



CEO CHALLENGE® 2016

## Building Capability

Seeking Alignment, Agility, and Talent to Innovate and Grow



### CEO STRATEGIC IMPLICATIONS

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## Seizing Opportunity in a Volatile 2016

More unpredictability and volatility mean more risks in the global business environment—but also more opportunities. And according to our CEO respondents it will take an aligned, agile, and innovative organization—one blessed with strong and accountable leadership along with a powerful array of highly engaged and inspired talent at all levels—to seize them for commercial success.

Weak global economic growth, currency and energy volatility, and the potential for higher interest rates and rising wages will likely put an even tighter squeeze on corporate profits. After adjusting our outlook for the first time for China's overstated official growth rate, The Conference Board Global Economic Outlook 2016 projects a very modest improvement in the growth rate for the global economy to 2.8 percent in 2016, up from 2.5 percent in 2015. There are, however, larger downside than upside risks. In the medium term, beyond 2017, the more positive forces of technology and innovation may accelerate, causing some improvement in productivity.

## CEOs Looking to Talent, Strong Organizational Cultures, and Building Internal Capabilities to Spur Growth

In this year's CEO Challenge survey, CEO respondents focus on building organizational capability and high-performing cultures around engagement, inclusion, and continual improvement to prime the business for growth opportunities, drive better business results, and inspire innovation.

Moreover, we see a deep-seated concern about talent and human capital-related issues, from recruitment and retention to skill development and nurturing the next generation of business leaders that will elevate their organizations to the next level in this highly complex and profit-challenged business environment.

# SIX BIG-PICTURE TRENDS

Doing business in an unpredictable and volatile world requires not only effective strategies and excellent execution, but a broad vision that inspires and engages the true engine of any organization: its people. Looking across the strategies selected to meet the six key business challenges presented in our survey, CEO respondents are focusing on:

1

## Improving organizational capabilities to drive better business results and inspire innovation

CEOs intend to use a variety of strategies across functions, ranging from improving performance management to raising employee engagement, providing employee training and skill development, creating a customer-centric and innovation-focused culture, and supporting organizational agility.



2

## Overcoming a critical shortage of talent globally

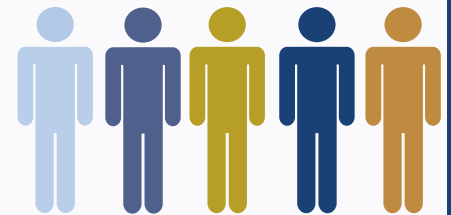
Operating in the midst of global labor shortages and recognizing the critical link between an engaged workforce and meeting key business challenges, CEOs see attracting and retaining quality talent and developing new leaders as fundamental to organizational success.



3

## Getting their organizations aligned and making them more agile

All of this is taking place as the potential emergence of new technologies and innovations is poised to further challenge a company's speed of response. Open and transparent communication are critical.



4

## The role of cost management and strengthening process improvement to mitigate risk

There is acute awareness of the need to improve processes and better manage costs, both to reduce risks and smooth out the impact on cash flows and of currency gyrations.



5

## Leveraging differences to make a difference

CEOs recognize the impact that diversity and inclusion can have on performance and innovation. Respondents see diversity and, more notably, inclusion as important contributors to improved overall performance and enablers of commercially successful innovation.



6

## The importance of building strong organizational cultures to drive performance

Across the spectrum, the cultural DNA of an organization is critical to success, from operational efficiency to better customer service, to greater talent attraction and retention, to higher levels of business performance and breakthroughs in innovation



In a world of looming talent shortages and profit pressure, it is no surprise that the *failure to attract/retain top talent* and *developing the next generation of leaders* are critical hot button issues for our responding CEOs along with concerns over *slow growth in emerging markets*, *the emergence of new competitors globally*, *cash flow*, and *currency volatility*. Other findings:

