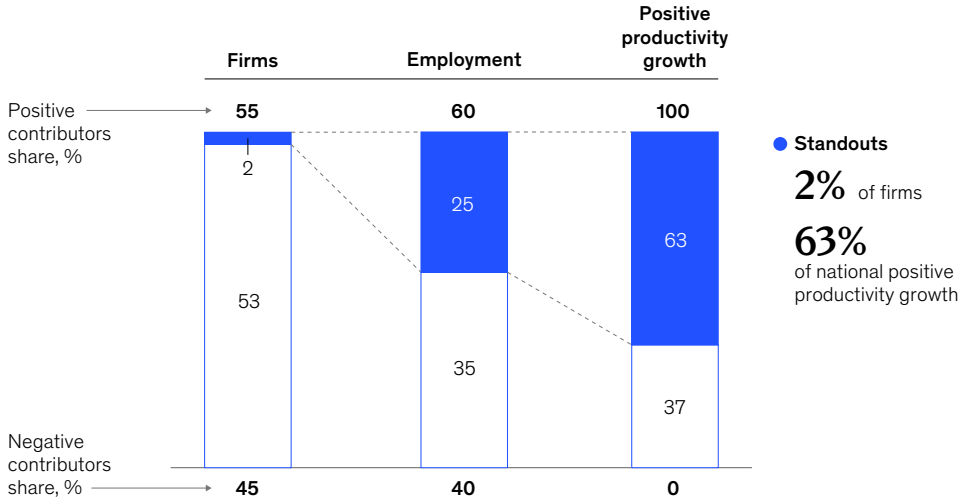
— **Productivity grows in powerful bursts as firms find new ways to create and scale new value.** Think Apple expanding into services, easyJet shaping the discount airline trend, and Zalando pioneering apparel e-commerce. This is not the efficiency transformation nor the gradual diffusion described by conventional wisdom.

— **In the United States, the most productive firms expanded and unproductive firms restructured or exited.** This contributed half of US sample productivity growth while sticky underperformers dragged down growth in Germany and the United Kingdom.

— **This fresh view of productivity growth calls for a new playbook.** It suggests focus on the power of the few more than the broad swath, on value creation more than efficiency, and on reallocation of resources to leading businesses.

A few "Standout" firms shape the majority of productivity growth.

Share of national sample's productivity growth, %



Note: Simple average figures of the 3 countries studied (US, Germany and the UK).
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; US Bureau of Labor Statistics; Capital IQ; McKinsey Global Institute analysis

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Executive summary

The world needs robust productivity growth more than ever to address pressing global issues: inflated balance sheets, financing the transition to net zero, bridging empowerment gaps, and funding a demographic transition with more retirees and fewer workers.[1] And a fundamental unit of productivity growth is firms. If firms do not increase their productivity, economies don't, either.

Firms themselves benefit from productivity growth, or growth in value added per worker. In view of long-term demographic shifts and the tight labor markets of today, labor productivity is a strategic imperative.[2] And productivity growth is the only way for businesses to serve all their stakeholders, delivering rising wages for their workers, increased customer surplus, and profit. Customers and employees are typically the biggest and most immediate beneficiaries of productivity growth. Productivity growth is a win-win for all.

This research finds that a relatively small number of firms making bold strategic moves generated the majority of productivity growth in the period we studied, in powerful bursts rather than in a smooth trickle of gradual change, and through strategic moves, top-line growth, and portfolio shifts more than efficiency gains. This was a more concentrated, dynamic, and sporadic pattern than existing literature tends to highlight, with progress on productivity being defined by a few firms moving a mile rather than many firms moving an inch. Single firms can move the productivity needle for entire economies—the "power of one."

This latest offering in decades of McKinsey Global Institute (MGI) research on productivity carves out new ground from typical treatments of the topic. Those have focused on broad economic factors, such as labor-market dynamics, technological advances, capital investments, and fiscal and monetary policy, rather than firm-level features. Or they have focused on productivity dispersion and diffusion patterns across millions of often-anonymous firms. This research zooms in on those firms that are most relevant for driving growth and enriches quantitative analysis with sector- and firm-specific case studies in line with MGI's tradition of analyzing the "micro-to-macro" roots of productivity. In the 1990s, for instance, MGI coined the term "the Walmart effect" to show the disproportionate impact of the US retailer's growth not only on its own sector but on the entire US economy.[3] This work also builds on MGI's long-standing tradition of understanding how companies and their contributions advance global economic and social progress.[4]

We apply the economic definition of labor productivity as real gross value added (GVA) per worker, which is very different from profitability or efficiency and includes the impact of employees moving across firms. Our methodology comes with strengths and weaknesses (see sidebar "A new firm-by-firm lens on productivity growth"). First, we look at 8,300 large firms covering two-thirds of GVA in four sectors—retail, automotive and aerospace, travel and logistics, and computers and electronics—in three countries: Germany, the United Kingdom, and the United States.[5] These are not complete samples of each country's economy and also include multinationals. Second, we look at 2011–19, a period that may miss more recent market trends but that helps us identify productivity patterns that may hold over time. We have, if you like, constructed a "lab economy" for this research in a bid to discern what drives productivity and economic growth. Our findings prove robust under a gamut of tests.

SIDEBAR

A new firm-by-firm lens on productivity growth

It is important to appreciate the decisions made regarding scope and approach for this report when viewing the results. They include the following:

Analyzing productivity as firm-level real GVA per worker rather than profitability or efficiency. In line with economic convention, this research divides GVA by the number of employees to compute productivity and adjusts for changes in input and output quality and prices at the sector level. GVA is revenue minus external cost, or labor compensation plus earnings before interest, taxes, depreciation, and amortization (EBITDA).[1] We apply so-called double-sided deflators to adjust for changes in output and input prices at the sector level to compute real value added.[2] This definition of productivity is different from the one commonly used by business executives as shorthand for efficiency or profitability. In fact, growing real value per employee more often comes from improving customer value than from efficiency, and it can also reflect changes in business portfolio, value chains, or capital intensity. Moreover, since total wages are often twice as large as profits, they weigh more heavily in this formulation, too.

Including employment reallocation to more productive firms. This research includes employment weighting of productivity advances from individual firms as well as employment reallocation effects as the most productive firms gain employment share while less productive ones shrink or exit.[3]

Looking at four sectors in three countries. We look at large firms in Germany, the United Kingdom, and the United States operating in four sectors—retail, automotive and aerospace, travel and logistics, and computers and electronics—and, within them, 12 subsectors.

Looking through a window of 8,300 large firms into the economy. We look at a sample of about 8,300 large firms (all with more than 50 employees, and most with more than 500) that cover the two-thirds of value added generated by large firms in our focus sectors. We do not include micro-, small, and medium-size enterprises (MSMEs) or startups, which account for less than 30 percent of the productivity growth in the four sectors in the three countries in our scope.[4] We include the international operations of these firms with the aim of providing an accurate analysis of this lab economy rather than twisting ourselves into knots reconciling data with national statistics. Nonetheless, productivity growth in our sample is reasonably in sync with those.

Looking at 2011–19 to find patterns that may hold over time. This is a reasonably stable period—albeit one with low productivity growth—between the global financial crisis and the COVID-19 pandemic. The patterns observed in this period may hold outside of it, although the cast of characters will change. However, given limited data availability and quality, we do not focus in any detailed way on understanding firms outside this period.[5]

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1 For firm-level value added, we use the Orbis database from 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors, making adjustments where necessary. For US firms whose disclosure requirements are lower, we estimate employee costs by taking sector-level average wages. We make manual adjustments using firm financial statements for the most relevant firms. Gross value added (GVA) is adjusted to constant 2019 values in local currency with EU KLEMS two-sided deflators that adjust for changes in input and output prices at the country and sector levels but not at the firm level.

