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CEO Challenge® 2015

Creating Opportunity Out of Adversity: Building Innovative, People-Driven Organizations



STRATEGIC OVERVIEW

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Searching for the Levers of Growth in a Slowing Global Economy

Despite a weak global economy, CEOs are staying focused on seeking high-quality, sustainable business growth—and the strategies they selected to meet their top challenges reveal a longer-term focus on capacity building and the development of strong cultures of innovation, engagement, and accountability within their organizations. While CEOs remain optimistic about profit expectations, they know they must cope with fundamental changes in the behavior of their customers, the emergence of new competitors globally, and a slowdown in emerging market economic growth to get there. And, finally, they realize that growth cannot be achieved without effective leadership and quality talent.

Since 1999, *The Conference Board CEO Challenge*® survey has asked CEOs, presidents, and chairmen across the globe to identify their most critical challenges. In the 2015 edition of the survey, CEOs rank **Human Capital, Innovation, Customer Relationships, Operational Excellence, and Sustainability** as their top five long-term challenges to drive business growth. With the exception of **Sustainability**, the other four challenges make CEOs' top five list in every region of the globe. While CEOs see the criticality of **Human Capital** to long-term success, they are also focused on an enterprise-wide integrated approach in their growth strategies that equally values engagement, innovation, and customer-centricity, along with excellence in execution.

EXPLORE THE PORTFOLIO

This **Strategic Overview** is one offering from a suite of research products on *The Conference Board CEO Challenge*® 2015. Additional publications on this topic include:

Principal Member Report providing key insights and deeper analysis, research, and data

Functional Summaries and **Regional Reports** providing business implications targeted to specific regions, executives and operations

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Regional Differences: Contrasting Priorities

Though there is global convergence around the top four challenges of **Human Capital**, **Innovation**, **Customer Relationships**, and **Operational Excellence**, there are interesting contrasts on a regional level in the strategies CEOs plan to meet these challenges.

Global and regional challenges, 2015

CEOs in Europe are focused on external risk; **Government Regulation** is a top-five challenge in the United States, as well as Latin America, ASEAN, and India. CEOs in China give **Sustainability** its highest ranking across regions, while **Customer Relationships** fails to make the top five in India.

Global N=943	Challenges 2015	United States N=230	Europe N=133	Asia N=332	China N=99	India N=100	ASEAN N=121	Latin America N=80
1	Human capital	1	4	2	1	1	1	1
2	Innovation	4	3	1	2	5	4	4
3	Customer relationships	2	2	3	5	6	3	3
4	Operational excellence	3	5	4	4	2	2	2
5	Sustainability	10	6	5	3	4	6	9
6	Corporate brand and reputation	6	T7	6	6	7	10	7
7	Global political/economic risk	7	1	7	7	8	7	6
8	Government regulation	5	9	9	8	3	5	5
9	Global/international expansion	8	T7	8	10	9	9	8
10	Trust in business	9	10	10	9	10	8	10

N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. T=Tie. In addition to other countries, the Asia category includes China, India, and Australia.

Source: The Conference Board, 2015

10 Big-Picture Trends

While the long-term challenges identified by CEOs show a surprising congruence across regions, the strategies they are employing to meet these challenges highlight the disparity of the issues in their micro business climates. Ten major trends clearly emerge:

- 1 On the offensive against slowing global growth** Cost-related defensive strategies are now trumped by more growth-oriented, aggressive monetary and time-investment strategies in intangibles such as business process redesign, improving workforce and leadership skills, and employee engagement and productivity.
- 2 Focus on controlling the controllable** While global geopolitical and economic risk certainly impact the business environment, the focus of CEOs in this year's survey is on internal development of strong cultures of engagement, customer centricity, innovation, and accountability. They see organizational agility and flexibility as a critical competency and place relatively less emphasis on geopolitical risk. The one exception is Europe, where **Global political/economic risk** ranks first and regional volatility is high among its hot-button issues.
- 3 Strengthening human capital through a grow-your-own strategy** CEOs see success in meeting their most urgent business growth challenges as being inextricably linked to the strength of their human capital. Effective use of human capital resources is their top challenge, and their strategies to improve productivity center on greater leadership effectiveness, building a performance culture, providing training to upskill their workforce, and raising engagement.
- 4 Building a stronger and more dynamic relationship with customers** CEOs are now placing more emphasis on what their customers are trying to achieve than on what their companies are trying to sell. Judging by the importance they place on customer-centric strategies to meet an array of challenges, understanding changing customer needs is at the center of their growth strategies.
- 5 Sustainability emerges as a top global challenge** For the first time, **Sustainability** ranks globally among the top-five challenges. However there are considerable ranking variations between regions, with China and India placing it higher than in the United States and Latin America. CEO priorities focus on meeting market demand for socially/environmentally conscious products and ensuring sustainability is part of their corporate brand identity.
- 6 A more integrated approach to innovation** While technology still plays a role, the notion that corporate culture and an engaged and empowered workforce are now the critical enablers of innovation—a dominant theme this year—argues for a more integrated approach involving the human capital function and overall management of intangible assets, from process improvements to upskilling the workforce. CEOs see an inseparable link between customer centricity, human capital, and innovation, as well as the importance of diversity on innovation teams.
- 7 CEOs seek to rebuild trust, sometimes below the radar** Even though **Trust in Business** is not seen as a top challenge by CEOs, the emphasis they place on fostering trust-building behavior through their high ranking of strategies related to ethical accountability and transparency to meet an array of challenges shows that trust building is viewed as fundamental to growing their businesses.
- 8 A surprising lack of emphasis on cross-cultural competency** Mastering cross-cultural competence, even among the largest companies in our sample, is a relatively low strategic priority. This runs contrary to what we hear from human capital practitioners in our Councils across the globe, who say cultural sensitivity, or the lack of it, presents a major challenge to organizational alignment, performance management and measurement, and the development of effective global leaders.

- 9 **Increasing comfort with big data, but continued uncertainty about how best to use it** Last year's top hot-button issue has moved to the middle, indicating increased comfort with the concept of big data. However, its strategic value may not yet be fully recognized by CEOs. For many companies, it is still early in the learning cycle. Processes for gathering the right data and tying it to the bottom line are still in development.
- 10 **CEOs expect much of themselves** CEOs see themselves playing a very hands-on role by personally engaging with key customers and clients, as well as government regulators. They clearly embrace the concept that organizational culture is character in action, and that it starts with the boss, as ethical leadership ranked as a top-three strategy to meet the Trust in Business challenge.

Global top five strategies to meet the top five challenges

CEOs focus on creating strong cultures around innovation and customers; employee engagement is seen as a critical driver to meet multiple challenges

	1 Human Capital	2 Innovation	3 Customer Relationships	4 Operational Excellence	5 Sustainability
1	Improve performance management processes and accountability	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Engage personally with key customers/clients	Raise employee engagement to drive productivity	Enhance portfolio of sustainable products and services
2	Provide employee training and development	Engage in strategic alliances with customers, suppliers, and/or other business partners	Enhance quality of products/services	Seek better alignment between strategy, objectives, and organizational capabilities	Ensure sustainability is part of the corporate brand identity and culture of the organization
3	Enhance effectiveness of the senior management team	Find, engage, and incentivize key talent for innovation	Develop a more outward-looking, customer-centric culture	Improve our organizational agility/flexibility	Incorporate sustainability goals into corporate strategic performance objectives
4	Raise employee engagement	Apply new technologies (product, process, information, etc.)	Increase speed of products and services to market	Redesign business processes	Engage with stakeholders to balance short-term performance pressures with long-term sustainability goals
5	Improve leadership development programs	Develop innovation skills for all employees	Use competitive intelligence to better understand customer/client needs	Continual improvement (lean six sigma, etc.)	Treat sustainability issues as long-term risk issues

Source: The Conference Board, 2015

The Hot-Button Issues: The Micro Business Climates Are Volatile

While the challenge list represents long-term issues, responses to our question on hot-button issues—more immediate events and situations that CEOs believe will require attention in the coming year—reveal concerns over changing customer behavior, the macroeconomic environment, cyber security, and a shortage of top quality talent to fill key positions. There are, however, considerable differences on a regional basis reflecting the pain points CEOs detect in their own economic microclimates.

Changes in customers' behavior is the only hot-button issue to make the top five in all regions. In Asia, CEOs are concerned about the emergence of *new competitors globally*, *changes in customer behavior*, and *slowing economic growth in emerging markets* and they, like their counterparts in the ASEAN region, are feeling the bite of *wage inflation* in a talent market that remains tight. CEOs in the United States, like their counterparts in Europe, cite *cybersecurity* as an important issue. *Healthcare benefits for employees*—while third in the US, ranks no higher than 17th elsewhere. CEOs in Latin America are expressing concern over the emergence of *new competitors globally*, *slowing economic growth in emerging markets*, and *currency volatility*. *Labor relations* and *wage inflation*, two perennial issues in Latin America, are also in their top seven hot-button issues.