- **Infrastructure** Outdated national infrastructures is a top-10 hot button issue, though there appears to be more intense concern in the United States and other mature economies compared to much of developing Asia, which recently experienced an infrastructure boom.
- **Terrorism** This threat is not top of mind as a hot button issue (the survey was fielded before the autumn attacks in Beirut; Paris; and San Bernadino, California and the Russian airliner crash in Egypt). However, such potential threats are on their radar—*update contingency plans and procedures for crises (e.g., geographical, political; relocation of employees)* is a top-five strategy in the **Risk and Regulation** category of the survey.
- **Climate change** Despite the importance that CEO respondents place on making sustainability part of the corporate brand, performance goals, and risk profile, climate change is not seen as a hot button issue by most CEOs.

| Top 10 global “hot button” issues             |    |
|---|----|
| Failure to attract/retain top talent          | 1  |
| Developing “Next Gen” leaders                 | 2  |
| Slowing economic growth in emerging markets   | 3  |
| New competitors globally                      | 4  |
| Volatility in cash flow                       | 5  |
| Currency volatility                           | 6  |
| Financial instability in China                | 7  |
| Wage inflation                                | 8  |
| Corporate tax reform                          | 9  |
| Outdated/insufficient national infrastructure | 10 |

n=534  
Source: The Conference Board, 2016

## Strategies to Meet the Key Business Challenges

### Human Capital

In this year’s survey, CEO respondents are focused on longer term capability-building strategies while fully cognizant of the current realities of talent shortages, wage inflation, and talent retention. In recent years we have seen a shift from the belief that talent is readily available in the marketplace to an internal focus on developing and retaining employees.

This year’s strategy selections for **Human Capital** reveal a renewed emphasis on five key goals: develop effective leaders, build organizational capacity/individual skills, raise employee engagement, foster a culture of inclusion, and address the impact of labor shortages.

- CEOs see the link between higher levels of engagement and improved performance and business outcomes.

| Top five global strategies for Human Capital  |       |
|---|-------|
| Communicate effectively from all levels (up, down, and across); communication is consistent and transparent | 49.6% |
| Improve performance management processes and accountability   | 40.0  |
| Enhance effectiveness of the senior management team   | 36.8  |
| Improve corporate brand and employee value propositions to attract or retain top talent                     | 31.5  |
| Increase diversity/inclusion and cross-cultural competencies  | 29.4  |

n=605  
Source: The Conference Board, 2016

- While more effective and transparent communication, the most-cited strategy, contributes to building a culture of engagement and inclusion, CEOs also seek to improve performance management processes and accountability and improve their organization’s cross-cultural competencies to be effective in global markets.

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## How Companies Can Thrive in a Tightening Labor Market

Identifying your company’s functional and geographic risks will help you to develop more nuanced strategic and organizational plans, both globally and locally where you do business. Among the actions CEOs can take to mitigate their organization’s risk exposure:

- Ensure workforce planning is both granular and long term
- Consider underused talent pools as a partial solution to labor shortages
- Improve the onboarding of workers as that is key to retaining them
- Preserve knowledge by retaining older workers
- Strengthen brands to attract top talent
- Speed up skills training through cross-sector partnerships

*Source: From Not Enough Jobs to Not Enough Workers: CHRO Implications, The Conference Board, September 2014.*

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## Innovation and Digitalization

While technology certainly still plays a central role, our respondents see an integrated path to innovation success that includes strong and effective team leadership in an embedded culture of innovation, diversity of thought on innovation teams, and an emphasis on creativity. All are key to translating technology into commercial success.

- The interaction between human capital and innovation is apparent; the top-five strategies deal with people-oriented solutions and not technology.
- Leaders play a crucial role in innovation. CEOs are also looking for more diversity in their innovation teams and are incorporating strategies to support a culture of inclusion to maximize the impact of that diversity.

| Top five global strategies for Innovation/Digitalization                                   |       |
|--|-------|
| Develop managers and leaders to promote idea sharing in teams                              | 44.8% |
| Engage in strategic alliances with customers, suppliers, and/or other business partners    | 40.2  |
| Ensure more diversity and inclusion on innovation teams and projects                       | 39.5  |
| Emphasize creativity and/or innovation as a corporate value or principle                   | 38.5  |
| Create a culture of innovation by promoting and rewarding entrepreneurship and risk taking | 38.1  |
| n=605  |       |
| <i>Source: The Conference Board, 2016</i>  |       |

