



CEO Challenge® 2016

BUILDING CAPABILITY: Seeking Alignment, Agility & Talent to Innovation & Grow
Key Business Issue Briefing, January 26, 2016



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CEO Challenge Year Over Year

2015	2014	2013	2012	2011
<ol style="list-style-type: none"> 1. Human capital 2. Innovation 3. Customer Relationships 4. Operational excellence 5. Sustainability 6. Corporate brand and reputation 7. Government regulation 8. Global political/economic risk 9. Global/international expansion 10. Trust in business 	<ol style="list-style-type: none"> 1. Human capital 2. Customer relationships 3. Innovation (T3) 4. Operational excellence (T3) 5. Corporate brand and reputation 6. Global political/economic risk 7. Government regulation 8. Sustainability 9. Global/international expansion 10. Trust in business 	<ol style="list-style-type: none"> 1. Human capital 2. Operational excellence 3. Innovation 4. Customer relationships 5. Global political/economic risk 6. Government regulation 7. Global expansion 8. Corporate brand and reputation 9. Sustainability 10. Trust in business 	<ol style="list-style-type: none"> 1. Innovation 2. Human capital 3. Global political/economic risk 4. Government regulation 5. Global expansion 6. Cost optimization 7. Customer relationships 8. Sustainability 9. Corporate brand and reputation 10. Investor relations 	<ol style="list-style-type: none"> 1. Business growth 2. Talent 3. Cost optimization 4. Innovation 5. Government regulation 6. Customer relationships 7. Corporate brand and reputation 8. Sustainability 9. International expansion 10. Investor relations