2 GVA is adjusted to constant 2019 values in local currency with EU KLEMS two-sided deflators that adjust for changes in input and output prices at the country and sector levels but not at the firm level. Double-sided deflators account for both quality-adjusted price changes that firms in a particular subsector make vis-à-vis their customers and those they experience from their suppliers.

3 For more on productivity growth through reallocation, see, for instance, Rasmus Lentz and Dale T. Mortensen, "Productivity growth and worker reallocation," *International Economic Review*, volume 46, number 3, 2005. Also see J. David Brown and John S. Earle, *Understanding the contributions of reallocation to productivity growth: Lessons from a comparative firm-level analysis*, IZA Institute of Labor Economics discussion paper number 3683, September 2008; and Lucia Foster, Cheryl Grim, and John Haltiwanger, "Reallocation in the Great Recession: Cleansing or not?" *Journal of Labor Economics*, volume 34, number S1, part 2, January 2016.

4 National statistics authorities define MSMEs as firms with fewer than 500 employees in the United States and fewer than 250 employees in Germany and the United Kingdom.

5 In 2011, there were challenges to certain subsectors, but our tests show that inclusion of this time frame does not skew our core findings. However, the aggregate productivity growth rate during this period was lower than in other significant historical eras, suggesting further research on periods of rapid growth could yield additional insights on productivity drivers. Potential limitations introduced by this period include insufficient time for transformative technological change and for entering firms to achieve mature productivity levels; the significant growth of Big Tech firms in these years; a starting year that posed challenges to certain subsectors; and the fact that the period chosen began shortly after the global financial crisis. Firms that performed well on productivity during this period may have experienced different outcomes later, and vice versa.

A few firms shape the lion's share of an economy's productivity growth

The prevailing view is that productivity growth emerges gradually through the incremental improvements of many firms, trickling down as best practices diffuse from leaders to the rest.[6] In our lab economy, a very limited number of firms drove the lion's share of productivity growth in powerful bursts.

Approaching this topic from a distinct analytical angle led us to develop a specific terminology for certain firms in our sample. To help readers navigate what follows, we begin with a brief overview of these definitions (see sidebar "Glossary of firm descriptions").

Productivity advances one firm at a time

Fewer than 100 firms in our sample of 8,300—a group that we have dubbed Standouts—accounted for about two-thirds of the positive productivity gains in each of the three country samples we analyzed. Standouts are defined as firms that added at least one basis point to their national sample's productivity growth.

To give a sense of how important a single firm can be, just another dozen or so of the largest Standouts could have doubled productivity growth in their entire country.

The number of firms that were responsible for the largest drags (negative contributions of at least one basis point) on productivity growth—we call them Stragglers—was even smaller. Only 55 Stragglers accounted for 50 to 65 percent of the firm-level productivity drag in the three country samples (Exhibit 1).

In our lab economy, a very limited number of firms drove the lion's share of productivity growth in powerful bursts.

BOX 2

Glossary of firm descriptions

Standouts. Productivity Standouts are firms that added at least one basis point to their national sample's productivity growth in 2011–19. Standouts fall into four categories, depending on *how* they have impact:

- *Improvers.* Large firms—in the top 10 percent by the number of employeeas—that contributed mostly by increasing their productivity levels.
- *Disruptors.* Smaller firms, typically with less than 1 percent of the employment share in their sector, that contributed mainly by increasing productivity rapidly.
- *Scalers.* Firms contributing mostly by increasing employment share throughout the period from a position of above-average productivity, often in the top quintile of employment-weighted productivity levels.

Restructurers. Firms contributing by lowering their employee share throughout the period (or exiting) while having below-average productivity.

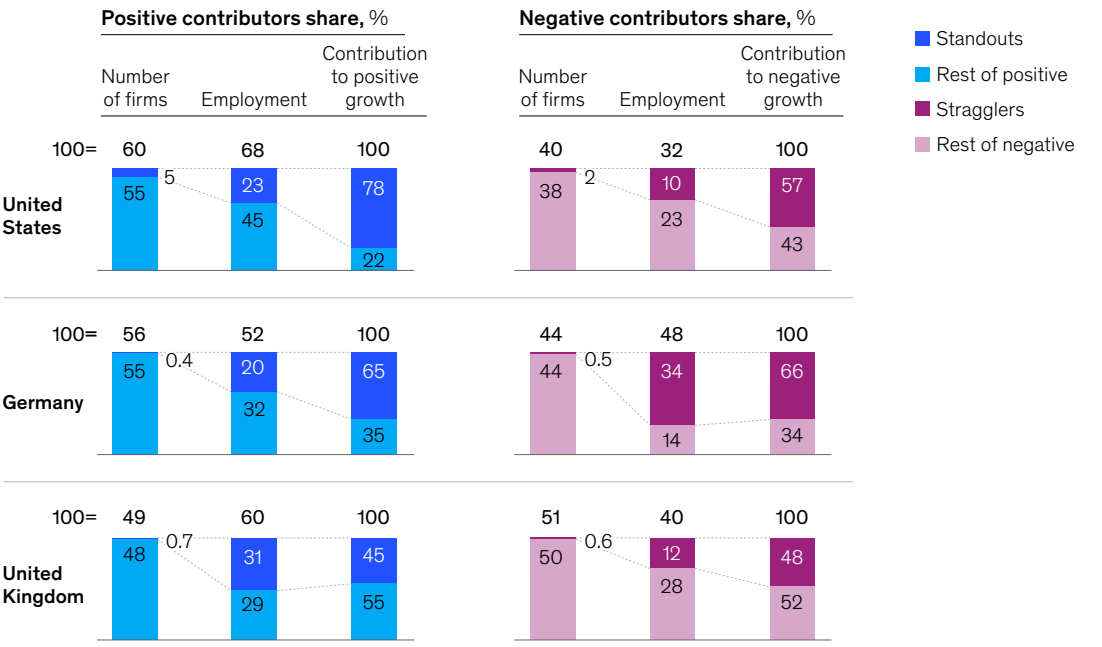
Stragglers. Productivity Stragglers are firms that made negative contributions of at least one basis point to the productivity growth of their respective national samples in 2011–19.

Frontier firms. The most productive companies in each sector, specifically those in the top 20 percent (top quintile) by productivity, weighted by employment, in both 2011 and 2019. Note that a Standout firm is not necessarily a frontier firm. In fact, two-thirds of Standouts in our sample were not in this top quintile.

Exhibit 1

A handful of firms—the Standouts and Stragglers—accounted for two-thirds of our sample's productivity growth and degrowth.

Firm count, employment share, and growth contribution, % of total



Note: Figures may not sum to 100%, because of rounding. From a sample of ~8,300 firms (~900 US firms, ~3,000 German firms, and ~4,400 UK firms).
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; US Bureau of Labor Statistics; Capital IQ; McKinsey Global Institute analysis