**The role of inclusion is fundamental** Inclusion and innovation are indeed related—and not only in the minds of our CEO respondents who have strategies that foster a culture of inclusion high on their lists (four of the top seven). In a survey of both innovation leaders and diversity and inclusion leaders for The Conference Board report *Cultivating Diversity of Thought: Innovation Thrives in Inclusive Cultures*, the most innovative companies—those with a track record of continual innovation—were more than twice as likely (50 percent) as those that were less innovative (19 percent) to describe their company as highly inclusive. In addition, eight in 10 survey respondents agreed with the statement that an organization’s level of inclusion is strongly related to its ability to innovate.

## Operational Excellence

The framework our respondents see as being effective to achieve operational excellence pays close attention to the people side of operational efficiency and revolves around six key goals:

- Process improvements
- Cost savings initiatives
- Creating alignment between strategy, objectives, and organizational capabilities
- Building agility
- Building resilience
- Developing talent

Five of the top 10 strategies selected by respondents are human capital-related, underscoring the view held by CEOs that the quality of an organization’s talent ultimately determines its performance and managerial effectiveness as well as its ability to be resilient and agile. Specifically, CEOs plan to:

- support employee resiliency to adapt and support change efforts;
- improve organizational agility/flexibility;
- create/maintain a culture of accountability;
- develop local management talent for top roles; and
- improve goal setting for individuals to link to organizational objectives.

| Top five global strategies for Operational Excellence                               |       |
|---|-------|
| Foster process of continual improvement (Lean Six Sigma, etc.)                      | 39.6% |
| Focus on reduction of baseline costs  | 37.8  |
| Seek better alignment between strategy, objectives, and organizational capabilities | 36.3  |
| Support employee resiliency to adapt and support change efforts                     | 36.2  |
| Improve our organizational agility/flexibility                                      | 35.9  |
| n=605   |       |
| Source: The Conference Board, 2016  |       |

## Customer Relationships/Corporate Brand and Reputation

Our respondents see the path to improving customer relationships as including an embedded, outward-looking customer-centric culture that is supported by a strong and well-communicated values-based approach to brand. They know that successful organizations develop a culture where everyone in the company shares customer relationship responsibility.

**Personal contact matters** *Engage personally with key customers/clients* is a top-10 strategy to meet this challenge, but interestingly more than a quarter of CEOs in the smallest companies (less than \$100 million in revenue) selected this strategy while just 17 percent of CEOs from the largest companies in our sample did so.

| Top five global strategies for Customer Relationships/Corporate Brand and Reputation                           |       |
|--|-------|
| Develop a more outward-looking customer-centric culture  | 46.6% |
| Enhance quality of products/services   | 43.1  |
| Communicate corporate values to customers and key stakeholders   | 36.3  |
| Improve alignment and accountability of corporate business practices/management behavior with corporate values | 35.0  |
| Tailor marketing, promotion, and communications campaigns to key customer needs                                | 32.1  |
| n=605  |       |
| <i>Source: The Conference Board, 2016</i>  |       |

## Risk and Regulation

In this year's survey, *incorporate cyber risks into existing risk management and governance processes* is the most-cited strategy in this category. Other strategies reveal concerns about both the immediate operational side of the risk equation as well as longer term strategic risk. They also reflect a focus on strengthening internal regulatory compliance procedures and, in a reflection on the global nature of business, compliance with government bribery and corruption regulations in all the locations in which they operate.