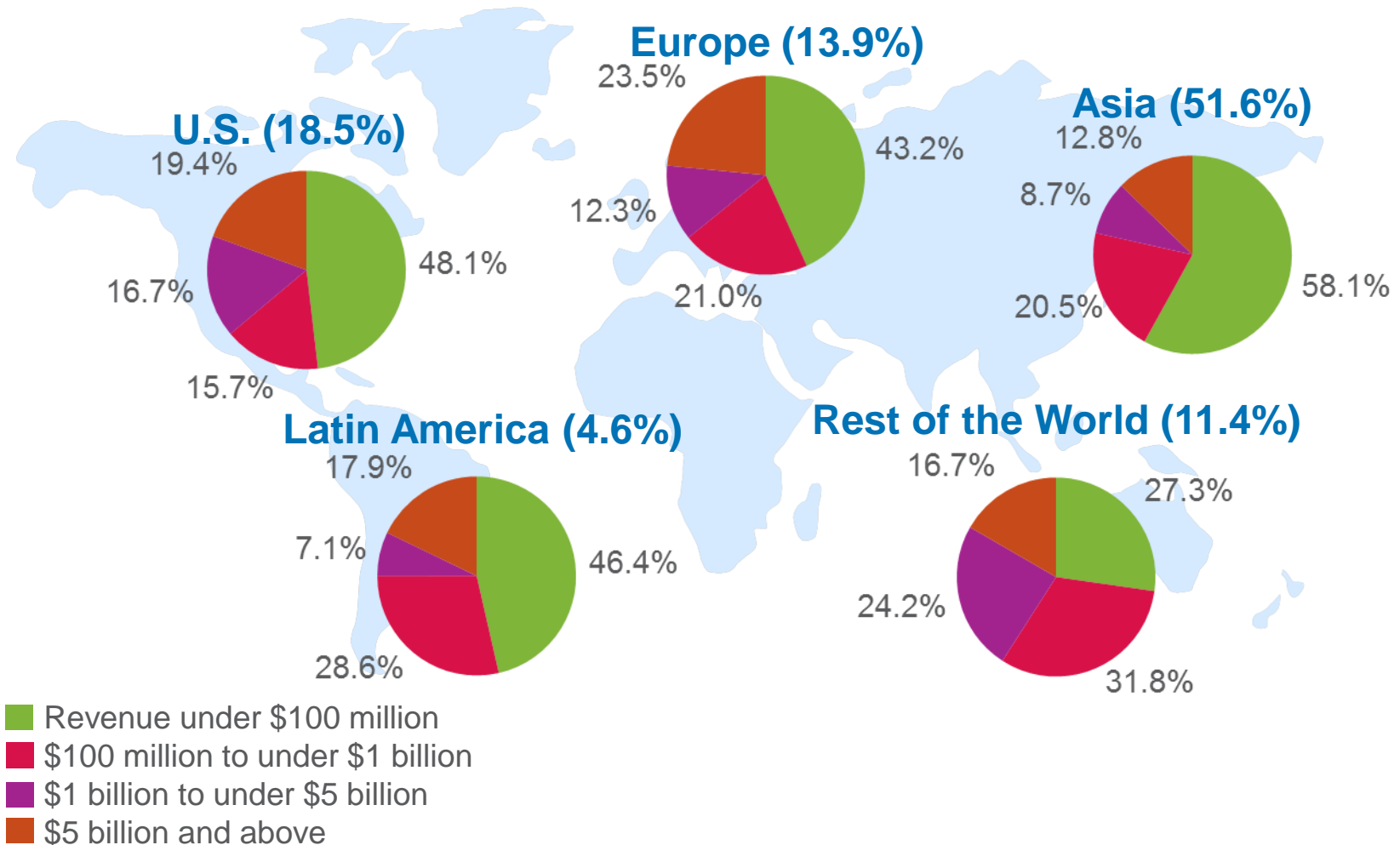
Background on CEO Challenge

- Annual survey in its 16th year; fielded from September 2015 to November 2015 with responses from 605 CEOs, Chairmen and Presidents
- This year, CEOs were asked to select top 5 out of 20 strategies for meeting each of six key business challenges:
 - ✓ Human Capital
 - ✓ Customer Relationships & Corporate Brand and Reputation
 - ✓ Operational Excellence
 - ✓ Regulation and Risk
 - ✓ Innovation and Digitalization
 - ✓ Sustainability
- In addition CEOs were asked to select the five most important hot button issues —more immediate and tactical events and situations that CEOs believe will require much of their attention in the coming year.



CEO Challenge 2016 Demographics

Respondents by Region & Revenue



CEO Challenge is carried out in partnership with 11 organizations around the world