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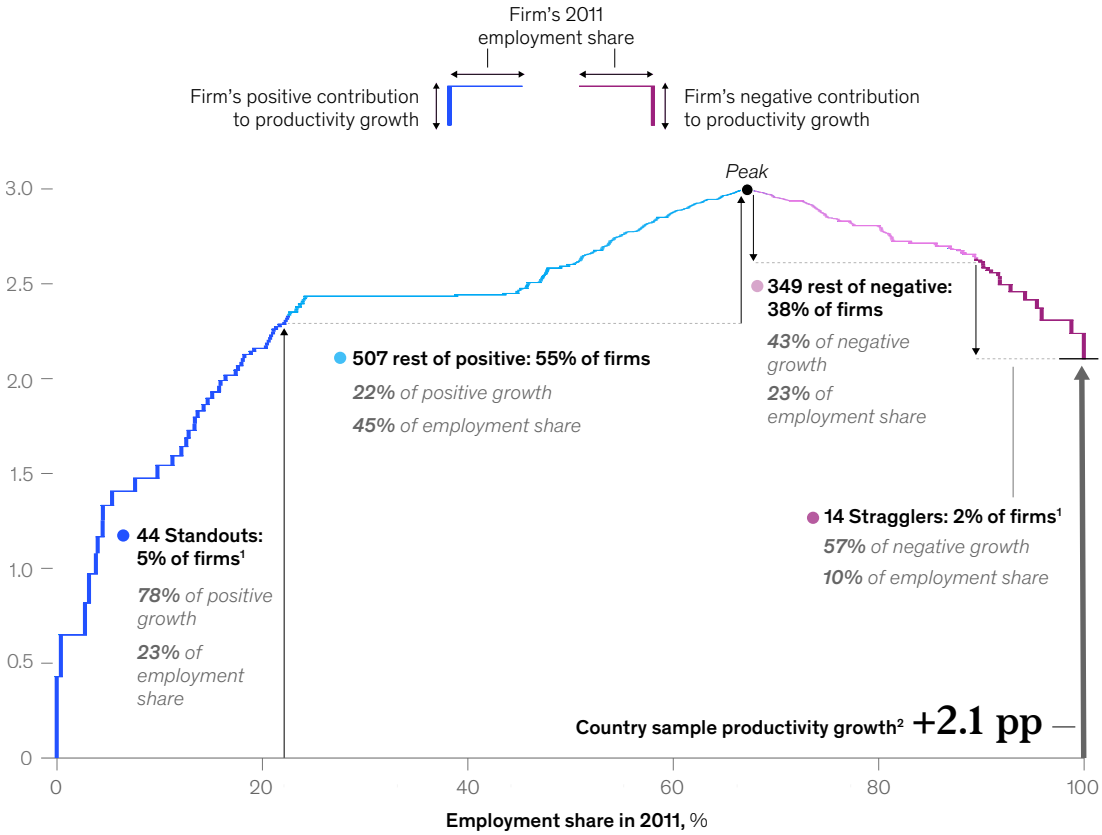
In the United States, for instance, 44 Standouts—5 percent of sample firms, accounting for 23 percent of employment share—generated 78 percent of positive productivity growth. And 14 Stragglers—2 percent of sample firms, accounting for 10 percent of employment—were responsible for 57 percent of negative growth (Exhibit 2). US Standouts included household names like Apple, Amazon, The Home Depot, and United Airlines.

Exhibit 2

In the United States, 44 firms (5 percent) accounted for nearly 80 percent of the sample's positive productivity growth.

Firm contribution to US sample productivity growth, 2011–19, pp



Note: US country sample of ~900 firms 2011–19 (productivity growth snapshot not representative of years before and after).
[1]Positive and negative contributors are firms that add +/- basis points to country sample productivity growth.
[2]Sum of firms' contributions to country sample productivity growth, in a sector.
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; US Bureau of Labor Statistics; Capital IQ; McKinsey Global Institute analysis

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Standouts shape sector dynamics, and vice versa

The same patterns appear when we look at subsectors. The ratio of Standouts (and their contribution) to Stragglers (and their drag) was the clearest factor in driving fast productivity growth. In almost all subsectors experiencing rapid productivity growth (defined as 2 percent per year or more), Standouts drove the bulk of that growth, and there was less drag from Stragglers (Exhibit 3).

The relationship between Standouts and sector growth is, of course, a symbiotic one. Standouts drive the growth of sectors, but some sectors also have the market dynamics, technology, regulation, and competitive setting that provide fertile ground for Standouts. There were more Standouts in sectors where firms could create new customer value and scale new business models than in sectors that were mostly about efficiency. For instance, the US computer and electronics sector came with many scalers and disruptors. Often when demand is faltering, other sectors are relative deserts, tending to produce more Stragglers or firms that restructure.[7]

Exhibit 3

High-growth sectors have more Standouts making bigger contributions—low-growth ones have more Stragglers dragging harder.

Subsector productivity growth and contribution by Standouts and Stragglers, 2011–19

Country	Subsector	Productivity growth, % (High / Low / Negative)	Contribution to subsector of: Standouts, pp	Standouts, Number of firms	Stragglers, pp	Stragglers, Number of firms	Standout–Straggler ratio
US	Computers	8	8.1	5	–0.1	1	5.0
US	Semiconductors	5	4.0	10	–0.3	1	10.0
US	Electronic equipment	5	3.8	14	0	0	n/a
Germany	Aerospace	4	4.4	2	–0.5	1	2.0
Germany	Computers	3	0	0	0	0	n/a
UK	Semiconductors	3	2.6	3	–0.9	2	1.5
US	Travel	2	1.8	4	0	0	n/a
UK	Computers	2	0	0	0	0	n/a
UK	Electronic equipment	2	1.7	4	0	0	n/a
US	Grocers and nonspec[1]	2	1.5	4	0	0	n/a
US	Other retail	1	1.6	2	–0.5	2	1.0
Germany	Grocers and nonspec	1	1.3	2	–0.2	1	2.0
Germany	Electronic equipment	1	1.1	2	–0.5	1	2.0
Germany	Semiconductors	1	1.5	2	–0.7	2	1.0
UK	Travel	1	1.5	9	–0.5	2	4.5
UK	Grocers and nonspec	1	0.8	7	0	1	7.0
Germany	Automotive	1	1.1	2	–0.5	4	0.5
Germany	Apparel	0	1.0	1	–0.6	1	1.0
US	Apparel	0	0	0	0	0	n/a
Germany	Logistics	0	0.6	1	–0.3	2	0.5
UK	Apparel	0	0.1	1	–0.5	3	0.3
US	Automotive	0	0.9	4	–0.7	4	1.0
UK	Other retail	0	0.4	2	–0.8	2	1.0
Germany	Postal	0	0	0	–0.6	1	0.0
US	Logistics	–1	0	0	–1.0	1	0.0
US	Other transportation mfg	–1	0	0	0	0	n/a
UK	Postal	–1	0.2	1	0	0	n/a
US	Aerospace	–1	0.6	1	–2.3	3	0.3
UK	Logistics	–2	–0.1	1	–1.1	5	0.2
US	Postal	–2	0	0	–1.1	2	0.0
Germany	Other transportation mfg	–2	0	0	0	0	n/a
UK	Aerospace	–2	0.5	1	–2.7	3	0.3
UK	Automotive	–2	0.2	1	–2.2	5	0.2
Germany	Other retail	–2	0	0	–1.7	1	0.0
Germany	Travel	–3		1	–2.3	2	0.5
UK	Other trans mfg	–5	0	0	–4.2	2	0.0

Note: UK logistics is an edge case of Standout that contributes positively to sector but negatively to subsector, which is possible since Standouts are identified by sector-based contribution calculations. In this case, the firm gains employment share relative to sector sample but loses share relative to subsector sample, which turns its employment effect negative. See technical appendix for more detail on cases like this.
[1]Grocers and nonspecialized retailers.
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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The thousands of firms that are neither Standouts nor Stragglers also matter collectively
About 10 percent of firms accounted for 90 percent of productivity growth in the period studied. Looking at all firms, about 50 percent increased productivity faster than the sector average. Indeed, 20 percent of all firms increased productivity 1.5 times faster than the sector average while also increasing their employment share.

The millions of MSMEs outside our sample collectively contributed up to 30 percent of productivity growth in the four sectors in the national statistics.[8] Indeed, a handful of them may emerge as the Standouts of tomorrow.[9]

Standouts are sufficiently large, and make meaningful enough advances in productivity or scale, to shape national growth
Standouts tend to have sufficient size and either rapid productivity gains or sizable increases in employment share from an above-average position, which makes them able to drive economy-wide growth. However, it is notable that, in general, Standouts are neither the most productive firms nor the firms that are growing productivity the fastest.[10] In both cases, firms tend to be smaller and more niche and do not contribute an oversize amount to sector-level growth. These firms are also hard to replicate. In retail, for instance, firms with the top productivity levels are online game distribution platforms and distributors of manufacturers' captive brands.[11]

Let us now look at the four types of Standouts, which we describe here ranked by size of contribution. *Improvers*—large firms that mainly contribute by advancing their productivity levels—made the largest contribution to productivity growth. *Disruptors*, or small firms that grew productivity and share very rapidly, actually made the smallest contribution. *Scalers*, which were already far above the sector's average productivity and grew their share of employment, and therefore drove productivity growth mostly via employment reallocation, made the second-largest contribution.[12] *Restructurers* are less productive firms that made a positive contribution by losing market share and employment to more productive firms or exited altogether.

