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CEO Challenge® 2015

Creating Opportunity out of Adversity Building Innovative, People-Driven Organizations

by Charles Mitchell, Rebecca L. Ray, PhD, and Bart van Ark, PhD

SEARCHING FOR THE LEVERS OF GROWTH IN A SLOWING GLOBAL ECONOMY

Even in the face of a projected modest 3.3 percent global economic growth for the coming year, a less-than-robust recovery in the United States, China's long soft fall, and European economies still struggling to find a sustainable growth formula, CEOs are undeterred in their quest for new sources of growth. They say a strong and aligned leadership cadre, a highly engaged workforce, improved organizational agility, a focus on customers, and building an entrepreneurial spirit around innovation capabilities are the tools they need to make headway against the buffer of slowing economic growth.

At least for now, CEOs show few signs of hunkering down into the defensive postures seen in our CEO Challenge surveys immediately after the 2008 financial crisis. This year, they profess a focus on topline growth, backed by product and process innovation, more productive use of technology, a stronger leadership bench, and increased employee engagement and workforce upskilling to contribute to organizational success. But, perhaps more important, they are not being driven by a win-at-all-cost pursuit of revenue or a quarter-to-quarter short-term focus. What CEOs say they are seeking is high-quality sustainable growth—and the strategies they selected to meet their top challenges in this year's survey reveal a longer-term focus around capacity building and developing strong cultures around innovation, engagement, and accountability within their organizations. They are optimistic about profit expectations for 2015, with almost three-quarters of respondents saying they expect profits to increase either moderately (58.5 percent) or substantially (15.5 percent) in the coming year, but they realize they must cope with fundamental changes in their customers' behavior, the emergence of new competitors globally, and a slowdown in emerging market economic growth to get there. And they are coming to realize that risks and opportunities resulting from slower global growth are not equally distributed across regions, sectors, or countries.

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, based on 943 responses, 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 lists in every region of the globe. However, the strategies they are employing to meet these challenges highlight the disparity of the issues in their micro business climates.

As the top challenge for 2015, CEOs view **Human Capital** in all its forms—from dynamic leadership to a skilled workforce cadre—as the primary fuel that will drive the engines of growth within their organizations. The prominence of people-related strategies to meet their other most-critical challenges is evidence of that.

The challenges, as defined in the survey, are, by their very nature, the long-term fundamental building blocks of any organization, and we would not expect radical changes in year-over-year results. Indeed, the 2015 rankings for the top four challenges closely mirror last year's results, with **Human Capital** at the top again and **Innovation** (second in 2015, third in 2014) and **Customer Relationships** (third in 2015, second in 2014) swapping positions. What are different this year, however, are the importance-adjusted scores of these challenges (see "Survey Methodology" on page 49). This year's scores are more closely clustered, indicating that, 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 innovation and customer-centricity, along with excellence in execution.

For the first time, **Sustainability** makes its debut as a global top-five challenge this year, moving up from the eighth spot in 2014 (ninth in 2013), and mirrors a similar rise for the **Customer Relationships** challenge in recent years, as CEOs focus on the importance of corporate social responsibility and environmentally respectful policies to their customers, regulators, and other stakeholders. **Sustainability,** after all, is a trust-builder and potential driver of growth.

While the challenge list represents long-term issues confronting CEOs, responses to our question on "hot-button issues"—more immediate and tactical events and situations that CEOs believe will require much of their attention in the coming year—reveal short-term concerns over a myriad of issues, ranging from changing customer behavior to the macroeconomic environment to cybersecurity and a shortage of top-quality talent to fill key positions. Responses to hot-button issues reveal considerable differences regionally, reflecting the unique pain points CEOs detect in their regional economic microclimates.

Finally, in a special section of this year's survey, we asked CEOs to reveal their strategies and tactics for raising profitability in the near term and what they think it takes to become or remain a high-performing organization. CEOs see high performance through a lens of customer centricity, alignment of structure with strategy, organizational agility, and attention to performance management and measurement. When it comes to profitability, there is a clear focus on meeting customer demands for relevant products and services, leveraging innovation skills and technology to improve efficiency, and boosting employee engagement to grow both the top and bottom lines.

