



Answering the CEO Challenge

How Quality Can Drive Profitable Growth Across the Organization

by Mike Adams with Cassie Stern and Jane Farthing

Results of The Conference Board 2010 CEO Challenge survey point to an increased global focus on corporate reputation for quality, one of the original drivers of the quality management movement.¹ As CEOs emerge from a recession mindset and once again look for growth, the multi-functional role of quality leaders to address quality products and services along with helping drive innovation, improve execution, and increase customer loyalty will be critical in the evolving economic climate.

Laying Down the Challenge Ahead

In many ways, the top concerns cited by corporate leaders in the 2010 CEO Challenge report are all about the evolving role of quality. The concerns about quality products and services has re-emerged as a critical issue with implications for quality's reach across functions and departments to deliver results by improving execution, driving growth and innovation, and

orchestrating process efficiencies. With process changes and technological advances come people-related challenges and the need for new skill sets from an often limited or stretched human capital pool. These talent management-related issues may blindsides CEOs as they come to grips with a multi-generational and aging workforce coupled with the increasing demand for fundamental, as well as, new and varied skill sets.

¹ *CEO Challenge 2010: Top 10 Challenges*, The Conference Board, Research Report number R-1461-10-RR, February 2010



This Report in Context

In May 2009, The Conference Board Quality Council published a report titled “*The Leadership Prescription for the Future of Quality*.”^a That report provided recommendations, including actions that both the C-suite and quality practitioner needed to take to jointly address the financial crisis as well as future trends based on issues highlighted in a special edition of the CEO Challenge.^b The financial crisis altered priorities and a quick response necessitated agility

and re-prioritization of quality efforts. Cash management continues to be a strong priority focus in 2010 drawing on many productivity and risk management tools and techniques such as Lean, waste reduction, value mapping, and workout. The increased ranking of customer loyalty, quality of products and services, reputation, and innovation suggests that there is favorable forward movement emphasizing preparation for an economic upturn.

Early in 2010, Quality Council members assembled to review and respond to the 2010 CEO Challenge report to provide insights as to how they, as quality leaders, are supporting their respective C-suites and collectively addressing their respective business challenges that, not surprisingly, parallel those highlighted by CEOs in 2010.

^a *A Leadership Prescription for the Future of Quality*, The Conference Board, Research Report number R-1443-09-RR, May 2009

^b *CEO Challenge 2008: Top 10 Challenges – Financial Crisis Edition* Research Report number R-1440-08-RR, November 2008

Topping the list of CEO challenges continues to be *excellence in execution* and *consistent execution of strategy by top management*. With the influences of globalization, consolidation, market conditions, changing technology, and more sophisticated customers, it's not surprising that execution remains high on the list. Each of these influences independently creates unique challenges but more likely they exist in combination with others adding further complications that may ultimately compromise expected and desired results.

These execution challenges are joined by those highlighted in the CEO Challenge survey that have moved upward in the rankings. These include:

- Sustained and steady top-line growth
- Customer loyalty and retention
- Reputation and quality of product and services
- Stimulating innovation/ creativity/ enabling entrepreneurship
- Profit growth
- Government regulation

Ironically, customer satisfaction and quality of products and services were the initial challenges of the quality management movement. Historically, the automobile industry was showcased for the initial quality imperative in the 1980's and was highlighted again in 2009 in the financial crisis with dramatic sales declines and the need for partial government intervention. Economic factors coupled with perceived product and service quality are dimensions of overall consumer confidence and are elements that influence purchase patterns and loyalty, particularly at times when consumers tighten their belts.

Economists generally view a Consumer Confidence Index score of 90 as depicting healthy consumer attitude. In February 2010, the index fell almost 11 points to 46, pushing the index down to its lowest overall reading since April 2009 and pointing to an even more discerning customer. Despite a slight rebound in March, the Present Situation Index—how consumers view conditions at the moment—remains near historic lows.²

² The Conference Board Consumer Confidence Index®

Once again the automobile industry is wrestling with customer loyalty and product quality. Issues focusing on global communication, timely information sharing, risk management, and pressures on business partners related to shared priorities of speed, safety, customer satisfaction, and

employee competencies are under scrutiny. These issues and challenges are not limited to the auto industry but affect all industries and not-for-profits highlighting the need for a stronger dependency on the organization’s quality leadership to help lead the way to tie customer loyalty and operational and execution excellence together to drive sustained and steady profitable top-line growth.