Being large helps, but size alone is not sufficient to be a Standout. Large firms did not make an outsize contribution for their employment share. For example, in the United States, the top 10 percent of firms by size that made positive contributions had 54 percent of the employment share but accounted for only 68 percent of positive productivity growth. Meanwhile, US Standouts had a 23 percent share of employment but accounted for 78 percent of positive growth. In fact, large firms are as likely to be Stragglers as Standouts, which explains this pattern.

Including MSMEs would not have changed the disproportionate impact or identity of Standouts in our sample, partly because each individual MSME is too small. In the national statistics for the sectors in our scope, MSMEs collectively accounted for less than one-third of productivity growth. In short, in our sample, a handful of Standouts out of a million firms would account for more than half of productivity growth. This is a much more extreme concentration than commonly appreciated.

Some Standouts remain Standouts over long periods, but many change over time. With a limited sample, we find that about two-thirds of Standouts in 2011–19 remained Standouts in 2019–23.[13] The other one-third fell back, while new firms emerged as Standouts—including former Stragglers turning around.[14] So, at any point in time, a few firms disproportionately matter, but these firms evolve. The story of productivity is highly dynamic.

Standouts trigger productivity bursts with top-line growth and business shifts more than efficiency

Standouts share few common characteristics. They come from all sectors and all parts of the productivity curve, have vastly different starting points on common business metrics and past performance, and contribute to productivity growth in different ways. What they have in common is "doing things differently" more than "doing things more efficiently."[15]

We conducted detailed case studies of all the Standouts in our sample sectors (retail, automotive and aerospace, travel and logistics, and computers and electronics). What emerges from these case studies is that Standouts used a combination of five types of moves, often in combination. Four of these relate to scaling productive businesses or finding new ways to create value. Only one is primarily about efficiency and cost.[16] To help illustrate these strategies and how they are used, we offer the following examples:

1. *Scaling more productive business models or technologies.* Examples include Apple shaping the mobile internet wave, Amazon shaping e-commerce, Zalando successfully scaling e-commerce in apparel, and easyJet helping to set the low-cost carrier trend.
2. *Shifting regional and product portfolios toward the most productive businesses or adjacencies.* Examples include doubling down on product lines that have higher customer value relative to the hours needed, such as Nissan expanding electric vehicle (EV) offerings in automotive, and other players doing likewise for SUVs; Apple and Broadcom shifting their product portfolios to higher-margin services; General Motors exiting unprofitable geographies; and Amazon venturing into cloud computing through Amazon Web Services (AWS).
3. *Reshaping customer value propositions to grow revenue and value added.* This strategy can be effective in both high-end niche segments and mass markets, and it often comes in response to trends or competitive attack. Examples in mass markets include US retailer The Home Depot improving customer experience both in-store, with a wider assortment and denser network, and online, integrating buying online and picking up in-store; and UK supermarket chain Tesco responding to pressure from hard discounters in addition to cost reduction, portfolio adjustments, and price reductions by improving the premium assortment offering and fully leveraging its convenient locations. US airlines including Delta and American Airlines provided distinct value propositions and value-added services to loyalty customers. In niche segments, examples include Nvidia building a winning value proposition for graphics processing units (GPUs) and scaling it up; Zeiss providing cutting-edge tech in extreme ultraviolet (EUV) lithography; and Danaher in high-tech life sciences.
4. *Building scale and network effects.* Examples of firms offering more for less include Amazon scaling its fulfillment capabilities to make them available to more shoppers and partner retailers; logistics conglomerate Hapag-Lloyd driving growth through acquisitions and geographic expansion; and US airlines improving route networks and aircraft capacity utilization, including through mergers.
5. *Transforming operations to raise labor efficiency and reduce external cost at scale.* Examples include Tesco's multibillion-pound cost-reduction program (in addition to competing on price and quality with discounters) and easyJet's fleet modernization to reduce operating cost (alongside shaping a winning customer value proposition). While this is the lever most commonly associated with productivity growth—at least among businesses—it was very rarely the most important one in our case studies.

These moves often trigger chain reactions that lead to bursts of productivity over specific periods and sectors in a pattern of "action and response" more than through the diffusion of practices. For instance, the entrance of digital players and discounters in the UK retail sector not only directly boosted productivity in that economy but also prompted responses from other firms, one instance being Tesco enhancing its own offering with a stronger online channel and deeper customer relationships through loyalty and personalized offers.

Firms in different parts of the productivity curve made bold strategic moves, which help to explain their movements along that curve. Take the retail sector as an illustration (Exhibit 4). In US retail, firms such as Amazon, Costco, and The Home Depot were Standouts in the productivity frontier. In German retail, Standouts carried out bold strategic moves and transitioned to the frontier. Examples include Zalando, which scaled up its e-commerce business from negative productivity levels and traveled all the way to the frontier, and REWE, which launched and scaled digital offerings even while expanding its brick-and-mortar business. In UK retail, contributions also came from Standouts outside the frontier, one instance being Tesco.

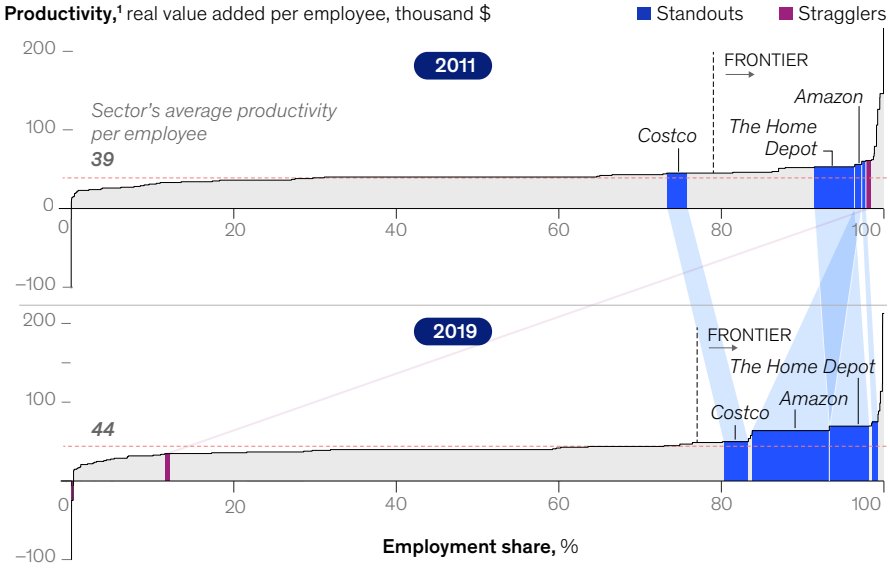
Bold strategic moves often trigger chain reactions that lead to bursts of productivity over specific periods and sectors in a pattern of "action and response" more than through the diffusion of practices.

Exhibit 4

United States

US retail was led by a vibrant frontier of e-commerce and traditional retailers.