Asia-Pacific

Australia Australian Institute of Management

China Fortune China

Hong Kong Hong Kong Management Association

India Institute of Directors

Malaysia Asian Institute of Finance

Singapore Singapore Business Federation and The Singapore Summit

Thailand Thailand Management Association

Europe and Middle East

Greece Hellenic Management Association

Kuwait Gulf Investment Corporation

Latin America

Brazil & Argentina Mercer & Marsh

North America

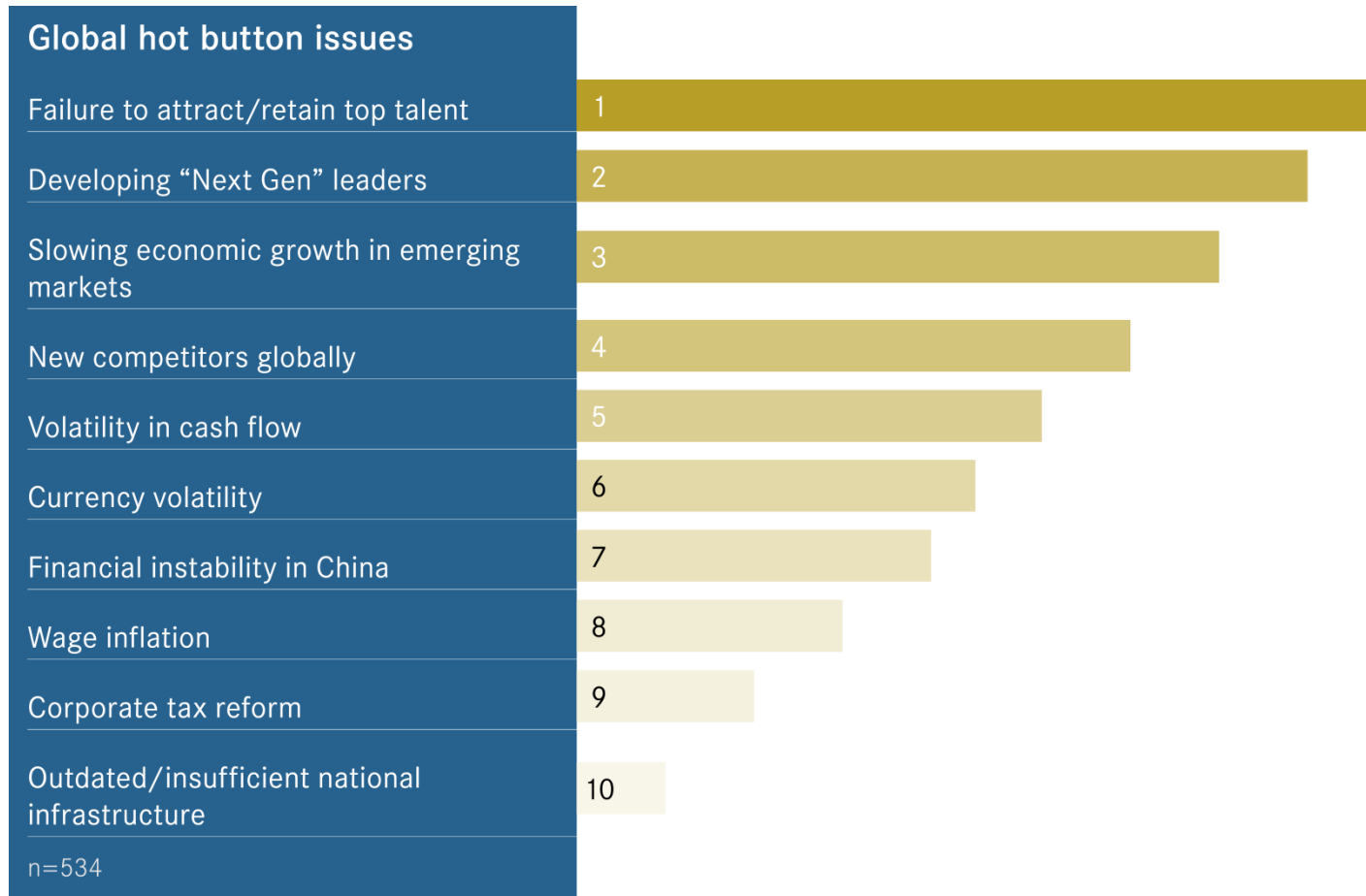
Canada The Conference Board of Canada





Hot-Button Issues

Talent and leadership development along with slowing growth in emerging markets are topping the Hot Button list



Global and Regional views

Global		United States	Europe	Asia	China	India	ASEAN	Latin America
N=534	Hot-Button Issues 2016	N=102	N=77	N=268	N=89	N=18	N=91	N=27
1	Failure to attract/retain top talent	2	5	1	1	2	1	5
2	Developing Next Gen Leaders	1	4	2	5	1	3	3
3	Slowing economic growth in emerging markets	3	3	3	3	3	2	1
4	New competitors globally	5	1	7	10	6	7	4
5	Volatility in cash flow	8	6	4	4	8	5	6
6	Currency volatility	16	7	5	7	4	4	2
7	Financial instability in China	10	9	6	2	14	8	11
8	Wage inflation	6	16	8	8	11	12	9
9	Corporate tax reform	12	10	9	6	8	15	10
10	Outdated/insufficient national infrastructure	9	8	15	16	5	11	8



Some key insights on Hot Button Issues

- **Slowing economic growth in emerging markets** is 3rd global and US concern; but top concern in Latin America, Rest of World, and 2nd in ASEAN
- In the U.S., **health care benefits** is 4th concern, and **Income inequality** is 7th, while much lower elsewhere
- In Europe, **New global competitors** is top concern, while 3rd global concern.
- **Corporate tax reform** in such diverse locations as the United States, China, India, Chile, Turkey, and across the EU
- **Outdated/insufficient national infrastructure** (10th globally) is more of a concern in mature economies than in developing Asia
- **Labor Relations** a top 10 concern in China; *Political instability* in the AP region low on the list