Table 1
The Global Top 10 CEO Challenges

The global CEO consensus about 2010 suggests that being first to market may not be enough to lure customers back. Innovative and high-quality products are needed to inspire cash-strapped customers (both in the business-to-consumer and the business-to-business sectors) to become loyal (i.e., spending) customers again.

<i>Financial Crisis Edition</i>	<i>2010 CEO Challenge</i>	<i>Challenge</i>
1	1	Excellence in execution
2	2	Consistent execution of strategy by top management
5	3	Sustained and steady top-line growth
6	4	Customer loyalty/retention
3	5	Speed, flexibility, adaptability to change
15	6	Corporate reputation for: quality products/services
16	7	Stimulating innovation/creativity/enabling entrepreneurship
9	8	Profit growth
7	9	Improving productivity
26	10	Government regulation

Note: A matched set of challenges between the 2008 and 2009 survey questions is created by removing all challenges asked in one year and not the other. An accurate year-on-year analysis of the relative shifts in ranking of the exact same challenges is completed by calculating rankings independent of new additions and deletions to the survey questions. The global CEO Challenge rankings are weighted to correct for regional representation. Each CEO’s responses are weighted by their respective region’s representation in global GDP (Asia, 21.7 percent; Europe, 36.4 percent; the United States, 23.7 percent; and other, 18.2 percent), according to the GDP data from September 2009.

N=444
 NB: Challenges in bold have moved up in the rankings

A successful response to the CEO challenges in any sector requires that the organization leverage core fundamentals and an arsenal of tools and techniques pertinent to their respective sector and aligned to their business strategy. To respond appropriately and expeditiously to these important challenges in a context of long-term revenue streams, the organization’s quality leader can serve as the liaison between the technical practices and the CEO challenges highlighted in the recent survey. With many stakeholders and functions affected by any end-to-end process change, the quality leader, in a role of liaison, can objectively identify and close gaps necessary to achieve desired business performance results in the context of the business strategy.

Quality Leader Practices to Address CEO Challenges

The challenges listed in Exhibit 1 (see page 6), although being challenges and performance outcomes by themselves, can actually be drivers and the means to the ultimate end— profits and steady top-line growth—two critical challenges cited separately in the CEO Challenge report. The term “quality” often gets muddled because the debate centering on quality becomes too focused on process and tools as opposed to the end game. The business

Table 2

United States Top 10 CEO Challenges

<i>Financial Crisis Edition</i>	<i>2010 CEO Challenge</i>	<i>Challenge</i>
1	1	Excellence in execution
3	2	Sustained and steady top-line growth
2	3	Consistent execution of strategy by top management
5	4	Customer loyalty/retention
12	5	Profit growth
19	6	Government regulation
15	7	Corporate reputation for: quality products/services
4	8	Speed, flexibility, adaptability to change
14	9	Stimulating innovation/creativity/enabling entrepreneurship
28	10	Cash management

N=207

NB: Challenges in bold have moved up in the rankings

Table 3

Asia Top 10 CEO Challenges

<i>Financial Crisis Edition</i>	<i>2010 CEO Challenge</i>	<i>Challenge</i>
1	1	Excellence in execution
17	2	Customer loyalty/retention
7	3	Sustained and steady top-line growth
4	4	Consistent execution of strategy by top management
9	5	Seizing opportunities for expansion/growth in: China
15 (t)	6	Corporate reputation for: quality products/services
10	7 (t)	Finding qualified managerial talent
22 (t)	7 (t)	Speed to market
22 (t)	9 (t)	Stimulating innovation/creativity/enabling entrepreneurship
15 (t)	9 (t)	Improving productivity
5	9 (t)	Speed, flexibility, adaptability to change

(t) = tie in ranking

N=47

NB: Challenges in bold have moved up in the rankings

Table 4

Europe Top 10 CEO Challenges

<i>Financial Crisis Edition</i>	<i>2010 CEO Challenge</i>	<i>Challenge</i>
2	1	Excellence in execution
7	2	Consistent execution of strategy by top management
12	3	Sustained and steady top-line growth
4	4	Speed, flexibility, adaptability to change
5	5	Customer loyalty/retention
28	6	Government regulation
17	7 (t)	Corporate reputation for: quality products/services
1	7 (t)	Global economic performance
21	9	Stimulating innovation/creativity/enabling entrepreneurship
10	10	Consumer confidence

(t) = tie in ranking

N=42

NB: Challenges in bold have moved up in the rankings

challenges cited by CEOs can be addressed when quality is well aligned and serves as a predictable means or approach to the end, i.e., the desired business performance.