Sustainability Defined

For the purposes of this survey, the challenge of **Sustainability** is defined as:

The pursuit of a business growth strategy that creates long-term shareholder value by seizing opportunities and managing risks related to the company's environmental and social impacts. These impacts include elements of corporate citizenship, corporate governance, environmental stewardship, labor and workplace conditions, supply chain and procurement, community involvement, and philanthropy.

THE CHALLENGES
10 BIG-PICTURE TRENDS

Taking the Offensive against Slowing Global Growth

Overall, CEOs are painting a picture of cautious optimism and growth orientation, despite slowing global economic growth and concern over emerging new competitors. Most respondents are bullish on profit expectations, with almost three-quarters looking for either moderate or substantial improvement in the coming year. Cost-related defensive strategies, such as *reducing labor costs through staff reductions, improving cash management*, *raising capital reserves*, and *reducing overall baseline costs,* favored in recent post-recession surveys 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. Simply put, across the challenge spectrum, strategies related to investment in intangibles to improve performance are consistently more highly ranked than those associated with cost containment. Cutting your way to profitability is currently not at the top of CEOs' playbooks, at least in the short term.

However, there is risk attached to overly optimistic expectations of growth, especially considering that recent global growth leaders—namely, emerging markets—are not likely to come to the rescue yet again, as structural issues and the lack of reform are tempering growth there. (See "The Global Economy: Slowing Long-Term Growth" on page 28.) The reforms necessary to get emerging markets back on a sustainable growth path, even if judicious and well implemented, will almost certainly detract from near-term growth before yielding long-term benefits. This difficult transition can potentially cause heightened near-term market volatility in the global economy, while putting a squeeze on corporate profits. It's OK to be

Global challenges

Human Capital retains top spot; Innovation rises, and Sustainability breaks into the top five

Global N=943	Challenges 2015	Global 2014 N=1020	Global 2013* N=729	Global 2012 N=776
1	Human capital	1	1	2
2	Innovation	T3	3	1
3	Customer relationships	2	4	7
4	Operational excellence	T3	2	N/A
5	Sustainability	8	9	8
6	Corporate brand and reputation	5	8	9
7	Government regulation**	7	6	4
8	Global political/economic risk**	6	5	3
9	Global/international expansion	9	7	5
10	Trust in business	10	10	N/A

N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

*Operational Excellence was added to the list of challenges in 2013 to replace Cost Optimization. Trust in Business was added in 2013 to replace Investor Relations.

** Global ranking is revised slightly due to re-weighting of results from Europe, revised 11 February 2015. For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

bullish, but CEO optimism needs to be balanced by understanding the global risk profile, as well as those of individual countries, and then setting realistic targets for growth and profitability, while ensuring their C-suite, boards, and country managements are all on the same page when it comes to risk and contingency planning.

Focus on Controlling the Controllable

CEOs place relatively less emphasis on the rising tide of risk associated with geopolitical instability and conflict in such places as the Middle East and Ukraine than they do on building human capital bench strength, workforce skills, organizational capability, excellence in execution, and better alignment within their corporate structures. (The one regional exception is Europe, where regional instability and global geopolitical risks rank among their top 10 "hot-button" issues.) In a volatile global business and geopolitical environment, CEOs see organizational agility and flexibility as a critical competency.

While externalities certainly impact the business environment, CEO focus across the global is on internal development of strong cultures of engagement, customer centricity, innovation, and accountability—all elements conceivably within their control. References to internally strong cultures, in particular, are pervasive among responses to this year's survey. While they are conscious of what they can control, CEOs also need to be mindful of what they can't control when it comes to planning contingency strategies for growth.

Global and regional challenges, 2015

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 is the top challenge in Europe, but 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	2	2	1	1	1	1
2	Innovation	4	3	1	2	5	4	4
3	Customer relationships	2	1	3	5	6	3	3
4	Operational excellence	3	4	4	4	2	2	2
5	Sustainability	10	9	5	3	4	6	9
6	Corporate brand and reputation	6	5	6	6	7	10	7
7	Government regulation**	5	10	9	8	3	5	5
8	Global political/ economic risk**	7	6	7	7	8	7	6
9	Global/international expansion	8	7	8	10	9	9	8
10	Trust in business	9	8	10	9	10	8	10

  * European data revised on 11 February 2015 due to re-weighting of results.
 ** Global ranking is revised slightly due to re-weighting of results from Europe, revised 11 February 2015.
   For details, see "Survey Methodology" on page 49.