Industry views

Global N=534	Hot Button Issues 2016	Manufacturing N=144	Financial Services N=62	Nonfinancial Services N=305
1	Failure to attract/retain top talent	1	2	1
2	Developing Next Gen Leaders	3	1	2
3	Slowing economic growth in emerging markets	2	3	3
4	New competitors globally	7	5	5
5	Volatility in cash flow	5	14	4
6	Currency volatility	4	6	6
7	Financial instability in China	6	4	11
8	Wage inflation	10	10	7
9	Corporate tax reform	9	8	12
10	Outdated/insufficient national infrastructure	15	7	8



Revenue views

Global N=534	Hot Button Issues 2016	Less than \$100 billion N=260	\$100 million to under \$1 billion N=111	\$1 billion to under \$1 billion N=63	\$5 billion and above N=79
1	Failure to attract/retain top talent	1	2	2	2
2	Developing Next Gen Leaders	3	1	1	1
3	Slowing economic growth in emerging markets	2	3	3	3
4	New competitors globally	7	4	5	4
5	Volatility in cash flow	4	10	12	7
6	Currency volatility	5	5	7	5
7	Financial instability in China	6	6	8	8
8	Wage inflation	9	8	10	9
9	Corporate tax reform	8	12	9	12
10	Outdated/insufficient national infrastructure	12	9	6	6



What seems less of a “top concern” pops up elsewhere on the list of strategy selection

- **Climate change** is not among the hottest Hot Button Issue for most CEOs ...
- ... but emphasis on sustainability as part of corporate brand, performance goals and risk profiles is important.
- **Terrorism** is not top of mind as a business challenge (though the survey was fielded before the attacks in Paris and San Bernardino)...
- ... but such potential threats are still on CEOs’ radar. For example, **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
- **Big data analytics** was top hot button issue in 2014; today it features 8th in the strategies of Innovation and Digitalization, even though **Cyber risk** tops the list of strategies in Risk and Regulation



Slow growth of topline and pressure on bottom line are raising the role of defensive cost management strategies

- There is acute awareness of the need to improve processes and better manage costs to both reduce risks and smooth out the impact on cash flows and of currency gyrations.
- Reduction of baseline costs has increased in importance and ranks as 2nd important strategy (37.8%) under Operational Excellence, especially in manufacturing and +1 billion companies
- Pressure on cost levels becomes a concern as wage pressures may begin to kick in once labor markets tighten
- Raising capital reserves is concern especially for smaller companies of less than 100 million.





CEO Challenge® 2016: Building Capability

6 Big-Picture Trends

- Improving organizational capabilities to drive better business results and inspire innovation
- Overcoming a critical shortage of talent globally
- Getting their organizations aligned and making them more agile—supported by effective, enterprise-wide communication
- The role of cost management and strengthening process improvement to mitigate risk
- The importance of building strong organizational cultures to drive performance
- Leveraging differences to make a difference





Global Strategies

Global top five strategies to meet the six key challenges

	1 Human capital	2 Customer relationships/ Corporate brand and reputation	3 Operational excellence	4 Regulation and risk	5 Innovation and digitalization	6 Sustainability
1	Communicate effectively from all levels (up, down, and across); communication is consistent and transparent	Develop a more outward looking customer-centric culture	Foster process of continual improvement (lean six sigma, etc.)	Incorporate cyber risks into existing risk management and governance processes	Develop managers and leaders to promote idea sharing in teams	Ensure sustainability is part of the corporate brand identity and marketing strategy
2	Improve performance management processes and accountability	Enhance quality of products/services	Focus on reduction of baseline costs	Improve our organizational agility/flexibility	Engage in strategic alliances with customers, suppliers, and/or other business partners	Incorporate sustainability goals (Reduce consumption of energy, water, and other scarce resources) into corporate strategic performance objectives
3	Enhance effectiveness of the senior management team	Communicate corporate values to customers and key stakeholders	Seek better alignment between strategy, objectives and organizational capabilities	Strengthen internal regulatory compliance processes	Ensure more diversity and inclusion on innovation teams and projects	Commit innovation/R&D efforts to build portfolio of sustainable products/services
4	Improve corporate brand and employee value propositions to attract or retain top talent	Improve alignment and accountability of corporate business practices/management behavior with corporate values	Support employee resiliency to adapt and support change efforts	Update contingency plans and procedures for crises (e.g., geographical, political, relocation of employees)	Emphasize creativity and/or innovation as a corporate value or principle	Encourage and support corporate volunteerism
5	Increase diversity/inclusion and cross-cultural competencies	Tailor marketing, promotion, and communications campaigns to key customer needs	Improve our organizational agility/flexibility	Integrate long-term risk recognition into strategic planning	Create a culture of innovation by promoting and rewarding entrepreneurship and risk taking	Incorporate sustainability into company risk management strategy