Complicating the approaches to addressing the CEO challenges are the trends and forces of change itemized in the Quality Council report, “*The Leadership Prescription for the Future of Quality*” These trends or change drivers, which include globalization, customer sophistication, talent management and leadership issues, and environmental and social responsibilities clearly have an impact on decisions, quality practices, and rates of change. These change drivers need to be taken into account in planning and executing against longer-term objectives.

Regardless of an organization’s reach—local, regional or global—these forces of change do have an impact on raw materials, sourcing, and notably exposing consumers to new experiences and channels including social networking and

mobile apps that influence perceptions of brands, products, and services. These relatively new networks, which need to be integrated with other means of capturing the customers’ voice, allow for near real-time, en-mass reactions that can provide insights for improvement of products and services.

The C-suite should regularly reprioritize its established tools and techniques and identify and strengthen new skills that address changing circumstances caused by these emerging trends. This reprioritization should be guided by the influence these trends are having on near-term objectives and execution of strategy. Items to look at when addressing this reprioritization include, in part, enhanced multi-dimensional change management to gain consistent engagement with and delivery across geographies, cultures, and functions; understanding and utilizing eco-system solution development; and ensuring an organization’s quality leadership is executing to contemporary business imperatives.

Illustration: Impact of Trends on Customer Loyalty and Retention

Globalization

Globalization impacts the production and support side of products and services from raw materials, to assembly, to delivery and support which in turn influence price, speed of change, and consistency in the customers’ experience. Delivering product and service to a *predicted expectation* is an influencer of customers’ repurchasing patterns that goes beyond the basic expectation of a quality product or service.

Customer Sophistication

Unique customer requirements, mass customization, accelerated product obsolescence, and more sophisticated consumers force an increased need for speed and accuracy in delivering new products and services. Social networking and web-based communication have provided additional channels that capture the voice of the customers.

Talent Management and Leadership

Retention of knowledge about customers and new markets is being challenged by the exodus of an aging workforce and the competition for talent in different global geographies. Knowledge management and development of the next generation customer advocate are required to provide continuity as part of a customer acquisition and retention strategy

Environmental and Social Responsibilities

Customers’ choice and differentiation are being more strongly influenced by an organization’s role in the areas of environmental and social responsibilities and requires increased communication and enhanced offerings. For example, climate change has created “green” expectations whether it is electricity purchase options from renewable sources or paperless invoicing.

Exhibit 1

Bridging Quality Practices to CEO Challenges

PERFORMANCE



APPLICATION



FUNDAMENTALS

<i>Challenges</i>	<i>Drivers</i>	<i>Quality Practices, Tools & Techniques</i>
<p>Customers</p> <p>Loyalty and Retention</p>	<p>Quality reputation</p> <p>Quality products</p> <p>Transparency</p> <p>Customer-centric service</p> <p>Consistency & Repeatability</p> <p>Trust</p> <p>Customer-centric leadership</p> <p>Brand recognition/ promise</p> <p>Customer service/ support</p> <p>Easy access to company and info</p> <p>Speed to market</p> <p>Speed to response</p> <p>Problem resolution</p> <p>Value/ Total Cost of Ownership</p> <p>Price</p> <p>Health of market</p> <p>Consumer confidence</p>	<p>Voice of the customer</p> <p>Customer focus groups</p> <p>Advocacy groups</p> <p>Customer feedback loops</p> <p>Social media channels</p> <p>Customer surveys</p> <p>Assessments</p> <p>Customer Relationship Management</p> <p>Quality Function Deployment</p> <p>Benchmarking</p> <p>Customer metrics</p> <p>Retention metrics</p> <p>Balanced scorecard</p> <p>Lean</p> <p>Systematic improvement</p> <p>Hoshin Planning/ tactics prioritization</p> <p>Knowledge management/sharing</p>
<p>Stimulating innovation/ creativity/ entrepreneurship</p>	<p>Enabling culture</p> <p>Empowering culture</p> <p>Tone at the top</p> <p>Market changes, trends</p> <p>Customer sophistication</p> <p>Customer needs</p> <p>Customer future needs/ wants</p>	<p>Benchmarking</p> <p>Customer Surveys</p> <p>Decision gates, advancing criteria</p> <p>Feedback loops</p> <p>Customer Experience Metrics</p> <p>Customer satisfaction practices</p> <p>Customer co-development</p> <p>Innovation forums (formal and informal)</p>
<p>Reputation and quality of products/services</p>	<p>Transparency</p> <p>Repeatability</p> <p>Consistency</p> <p>Trust</p> <p>Quality of suppliers</p> <p>Sustainability/"Green"</p>	<p>Metrics (repurchase, warranty, safety)</p> <p>Operating discipline</p> <p>Process management</p> <p>Eco-system/ end-to-end knowledge</p> <p>Knowledge management/ sharing</p> <p>Vendor management</p> <p>Supplier Quality management</p> <p>Reduce, Recycle, Reuse programs</p>