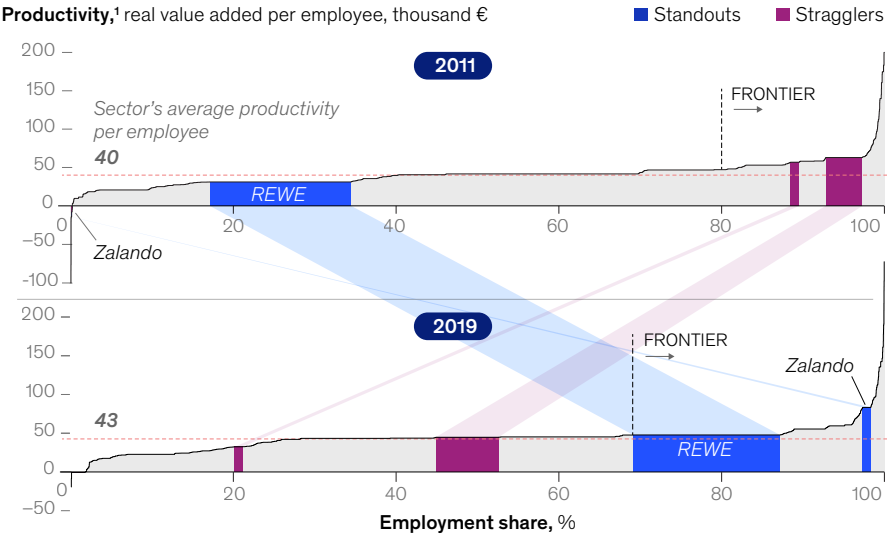
US sector sample of ~200 firms, 2011–19



Germany

German retail benefited from a notable increase in productivity levels among traditional grocers and e-commerce leaders.

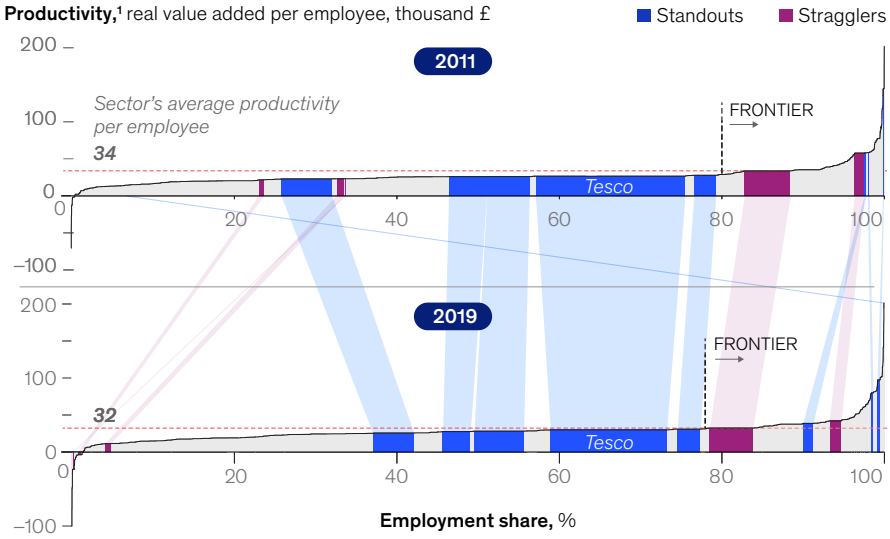
German sector sample of ~800 firms, 2011–19



United Kingdom

UK retail experienced traditional grocers and retailers contributing from outside the frontier.

UK sector sample of ~1,700 firms, 2011–19



Note: Productivity snapshot not representative of years before and after.
[1]Productivity measured as real value added, in local currency, per number of employees. For more detail on calculation methods, see chapter 1 and technical appendix.
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; Capital IQ; McKinsey Global Institute analysis

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Leading firms and the dynamic reallocation of employees toward them matter for growth

Beyond the presence of Standouts and absence of Stragglers, the following patterns characterized subsectors and countries that posted rapid productivity growth:

— *Frontier firms contributed disproportionately.* In the highest-growth subsectors, the primary pathway to productivity growth was firms contributing from the frontier, followed by firms transitioning to it.[17]

— *Leaders pulling ahead drove rapid subsector growth as often as laggards catching up.* A common view is that productivity growth is particularly strong when the broad swath of middling or lagging firms catches up or converges with innovative leaders as best practices and technologies cascade down. Such convergence appeared in four out of nine subsectors with fast growth. In the other five, rapid growth came from frontier firms pulling further ahead—divergence.[18]

— *Employment reallocation from lagging to leading firms mattered nearly as much as productivity advances within firms and more than new entries or exits.* In almost all subsectors, both productivity advances and employment reallocation played a role. In eight of 21 subsectors with positive productivity growth, reallocation of employees from less to more productive firms dominated. In the others, productivity increases by individual firms mattered more.[19] Firms leaving or entering the market—traditional creative destruction—mattered less. It is notable that, in virtually all positive-growth subsectors, exits added to growth, sometimes substantially, while in almost half of these subsectors, entries detracted from growth. New entrants proved too small or unproductive to leave a mark during the 2011–19 snapshot period.[20] Over a longer period, every Standout will have been a new entrant at some point, but the youngest firm in our eight-year sample was 11 years old, and the average was 58.

US sample firms led on productivity growth with more Standouts, fewer Stragglers, and more reallocation

US productivity growth from 2011 to 2019 was faster than that of the other countries in our sample at 2.1 percent, compared with 0.2 percent in Germany and close to zero in the United Kingdom. Two patterns help explain this difference, as follows:

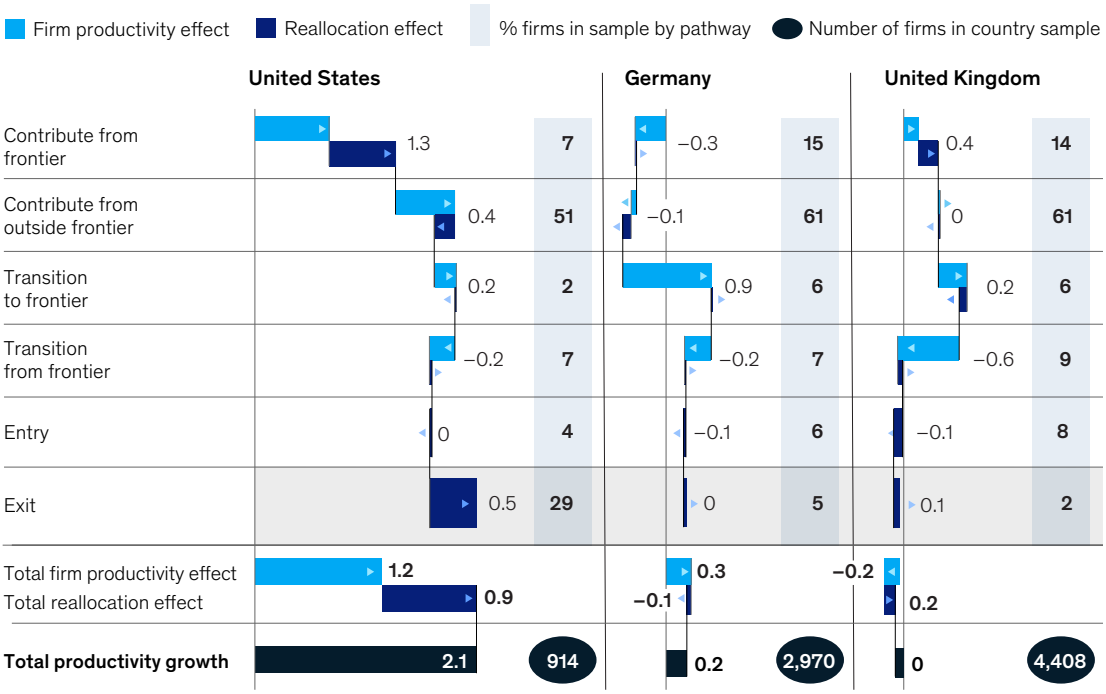
— *The US sample had three times more Standouts than Stragglers, while the German and UK samples had almost even numbers.* This was largely due to the strong US computer and electronics sector, which accounted for about half the Standouts in the United States and most of the difference in the total number compared with Germany and the United Kingdom. This could reflect the more vibrant US innovation ecosystem—the market is less fragmented, regulation is more innovation- and investment-friendly, and the risk-capital system is well developed. But even beyond this special sector, the same pattern is present.[21]

— *Firms in the US sample had more reallocation of employees from less productive to more productive firms.* Leaders grew faster, and underperforming firms more swiftly restructured or exited. In the United States, Standouts include scalers (firms far above average sector productivity that contribute by gaining employees) and restructurers (firms with below-average sector productivity that contribute by losing employees). In Germany and the United Kingdom, this was not the case. Rather, these countries preserved underperforming firms as Stragglers. Frontier firms scaling and gaining share added 0.6 percentage point to productivity growth in the United States, and unproductive firms exiting contributed an additional 0.5 percentage point. Overall, dynamic reallocation, including reallocation across subsector boundaries, added 0.9 of 2.1 percentage points—slightly less than half—to productivity growth in the US sample.[22] In contrast, the contribution of reallocation was negligible in Germany and the United Kingdom (Exhibit 5). This may be explained by the fact that the United States has highly dynamic factor markets, allowing for quick entry and exit as well as fast scale-up and restructuring.