Global Overview – Human Capital

- CEO respondents continue to focus on **longer term capability-building strategies** amidst current realities of talent shortages, wage inflation, and talent retention
- In recent years, there is a shift in belief that talent is readily available in the marketplace to an internal focus on developing and retaining employees
- This year's strategy selections reveal a renewed emphasis on five key goals:
 1. Develop effective leaders
 2. Build organizational capacity/individual skills
 3. Raise employee engagement
 4. Foster a culture of inclusion
 5. Address the impact of labor shortages



Global Overview – Human Capital

Rank	Strategies	N=605
1	Communicate effectively from all levels (up, down, and across); communication is consistent and transparent	49.6%
2	Improve performance management processes and accountability	40.0%
3	Enhance effectiveness of the senior management team	36.8%
4	Improve corporate brand and employee value propositions to attract or retain top talent	31.5%
5	Increase diversity/inclusion and cross-cultural competencies	29.4%
6	Promote and reward entrepreneurship and risk taking	27.9%
7	Improve succession planning for current and future needs	27.6%
8	Provide employee training and development	27.5%
9	Increase efforts to retain critical talent	27.3%
10	Improve leadership development programs	26.8%



Global Overview – Customer Relationships/Corporate Brand and Reputation

- This year, according to CEOs the path to improve customer relationships as including an **embedded, outward-looking customer-centric culture**, supported by a **strong, well-communicated, values-based approach to brand**. They know that successful organizations develop a culture in which everyone shares customer relationship responsibility.
- CEOs respondents are focusing on **strategies that build trust** by adopting a **values based approach to customer relationships** that includes improved product and service quality, communication of corporate values and ethics as part of brand building, and internal accountability to those values.



Global Overview – Customer Relationships/Corporate Brand and Reputation

Rank	Strategies	N=605
1	Develop a more outward looking customer-centric culture	46.6%
2	Enhance quality of products/services	43.1%
3	Communicate corporate values to customers and key stakeholders	36.3%
4	Improve alignment and accountability of corporate business practices/management behavior with corporate values	35.0%
5	Tailor marketing, promotion, and communications campaigns to key customer needs	32.1%
6	Use competitive intelligence to better understand customer/client needs	27.2%
7	Engage personally with key customers/clients	26.2%
8	Use social media and new communications technologies to enhance brand image	25.9%
9	Employ big data analytics to better understand shifts in customer patterns	25.3%
10	Increase speed of products and services to market	23.4%



Global Overview – 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 points:
 1. Process improvements
 2. Cost savings initiatives
 3. Creating alignment between strategy, objectives, and organizational capabilities
 4. Building agility
 5. Building resilience
 6. Developing talent
- Five of the top 10 strategies selected are human capital-related; underscoring the view held by CEOs that the **quality of an organization's talent ultimately determines performance and managerial effectiveness** as well as the organization's ability to be resilient and agile.



Global Overview – Operational Excellence

Rank	Strategies	N=605
1	Foster process of continual improvement (lean six sigma, etc.)	39.6%
2	Focus on reduction of baseline costs	37.8%
3	Seek better alignment between strategy, objectives and organizational capabilities	36.3%
4	Support employee resiliency to adapt and support change efforts	36.2%
5	Improve our organizational agility/flexibility	35.9%
6	Create/maintain a culture of accountability	26.4%
7	Develop local management talent for top roles	25.9%
8	Improve goal setting for individuals to link to organizational objectives	25.8%
9	Improve our use of big data analysis for strategic planning	24.3%
10	Invest more in new technologies	23.0%



Global Overview – Regulation and Risk

- In this year's revamped survey, *incorporate cyber risks into existing risk management and governance processes* is the most-cited strategy.
 - ✓ In the past decade, concern over the **risks surrounding new technologies**—in particular over the growing threats of cybercrime, cyber theft, and cyber espionage—has been brought to prominence by high-profile attacks and data breaches around the world.
- Other strategies selected in the Risk and Regulation category reveal concerns about both the **immediate operational side** of the risk equation as well as **longer term strategic risk**.
 - ✓ The strategies reflect CEOs' desire to get their own ethical house in order with 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.