**Cyber risk funding** While emphasizing the importance of incorporating cyber risk into their risk management and governance processes, with the exception of those based in the United States, our CEO respondents have *increasing funding for cyber risk programs* relatively low on their strategy lists. This appears to be a disconnect between the perception of the threat and the resources organizations are willing to put toward meeting it. Alternatively, and an answer that we believe is less likely based on discussions within our Councils, it may be that CEOs are already comfortable with the funding and resource levels they have in place to meet the cyber security threat.

| Top five global strategies for Risk and Regulation  |       |
|---|-------|
| Incorporate cyber risks into existing risk management and governance processes                              | 51.1% |
| Improve our organizational agility/flexibility  | 46.3  |
| Strengthen internal regulatory compliance processes   | 42.0  |
| Update contingency plans and procedures for crises (e.g., geographical, political; relocation of employees) | 41.8  |
| Integrate long-term risk recognition into strategic planning  | 38.5  |
| n=605   |       |
| <i>Source: The Conference Board, 2016</i>   |       |

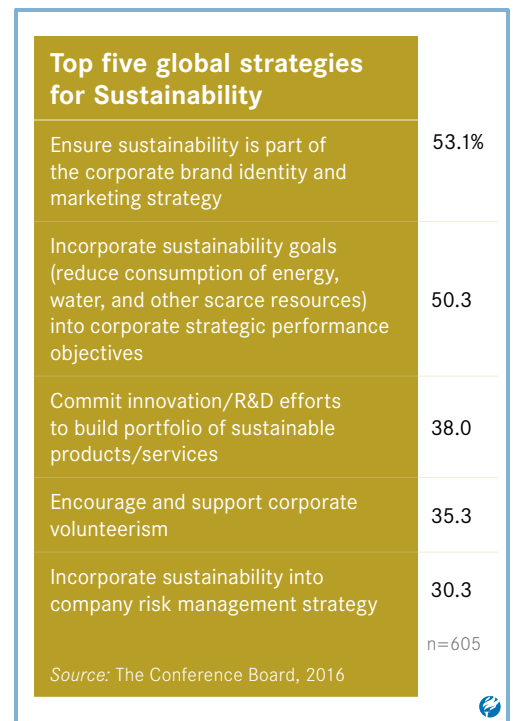
**Contingency planning** Although the importance of resilience is becoming widely accepted, many companies continue to concentrate on traditional elements of business continuity that they can control such as redundant IT networks, offsite data storage, and backup electrical generators. Companies have paid much less attention to other issues that are just as important to resilience, but over which they have less control: coordination with government and private-sector organizations, improving the adaptability of supply chains, and the ability of employees to recover from a disaster.<sup>1</sup>

## Sustainability

The selected strategies for this key business challenge indicate CEO respondents are taking a broad view of what sustainability means for their organizations—and the potential risks involved if they fail to respond to evolving stakeholder demands. Not only do they see the importance of aligning the corporate brand on the right side of sustainability and being identified as a company with sustainable practices and products, there is also a commitment to “walk the talk” environmentally by including reduced consumption of resources among the goals in corporate and individual performance objectives.

Research by The Conference Board shows that a commitment to developing a distinct portfolio of sustainable goods and services can have a significant impact on the bottom line. The report *Driving Revenue Growth through Sustainable Products and Services* finds that a sustainable product portfolio grows the bottom line at an accelerated pace: six times the rate of overall company revenues, according to the companies in our research sample from the S&P 100.

**Volunteerism and philanthropy** Our respondents are looking to their own staffs as community ambassadors by encouraging more volunteerism. They also see that aligning corporate philanthropy with business strategy can be an investment in a sustainable ecosystem that supports future growth.<sup>2</sup>



1 *Preparedness in the Private Sector: 2012 Report*, The Conference Board, Research Report 1507, December 2012.

2 *Corporate Philanthropy with a Global Footprint*, The Conference Board, Research Report Number 1515, March 2013.

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## ABOUT THIS SURVEY

For this year's edition of the CEO Challenge survey we decided to pivot away from the traditional ranking of broad challenges and focus more on the critical strategies responding CEOs will employ to improve performance related to six key pre-selected business topics. The topics were selected based on the highest ranked challenges from previous CEO Challenge surveys, input from a panel of CEOs, and dialogue with members of The Conference Board Council program as well as our experts. We agreed on these six: **Human Capital, Customer Relationships/Corporate Brand and Reputation, Operational Excellence, Innovation and Digitalization, Risk and Regulation, and Sustainability**. In addition, we asked our 605 respondents to select their most pressing concerns from a list of 22 "hot button issues"—more immediate and tactical events and situations that potentially will require much of their attention in the coming year.

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