Exhibit 5

Reallocation from exiting firms to the frontier played a big role in the US.

Contribution to national sample productivity growth, 2011–19, pp



Note: Figures may not sum to 100%, due to rounding.
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; US Bureau of Labor Statistics; Capital IQ; McKinsey Global Institute analysis

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A new productivity growth playbook emerges

Business leaders and policymakers should focus on productivity growth because it is a win-win for all, and achieving it requires a micro-to-macro, firm-level approach. This research both builds on and diverges from the large body of work on productivity in important ways.

Firms boosting productivity deliver a win-win for employees, customers, shareholders, and economies

Firms rightfully focus on revenue, economic profit, and shareholder value, but they should also care about productivity growth for the following three reasons:

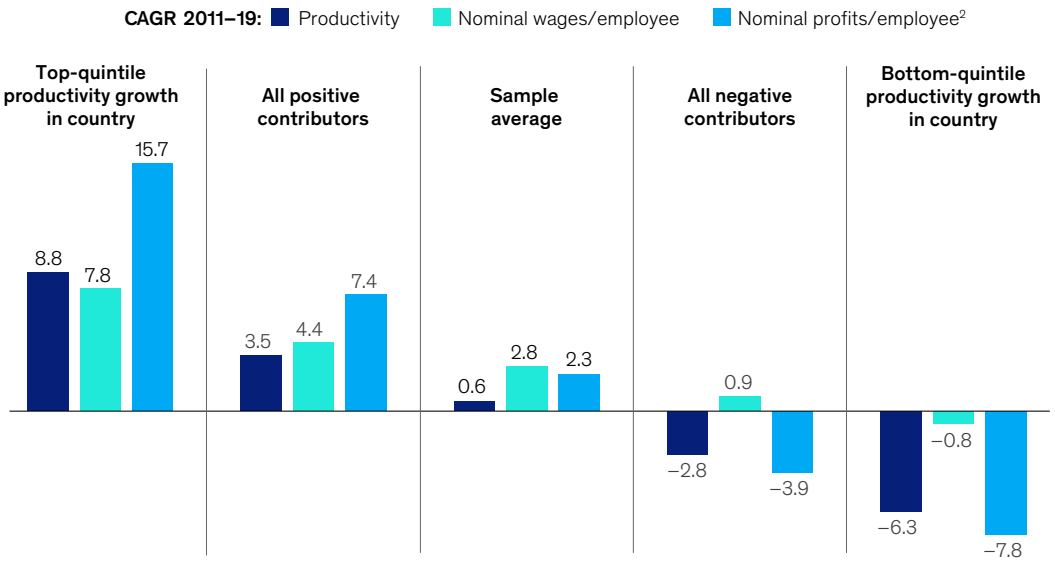
— For long-term success, firms need to serve customers, pay workers, and reward shareholders well, and productivity growth is one of the only ways to achieve that in combination. Indeed, this research shows that firms with the highest productivity growth can not only afford—and award—the fastest wage growth *and* have the largest profits upside (Exhibit 6).[23] Sectors with the fastest productivity growth also generate the highest consumer surplus.

— Economic growth is a key ingredient in business expansion and success, This research shows that just a handful of Standouts can *create* that growth rather than just react to it.

Exhibit 6

Firms with the highest productivity growth also had the strongest wage and profit growth.

Productivity, nominal wages, and profits per employee, 2011–19, by type of firm in Germany and the UK only,[1] %, n = 5,500



[1]US firms not included in this analysis since personnel costs data for US companies is estimated based on sector-level average wages (manually adjusted for most relevant firms) due to lower disclosure requirements. Also excludes extreme cases—exits, entries, firms with higher than 100% CAGR, firms with lower than −100% CAGR, and negative starting points.
[2]Profit is measured as EBITDA per employee growth.
Source: 2025 Moody's Investors Service, Inc. and/or its affiliates and licensors; EU KLEMS; US Bureau of Labor Statistics; Capital IQ; McKinsey Global Institute analysis

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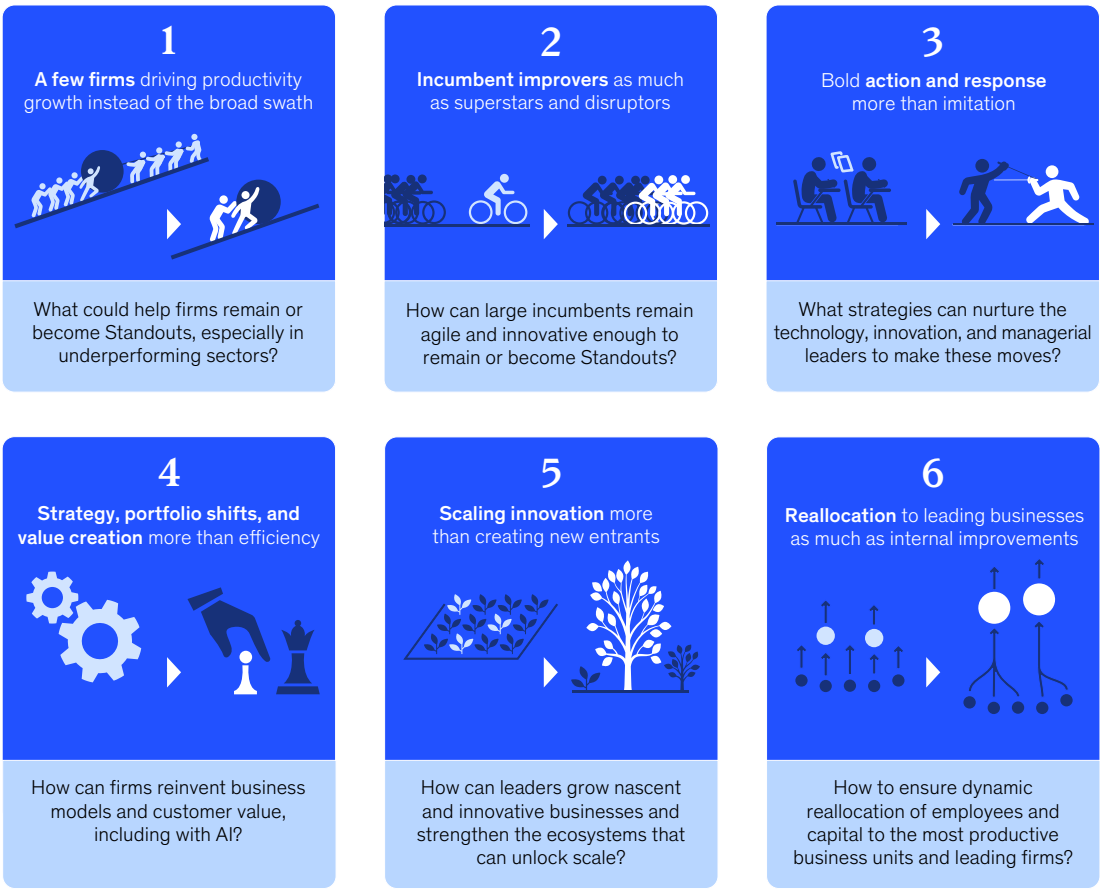
— Given long-term demographic shifts and today's tight labor markets, growing labor productivity is a strategic imperative. Doing so can create more value from a scarce workforce and enable the higher wages needed to attract the best talent, thus underpinning growth and gains in market share.[24]

Our findings prompt new ways of thinking on how to unlock productivity growth

Six shifts in the conventional wisdom on productivity growth emerge from our findings (Exhibit 7). Some of them challenge prevailing views—for example, the shift from seeing productivity generated through improvements within the broad swath of companies through the diffusion of practices to seeing productivity arising from the bursts of just a few firms. Others add renewed emphasis or nuance, such as the importance of dynamic reallocation mostly toward well-established leading firms as well as entries and exits.