Global Overview – Regulation and Risk

Rank	Strategies	N=605
1	Incorporate cyber risks into existing risk management and governance processes	51.1%
2	Improve our organizational agility/flexibility	46.3%
3	Strengthen internal regulatory compliance processes	42.0%
4	Update contingency plans and procedures for crises (e.g., geographical, political, relocation of employees)	41.8%
5	Integrate long-term risk recognition into strategic planning	38.5%
6	Reduce volatility in cash flows	31.7%
7	Focus on competitive opportunities created by regulation	29.0%
8	Manage currency risk	27.0%
9	Raise capital reserves	24.0%
10	Enforce compliance with government regulations on bribery and corruption in all our locations	22.3%



Global Overview – Innovation and Digitalization

- While technology certainly still plays a central role, CEO respondents see an integrated path to innovation success that includes **strong and effective team leadership**, an **embedded culture of innovation**, **diversity of thought** on innovation teams, and an emphasis on **creativity as a key to translating technology** into corporate success.
- Having a technology advantage is no longer sufficient to keep an organization high performing; it is the **culture and the people** of the organization that will create a **sustainable competitive advantage** in rapidly changing markets. The top five strategies selected are related to talent and the development of a culture of innovation, and not technology.



Global Overview – Innovation and Digitalization

Rank	Strategies	N=605
1	Develop managers and leaders to promote idea sharing in teams	44.8%
2	Engage in strategic alliances with customers, suppliers, and/or other business partners	40.2%
3	Ensure more diversity and inclusion on innovation teams and projects	39.5%
4	Emphasize creativity and/or innovation as a corporate value or principle	38.5%
5	Create a culture of innovation by promoting and rewarding entrepreneurship and risk taking	38.1%
6	Set specific innovation targets as a percentage of sales/revenue for new products and services	31.5%
7	Invest more in developing innovation skills for all employees	25.4%
8	Utilize analytics and big data to improve bottom line results	24.7%
9	Adopt a user-centric design approach to innovation	24.4%
10	Hold leaders accountable for behaviors that foster a culture of innovation	21.3%



Global Overview – Sustainability

- CEOs 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** for more responsible business practices.
- While many companies continue to separate sustainability issues from their risk profile, which creates gaps in effective long-term strategic planning, respondents to this year's survey cite *incorporate sustainability into company risk management strategy* as one of their more often cited strategies.



Global Overview – Sustainability

Rank	Strategies	N=605
1	Ensure sustainability is part of the corporate brand identity and marketing strategy	53.1%
2	Incorporate sustainability goals (Reduce consumption of energy, water, and other scarce resources) into corporate strategic performance objectives	50.3%
3	Commit innovation/R&D efforts to build portfolio of sustainable products/services	38.0%
4	Encourage and support corporate volunteerism	35.3%
5	Incorporate sustainability into company risk management strategy	30.3%
6	Align corporate philanthropy with business strategy	29.6%
7	Analyze sustainability of product portfolio (e.g., perform life cycle analysis)	27.4%
8	Reduce consumption of energy, water, and other scarce resources	26.4%
9	Support In-house waste reduction and pollution prevention programs	26.0%
10	Incorporate sustainability goals into individual employee performance objectives	24.0%



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Global strategies to meet challenges: TCB Insights