Conclusion

To succeed in addressing the CEO challenges of 2010, an organization's quality practices can provide answers if they are strongly connected to and aligned with the business goals. The CEO should create and lead an organization that is conducive to connecting all aspects of the business with customer and market expectations while bridging the technical aspects and capabilities of the organization to achieve the desired business outcomes.

Attention will need to be given to the rate of change that is expected by customers and markets in a world where instant response is increasingly demanded. Additionally, the quality agenda, led by the CEO, should include a review of achievement against strategic objectives across C-suite functions along with the tactical actions being deployed and their executional effectiveness.

A quick and effective response to any of the challenges highlighted by the CEO Challenge requires consistent and regular communication, anticipation, and preparation in such areas as strengthening customer intelligence, global end-to-end systems and processes, and knowledge transfer for the development of the next generation's customer advocates. This needs to be accomplished while maintaining core skill sets that are applied in contemporary applications.

Analogous to certain events in the Olympic Games, the gold medal is awarded to those who demonstrate two distinct skill sets—the required technical components and the creative application of the core skills for overall performance. Whether it be skiing the slalom, attacking the half pipe on a snowboard, or performing on the ice skating rink, the core skills—the basics—can go unappreciated since they are expected by the customers (the viewers in the case of the Olympics) who tend to focus attention and excitement

around the outcome—the overall performance. A defect or failure is easily observed by a fall or not finishing a race, though the robust underlying fundamentals creatively and innovatively applied to changing conditions is what ultimately enabled the successful performance. Without extraordinary command of the basics, the potential of achieving a desired outcome is greatly reduced.

The CEO challenges of top-line and profit growth and customer loyalty are outcomes which are dependent on an organization's team of people who execute to changing conditions drawing from an arsenal of core fundamentals, tools, and techniques which are often assumed but not always present or leveraged. Driven by the customer and guided by the CEO, the “gold” is there for the organization that is aligned, conditioned, agile, trained, and competent in the quality technical fundamentals that will allow it to respond quickly and execute to the current and anticipated requirements.



About the Report

The information contained in this report is a result of a working session of The Conference Board Quality Council which took place in Miami, Florida between February 1 and 3, 2010. At the meeting members shared successful practices within their organization to address their respective business challenges including various approaches to address trends and market changes.

About the Author

Mike Adams is the past co-chair of The Conference Board Quality Council and former vice president, quality of Allegheny Energy, Inc. Currently providing executing consulting, Mike is collaborating with others to share his lessons learned and experiences ranging from being director of global performance excellence at Microsoft, corporate quality manager at FPL, Board of Examiners of the Baldrige Award, and judge for the USA Today/ RIT Quality Cup. Mike is a Fellow of the American Society for Quality (ASQ) and served on the Baldrige Foundation's Board of Directors.

Mike wrote the report with his past colleagues of the Quality Council with special thanks to **Cassie Stern**, Vice President, Customer Care-North America Nokia, Inc. and current co-chair of the Quality Council and **Jane Farthing**, Managing Director, Connected Thinking for Excellence, PriceWaterhouseCoopers LLP.

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