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

Strengthening Human Capital through a Grow-Your-Own Strategy

Clearly visible from the view of CEOs is that success in meeting their most urgent business growth challenges is inextricably linked to the strength of their human capital base—i.e., even the best strategy means nothing if an organization lacks the right people to executive it. Effective use of human capital resources remains their top challenge, and their strategies to improve productivity center on greater leadership effectiveness, building a performance culture through measurement and accountability, providing training to upskill their existing workforce, and raising employee engagement. Turning to the open market to fill critical positions is clearly a less-favored option than a grow-your-own strategy. While skilled individuals are available on the open market (at a price, and CEOs are concerned about wage inflation), finding a person who also fits well within a specific corporate culture (corporate culture being a point of emphasis in this year's responses) is often harder than it sounds. Indeed, a top-five hot-button issue is difficulty in filling key positions now compared to last year. While the grow-your-own strategy that business leaders are devising also includes a significant talent retention component, it does not extend to investing in the education system to improve overall workforce readiness. It is among the lowest-ranked strategies to meet the **Human Capital** 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	Improve our organizational agility/flexibility	Ensure sustainability is part of the corporate brand identity and culture of the organization
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	Incorporate sustainability goals into corporate strategic performance objectives
3	Enhance effectiveness of the senior management team	Find, engage, and incentivize key talent for innovation	Develop a more outward-looking, customer-centric culture	Raise employee engagement to drive productivity	Enhance portfolio of sustainable products and services
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	Adopt a user-centric approach to innovation	Tailor marketing, promotion, and communications campaigns to key customer needs	Continual improvement (lean six sigma, etc.)	Treat sustainability issues as long-term risk issues

Note: Some rankings are revised due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

Building a Stronger, More Dynamic Relationship with Customers

You have to be "all in" with your customers, and CEOs, whether in the business-to-business or business-to-consumer space, say they are keenly aware of the often disruptive impact that changes in customer behavior and motivation have on how and with what products and services they go to market. CEOs are now placing more emphasis on what their customers are trying to achieve than on what their companies are trying to sell. As a result, the importance of being innovative and agile, CEOs believe, cannot be overstated. The Conference Board Council on Innovation suggests we are moving into an "experience economy," where customers value the *experience* of using a product or service, not just the product or service itself.[1] CEOs recognize that the basic value proposition of providing a good product at the most competitive price is not, in itself, enough to win new customers or retain current ones. They see an almost spiritual component when it comes to how customers now relate to companies and their product offerings. In their eyes, and judging by the importance placed on customer-centric strategies, the customer is the sun and everything else should revolve around them.

Sustainability Emerges as a Top Global Challenge

CEOs are recognizing the link between sustainability, innovation, customers, reputation, trust building, talent retention, and business growth—all of which relate directly to building a more dynamic relationship with customers. For the first time since being included as a challenge in 2011, **Sustainability** rises to a top-five challenge in the survey. CEOs' priorities revolve around meeting market demand for socially and environmentally conscious products and ensuring sustainability is part of their corporate brand identity—they want their organizations to be viewed as socially aware and environmentally friendly. CEOs also recognize the broader concept behind sustainability—the societal license to operate, which relies on building trust by acknowledging both the risks and opportunities related to their company's environmental and social impacts. This goes well beyond mere compliance to proactively embedding sustainability in the corporate culture. However, when it comes to applying environmentally friendly strategies, such as decreasing their carbon footprint or limiting resource use—hard decisions that, early on, can impact costs and profitability—CEOs place them near the bottom of their lists.

Despite **Sustainability**'s rise in the global rankings, it is interesting to note that CEOs in the United States put it at the bottom of their challenge list. CEOs interviewed for this report warn that, if unfocused on this issue, US CEOs run the risk that government regulation—not companies or their customers—will lead the way to a more sustainable business model, which may or may not be aligned with current corporate growth strategies. Combined with the relatively low ranking for sustainability-related strategies to meet other challenges, these all point to the conclusion that US CEOs currently have other priorities to achieve growth.

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1   *Design Centered Innovation: Observe, Learn, Innovate,* The Conference Board, Council Perspective 45, January 2013.