	1 Human capital	2 Customer relationships/ Corporate brand and reputation	3 Operational excellence	4 Regulation and risk	5 Innovation and digitalization	6 Sustainability
1	<ul style="list-style-type: none"> DNA of Engagement: How Organizations Create and Sustain Highly Engaging Cultures DNA of High Performing Organizations 	<ul style="list-style-type: none"> No More Tiers: Navigating the Future of Consumer Demand across China's Cities Understanding Chinese Consumption: 2015-2025 	<ul style="list-style-type: none"> Streamlining Product Safety and Regulatory Information along the Value Chain 	<ul style="list-style-type: none"> Emerging Practices in Cyber Risk Governance 	<ul style="list-style-type: none"> DNA of Engagement: How Organizations Build and Sustain Highly Engaging Leaders DNA of Engagement: How Organizations Create and Sustain Highly Engaging Cultures 	<ul style="list-style-type: none"> China Wants to Go Green: Sustainability Imperatives for Multinationals Giving in Numbers: 2015 Edition Driving Revenue Growth through Sustainable Products and Services
2	<ul style="list-style-type: none"> Performance Management 3.0 	<ul style="list-style-type: none"> DNA of High Performing Organizations 	<ul style="list-style-type: none"> Prioritizing Productivity to Drive Growth, Competitiveness, and Profitability 	<ul style="list-style-type: none"> Future-Skilling Your Workforce: Leveraging People Strategies for Developing Future Capabilities 	<ul style="list-style-type: none"> Managing Supply Chain Sustainability and Risk 	<ul style="list-style-type: none"> Driving Revenue Growth through Sustainable Products and Services Framing Social Impact Measurement
3	<ul style="list-style-type: none"> DNA of Leaders: Leadership Development Secrets DNA of Engagement: How Organizations Build and Sustain Highly Engaging Leaders Strategic Leadership Development 	<ul style="list-style-type: none"> Communicating Social Impact Unleashing the Potential of Integrated Corporate Communications and Marketing to Delivery Value (forthcoming) 	<ul style="list-style-type: none"> DNA of High Performing Organizations 	<ul style="list-style-type: none"> Risk Matters: Why and How Corporate Boards Should Become Involved 	<ul style="list-style-type: none"> Cultivating Diversity of Thought: Innovation Thrives in Inclusive Cultures (forthcoming) Designing Global Businesses for Innovation and Growth Diversity on Corporate Boards: How Much Difference Does "Difference" Make? 	<ul style="list-style-type: none"> Business Case for Corporate Investment in Sustainable Practices Measuring the Impact of Corporate Social Investments
4	<ul style="list-style-type: none"> Brave New World: Recruiting Talent in the Digital Age Buy, Build, Borrow, or None of the Above: New Options for Closing Global Talent Gaps 	<ul style="list-style-type: none"> Sustainability Matters 2014: How Sustainability Can Enhance Corporate Reputation 	<ul style="list-style-type: none"> Taming the Change Tiger: Transforming Chaos and Uncertainty into Opportunity 	<ul style="list-style-type: none"> Emerging Practices in Cyber Risk Governance 	<ul style="list-style-type: none"> Building the Foundation of an Innovative Culture: Human Capital's Role in Making It Happen 	<ul style="list-style-type: none"> Better Together: Why a United Front Can Propel Diversity and Inclusion and Corporate Philanthropy in the United States
5	<ul style="list-style-type: none"> Cultivating Diversity of Thought: Innovation Thrives in Inclusive Cultures (forthcoming) Designing Global Businesses for Innovation and Growth Diversity on Corporate Boards: How Much Difference Does "Difference" Make? 	<ul style="list-style-type: none"> Growing Value of Brands and Their Contribution to Worldwide Economic Growth 	<ul style="list-style-type: none"> Future-Skilling Your Workforce: Leveraging People Strategies for Developing Future Capabilities 	<ul style="list-style-type: none"> Is Short-Term Behavior Jeopardizing the Future Prosperity of Business? Water Worries: How Incorporating Long-Term Risk into Strategic Planning Pays Off 	<ul style="list-style-type: none"> Productivity and Digitalisation in Europe: Paving the Road to Faster Growth Designing Global Businesses for Innovation and Growth 	<ul style="list-style-type: none"> Integrating Sustainability into Your Core Businesses—A Road Map Sustainability Practices 2015 Key Findings





Panel Discussion

Guest Panelists

- Michelle Blieberg
 - ✓ Senior Vice President of Global Organization and Leadership Development and Head of Corporate Human Resources
 - ✓ Time Warner Inc.

- Kathleen Madigan
 - ✓ Economic Writer
 - ✓ KPMG





Q&A

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