Global and regional hot-button issues, 2015

Changing customer behavior is on everyone's mind; CEOs in emerging markets are more concerned about new global competitors, while CEOs in mature economies are concerned about cybersecurity after high-profile data breaches

Global N=943	Hot-Button Issues 2015	United States N=230	Europe N=133	Asia N=332	China N=91	India N=100	ASEAN N=129	Latin America N=80
1	Changes in customer behavior	1	1	T1	1	1	3	1
2	New competitors globally	5	7	T1	5	2	7	2
3	Slowing economic growth in emerging markets	12	T9	3	4	6	4	3
4	Cybersecurity	2	5	T16	12	19	15	T13
5	Harder to fill key positions now compared to last year	6	14	6	3	9	10	4
6	Volatility in cash flow	11	13	4	6	5	16	16
7	Social media management	7	4	13	19	13	9	T9
8	Diversity in our leadership ranks	10	T9	11	9	12	12	8
9	Currency volatility	T24	8	9	15	4	1	5
10	Wage inflation	15	26	5	2	8	2	7

N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. T=Tie. In addition to other countries, the Asia category includes China, India, and Australia.

Source: The Conference Board, 2015

The Quest to Build a High-Performing Organization

CEOs in this year’s survey were asked what strategies they will use to support the journey to becoming (or their commitment to remaining) a high-performance organization. According to their responses, they aspire to be customer-centric organizations, aligned across functions. Their companies should be agile, with a culture of accountability whose managers set clear goals that are effectively measured for performance. They should empower employees at all levels to make decisions and stress employee engagement to improve productivity. Surprisingly they ranked *develop a global mindset among our leaders* and *ensure diversity in leadership ranks* low on their lists—two essentials that human capital practitioners continually emphasize as important factors to global success.

Top 10 strategies for becoming or remaining a high-performing organization, 2015

CEOs favor customer-centric strategies, along with strategic alignment and agility

Global N=943	Strategies
1	Create a strong customer-centric culture
2	Align our organizational structure to clearly support our business strategy
3	Focus our organization’s processes and products toward customer needs
4	Ensure that managers set clear goals and manage performance
5	Promote agility and flexibility in our organizational design to reflect rapidly changing business needs
6	Create/maintain a culture of accountability
T7	Support a culture of innovation and entrepreneurship that learns from failure
T7	Empower employees to make appropriate decisions and execute effectively
T7	Raise employee engagement to drive productivity
10	Ensure that managers create effective teams

T=Tie.

Source: The Conference Board, 2015

The Road to Profitability in Times of Slower Growth

As global growth remains slow and cost levels rise, profitability is becoming a source of concern at the macroeconomic level. In this year's survey, CEOs were asked which strategies in the current economic environment they see as most critical to increasing or maintaining profitability in the coming year. By a considerable margin, CEOs are placing their focus on growing topline revenue supported by bringing new products and services to market and leveraging both innovation and technology to improve processes and operational performance. They see a more engaged and better trained workforce as a key enabler of profitability. Responses also indicate a relative comfort level with current sourcing locations. Surprisingly, CEOs put less emphasis on cost containment as a source of strengthening profitability.

Top 10 strategies for increasing for maintaining profitability, 2015

The quest for topline revenue growth is being supported by bringing new products and services to market and leveraging both innovation and technology

Global N=943	Strategies
1	Focus more strongly on revenue growth
2	Launch new products/services
3	Leverage innovation to increase efficiency of processes
4	Leverage technology to increase efficiency of business operations
5	Increase employee engagement initiatives
6	Intensify training of employees in critical areas of operational performance
7	Organizational restructuring
8	Eliminate low margin operations
9	Launch customer engagement initiatives & loyalty programs to increase demand
10	Consolidate supply chain for efficiency

Source: The Conference Board, 2015

Investing in Intangibles Assets to Drive Growth

The global economy's disappointing moderate growth continues to provide a challenging operating environment for business in every region of the globe. CEOs are looking to drive growth by upskilling their workforces through training and improving their leadership bench through more effective development programs. This means that investment in intangible assets such as research and development, big data analytics, workforce training, customer process improvement, and effective brand building is growing in importance as a driver of growth. Accurate measurement and reporting of these assets is critical in making appropriate management decisions on raising and using capital and a prerequisite for communicating a company's true worth to investors, lenders, and other stakeholders.

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