Exhibit 7

Six shifts in thinking on productivity growth emerge.



Source: McKinsey Global Institute analysis

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Each of the shifts in thinking raises the following critical questions for business and policy leaders:

1. *A few firms driving productivity growth instead of the broad swath.* Policies designed to boost productivity growth have tended to focus on a mix of foundational enablers, rooted in the view that a wide range of firms gradually enhance productivity. They also tend to include specific policies supporting smaller firms in the adoption of better practices. But the significant role of Standouts may call for an asymmetric approach that matches the asymmetric contributions of firms.[25] In what sectors are there too few Standouts or too many Stragglers, and what can be done? What tailored approaches could help firms remain or become Standouts, and which barriers could be removed?
2. *Incumbent improvers as much as superstars and disruptors.* Our analysis suggests that there is a diversity of ways to become a Standout, and all are needed for national (or sector) productivity growth. The majority of Standouts are large incumbents achieving productivity gains over time (improvers) like Tesco and United Airlines. Only about 20 percent are scalers that lead from the front (these scalers could be most similar to superstars, which are often defined as firms with the greatest share of economic profit) like Amazon and Apple.[26] An

additional 10 percent of Standouts are smaller disruptors (which are still far larger than any MSME) like Zalando. How can large incumbents remain agile and innovative enough to remain or become Standouts?

3. *Bold action and response more than imitation.* Some imitation and diffusion of best practices from leaders to laggards occur, but the real engine of productivity growth is bold, idiosyncratic strategic moves to which competitors then respond. To better shape or respond to newly emerging technologies and business models, what can firms do, and what is the role of policy? What talent strategies and educational policies can nurture technology and innovation capabilities as well as managerial leaders who can make bold strategic moves?
4. *Strategy, portfolio shifts and value creation more than efficiency.* Operational efficiency matters, but firm-level productivity growth largely comes from strategic moves that unlock more productive business models and portfolios, customer value, or innovation at scale. How can firms reinvent business models and customer value as they seek productivity advances from new technology, including artificial intelligence? Where and how can M&A play a role?
5. *Scaling innovation more than creating new entrants.* Innovation by young companies that then grow fills the funnel of future Standouts, but it is Standouts scaling innovations that power productivity growth in the medium term. Businesses need to have the right strategy and deploy at scale. What is the right policy balance between preventing excessive market concentration and encouraging leading firms that can move the needle for their home economies? Could there be more proactive approaches to support innovative MSMEs or startups that could scale and contribute to growth while triggering consolidation of others? How can businesses strengthen the capabilities and ecosystems needed to deploy innovation at scale?
6. *Dynamic reallocation toward leading firms and business units as much as internal improvements.* Firms increasing their productivity level matters for growth, but an equally important channel is the exit of unproductive firms and moves of employees (and capital as well as customers) from less productive to more productive enterprises. Within firms, too, shifting resources to higher-value activities is key. Can business leaders rethink their governance to allow decisive resource reallocation? What policies can support dynamic shifts in jobs to the most productive firms and help less productive ones turn around or restructure?

By looking through a firm-level lens with detailed case studies on the perennial issue of productivity, new insights and fresh ways of thinking about productivity growth have emerged. We hope that this research helps to advance understanding of productivity growth and suggests ways forward—and, certainly, areas for further debate and research.

Acknowledgments

This is the latest research in MGI's effort to understand the vital topic of productivity. It focuses on the firms that are most relevant for driving productivity growth, building on MGI's long-standing efforts to understand how companies advance global economic and social progress. Quantitative analysis is enriched with sector- and firm-specific case studies in the spirit of MGI's "micro-to-macro" approach.

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Endnotes

EXECUTIVE SUMMARY

1 For challenges related to the global balance sheet, see *The rise and rise of the global balance sheet: How productively are we using our wealth?* McKinsey Global Institute, November 2021; *Global balance sheet 2022: Enter volatility*, McKinsey Global Institute, December 2022; and *The future of wealth and growth hangs in the balance*, McKinsey Global Institute, May 2023. For financing for net zero, see *The net-zero transition: What it would cost, what it could bring*, McKinsey Global Institute, January 2022. For empowerment gaps, see *A better life everyone can afford: Lifting a quarter billion people to economic empowerment*, McKinsey Global Institute, May 2024; and *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, September 2023. For the demographic transition, see *Dependency and depopulation? Confronting the consequences of a new demographic reality*, McKinsey Global Institute, January 2025.

2 *Dependency and depopulation? Confronting the consequences of a new demographic reality*, McKinsey Global Institute, January 2025.

3 MGI has written extensively about productivity. For more on the Walmart effect, see, for instance, William W. Lewis, Vincent Palmade, Baudouin Regout, and Allen P. Webb, "What's right with the US economy," *McKinsey Quarterly*, February 1, 2002. For recent analyses, see the MGI reports *Rekindling US productivity for a new era*, February 2023; *Accelerating Europe: Competitiveness for a new era*, January 2024; *Investing in productivity growth*, March 2024; and *A microscope on small businesses: Spotting opportunities to boost productivity*, May 2024.

4 See, for instance, the MGI reports *Outperformers: High-growth emerging economies and the companies that propel them*, September 2018; '*Superstars': The dynamics of firms, sectors, and cities leading the global economy*, October 2018; *Latin America's missing middle of midsize firms and middle-class spending power*, May 2019; and *A new look at how corporations impact the economy and households*, May 2021.

5 From a sample of about 8,300 firms, 900 are in the US sample, about 3,000 in the German sample, and some 4,400 in the UK sample.

6 Dan Andrews, Chiara Criscuolo, and Dirk Pilat, "The future of productivity: Improving the diffusion of technology and knowledge," Digiworld Economic Journal, number 100, fourth quarter, 2015.

7 For more on external, sector-level factors that can drive within-firm productivity differences, see Chad Syverson, "What determines productivity?" Journal of Economic Literature, volume 49, number 2, June 2011. For detail on how contexts with limited technology diffusion can undermine aggregate productivity growth, see Bernado Mottironi, Labour market power and aggregate productivity, POID Research Seminars, November 2014.

8 MSMEs account for 30 percent of US and UK productivity growth (positive in the United States, negative in the United Kingdom, and near zero in Germany for the four sectors analyzed). Sectors with notable shares of MSME contribution are US retail and UK computers, as well as German and UK travel and logistics, where MSME GVA shares are significantly higher. Contributions were calculated using OECD firm splits by business size for Germany and the United Kingdom, and census data for the United States, applied to OECD productivity growth rates.

9 For more on the importance of young firms and innovation to labor productivity, see, for instance, Ryan A. Decker et al., "Changing business dynamism and productivity: Shocks versus responsiveness," *American Economic Review*, volume 110, number 12, December 2020; John Haltiwanger et al., "High growth young firms: Contribution to job, output, and productivity growth," in John Haltiwanger et al., eds., *Measuring entrepreneurial businesses*, Studies in Income and Wealth, volume 75, National Bureau of Economic Research, September 2017; and Daron Acemoglu et al., "Innovation, reallocation, and growth," *American Economic Review*, volume 108, number 11, November 2018.

10 This finding is in line with existing literature, which holds that firms from different percentiles of the productivity distribution can contribute meaningfully to productivity growth. See, for instance, *Trends in UK business dynamism and productivity: 2024*, Office for National Statistics, December 3, 2024; and Bart van Ark and Mary O'Mahony, *The UK's productivity challenge: People, firms, and places*, The Productivity Institute and Economic and Social Research Council, November 2023.

11 We compared Standouts with the top 5 percent of firms by productivity level and growth, which are often identified in the productivity dispersion and diffusion literature, and found virtually no overlap.

12 To get to firms in the frontier, we first rank all firms by productivity per employee, then select, from most to least productive, the ones that collectively employ 20 percent of employees in our sample. For instance, consider an economy made up of only five firms and 100 workers. Firms are ranked from most to least productive. Firm 1 is the most productive, Firm 2 is second, and so on until Firm 5, the least productive. Once ranked by productivity, firms' employment share according to their productivity rank is 2, 8, 10, 20 and 60 percent. In this case, firms 1 to 3 are the most productive and account for up to 20 percent of the economy's employment share. Therefore, firms 1 to 3 are inside the frontier, Firm 3 defines the frontier's productivity threshold, and all firms less productive than Firm 3 are outside it.

13 Our 2019–23 analysis compiles data from a variety of sources, including McKinsey Value Intelligence, S&P Global Market Intelligence, national statistics databases, IHS Markit, OECD, and the International Labour Organization. The subset of 114 firms was selected based on data availability for the 2019–23 period and consistency of data quality when compared with the 2011–19 database. A manual review of firms was conducted where firms showing variation from the 2019–23 data set to the 2011–19 database were validated and updated where required using published financial statement data. Country- and sector-level productivity growth from 2019 to 2023 was calculated using publicly available data from national statistics for deflators, wage data, and real GVA. We acknowledge that our sample does not analyze the full population of top Standouts and Stragglers. However, we note that by analyzing the subset of firms for which data is consistent across both periods and using the same source of data for 2019 and 2023, we are confident that our findings are sufficiently robust to compare productivity performance over both periods.

14 Note that our 2019–23 analysis was performed on only 114 2011–19 firms for which data was readily available, and not the whole population of firms.

15 Inflation follows a similar pattern of idiosyncratic bursts rather than being driven by macroeconomic shocks. See, for instance, Santiago Alvarez-Blaser et al., *The granular origins of inflation*, BIS working paper number 1240, January 2025.

16 Marcela Eslava and John C. Haltiwanger, *The size and life-cycle growth of plants: The role of productivity, demand and wedges*, National Bureau of Economic Research working paper number 27184, May 2020.

17 A frontier firm is defined as being in the employment-weighted top quintile of the firm's sector. To get to firms in the frontier, we first rank all firms by productivity per employee, then select, from most to least productive, the ones that collectively employ 20 percent of employees in our sample. For instance, consider an economy made up of only five firms and 100 workers. Firms are ranked from most to least productive. Firm 1 is the most productive, Firm 2 is second, and so on until Firm 5, the least productive. Once ranked by productivity, firms' employment share according to their productivity ranks is 2, 8, 10, 20, and 60 percent. In this case, firms 1 to 3 are the most productive and make up to 20 percent of the economy's employment share. Therefore, firms 1 to 3 are inside the frontier, Firm 3 defines the frontier's productivity threshold, and all firms less productive than Firm 3 are outside it.

18 We assessed convergence by looking at how the productivity of nonfrontier firms grew relative to the productivity of frontier firms in 2011–19. Our approach is in line with methodology used by Min Zhu, Longmei Zhang, and Daoju Peng, *China's*

growth potential—A stocktaking and sectoral approach, International Monetary Fund, November 2019. Others calculate country convergence by comparing the gap between countries that at time t were in the frontier and not in the frontier. See Daron Acemoglu, Philippe Aghion, and Fabrizio Zilibottu, "Distance to frontier, selection and economic growth," *Journal of the European Economic Association*, volume 4, number 1, March 2006; and Michael Kremer, Jack Wills and Yang You, *Converging to convergence*, National Bureau of Economic Research working paper number 29484, November 2021. Firms in our sample move in and out of the frontier in 2011 versus 2019, whereas in the latter methodology, country status is fixed across the periods of comparison. If we were to fix firm frontier status as per 2011 and compare the productivity of those firms with firms that were nonfrontier in 2011, we would see a lot more convergence across the subsectors. This is because many firms that were in the frontier in 2011 reduced productivity and were replaced by other firms pulling in from outside the frontier. However, that fails to illustrate the change in the gap of productivity of leaders versus laggards. For that, comparison of frontier versus nonfrontier productivity is required, as we have done.

[19] Note that this split is sensitive to where we draw the line. The reallocation effect becomes bigger when we aggregate subsectors into sectors, because it then captures more of the impact of sector mix. The importance of the reallocation effect is in line with previous research. According to Chad Syverson in "What determines productivity?" *Journal of Economic Literature*, volume 49, number 2, June 2011, aggregate productivity growth in US retail happens mostly through the exit of less efficient single-store firms and reallocation to more efficient chain store affiliates. For detail, see Lucia Foster, John Haltiwanger, and C. J. Krizan, "Market selection, reallocation, and restructuring in the U.S. retail trade sector in the 1990s," *The Review of Economics and Statistics*, volume 88, issue 4, 2006.

[20] In our sample, Standouts were, on average, 58 years old (since incorporation) and the youngest firm (not the result of a merger or spin-off) was 11 years old in 2019.

[21] Excluding the computer and electronics sector, the United States had 1.3 times more Standouts than Stragglers, while both Germany and the United Kingdom had more Stragglers than Standouts.

[22] This analysis differs from examining individual subsectors as we did above, because it also captures the impact of movement across them. We look at our lab economy only and do not know the impact of employees leaving or entering firms outside the sample.

[23] There are good business reasons for productivity and profitability growth to move in different directions in the short term. One is that companies may opt to engage in lower-productivity activities because they enhance profits or strengthen strategic positioning, even if the impact on the productivity of the firm is negative. For instance, a shipping company that acquires a trucking business might boost its market position and resilience but would reduce its average productivity level. Consider, too, that firms that invest heavily in growth initiatives can experience a temporary drag on productivity. Scaling those operations can lower productivity in the short term but sets the company up for higher productivity over the longer run. Outsourcing may also affect productivity levels differently, depending on the productivity of the functions outsourced.

[24] *Help wanted: Charting the challenge of tight labor markets in advanced economies*, McKinsey Global Institute, June 2024; and *Dependency and depopulation: Confronting the consequences of the new demographic reality*, McKinsey Global Institute, January 2025.

[25] We acknowledge the potential risks associated with firms that accumulate potential unfair market and monopsony power and the longer-term concerns around market dominance stifling competition and innovation. Approaches to boosting Standouts need to be balanced against this.

[26] For common descriptions and analyses of superstar firms, see *'Superstars': The dynamics of firms, sectors, and cities leading the global economy*, McKinsey Global Institute, October 2018, which defines superstar firms as the ones with the greatest share of economic profit; and David Autor et al., "The fall of the labor share and the rise of superstar firms," *The Quarterly Journal of Economics*, volume 135, issue 2, May 2020. Some definitions of superstar firms are that they (1) have the largest revenue market share or profit pool share; (2) achieve the greatest gains in market share or marginal improvements in productivity; or (3) leverage their size to propel productivity growth, driving down marginal costs of expansion and gaining even more market share in the process.

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