A More Integrated Approach to Innovation

While technology still plays a role, the notion that corporate culture and an engaged and empowered workforce are the critical enablers of innovation—a dominant theme based on CEO responses this year—argues for a more integrated approach involving the human capital function and overall management of intangible assets, from process improvements to up-skilling the workforce. CEOs see an inseparable link between customer centricity, human capital, and innovation, as well as the importance of diversity of thought on innovation teams and projects. The challenge is not technology itself—it is readily available—but, rather, the ability of the organization (i.e., the skill level of its workforce) to use that technology to innovate.

Also, compared to previous years, CEOs appear more comfortable with pursuing open innovation concepts—recognition that connecting through formal and informal networks and alliances outside the corporate walls creates competitive advantage. However, few intend to seek support or funding for innovation from government sources.

CEOs Seek to Rebuild Trust, Sometimes below the Radar

Even though **Trust in Business** is not seen as a top challenge by CEOs (ranking tenth globally), the emphasis they place on fostering trust-building behavior shows that trust is viewed as fundamental to growing their businesses. They rank highly such strategies as ethical accountability within their organizations, communicating corporate values to key stakeholders, improving transparency of customer relationship processes, and enhancing the quality of the products and services they offer. CEOs understand that restoring public trust affects all functions in their organizations and is the first step in achieving long-term sustainable business growth.

A lot of work lies ahead, however. A recent global survey, conducted by the public relations firm Burston Marsteller and CNBC, says that, while corporations are viewed as playing a positive role in innovation, job creation, and economic growth, the general public believes the playing field is rigged in favor of corporations—69 percent of respondents said government is more on the side of corporations than average citizens, and only 31 percent believe corporations pay their fair share of taxes.[2] The general public in mature economies has a less-favorable view of corporations compared to the general public in emerging markets. In emerging markets, where strong economic growth lead by the business sector has improved living standards, raised millions out of poverty, and grown middle classes with evolving consumer tastes, 72 percent of the general public sees corporations as "a source of hope, rather than fear," compared to just 52 percent in developed economies. The difference is particularly pronounced between the United States (49 percent) and China (75 percent), despite the daily drumbeat of product and process horror stories from China. The same survey also finds the majority of the public and C-suite executives in emerging markets see corporations as becoming *more* socially responsible (65 percent of the public; 77 percent of C-suite executives), while only 44 percent of the public and 66 percent of C-suite executives in mature economies feel the same way.

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2   Burston-Marsteller/CNBC, *Corporate Perception Indicator, A Global Corporate Compass,* 2014
      (www.slideshare.net/BMGlobalNews/the-bursonmarstellercnbc-corporate-perception-indicator).

A Surprising Lack of Emphasis on Cross-Cultural Competency

The world is not a homogeneous market. The era of globalization actually means greater fragmentation of markets and expanding diversity in global workforces, yet mastering cross-cultural competencies, even among the largest companies in our sample, is a relatively low strategic priority. This runs contrary to what we hear from practitioners in The Conference Board Councils across the globe, who say cultural sensitivity, or the lack of it, presents a challenge to organizational alignment, performance management and measurement, and the development of effective global leaders, especially leaders of global teams. With a shift from using ex-patriates to developing potentially global-ready talent within local markets, ignoring cross-cultural expertise as an organizational core competency obstructs the road to success.

Increasing Comfort with Big Data, but Continued Uncertainty about How to Use It

Could it be that big data is already part of the DNA of many companies? Last year's top hot-button issue has moved back to number 10 on CEOs' lists this year, indicating an increased comfort level. However, its value as a strategic tool to boost performance may still be underestimated or unrecognized by CEOs, possibly because they have not yet been shown how extracting the right insights and knowledge improve the bottom line. Many companies are early in the learning cycle, and processes for gathering and analyzing the right data in a business-relevant manner are still being developed. CEOs place big-data-related strategies near the bottom of their lists when it comes to both **Customer Relationships** and **Human Capital**.

CEOs Expect Much of Themselves

CEOs are not content to just pull organizational levers to meet business challenges; rather, they 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 demonstrated by the importance they place on their own behavior as a model of ethical leadership within their organizations—a top-three strategy to meet the **Trust in Business** challenge.

While the full individual impact on key organizational functions are covered as part of the larger portfolio associated with *The Conference Board CEO Challenge® 2015,* the following are some key implications affecting C-suite executives.

Chief Executive Officer

Building an agile organization and change management function CEO responses point to the critical importance of the organization's agility and flexibility to not only meet geopolitical and macroeconomic risk, but also manage such disruptive forces as changes in customer behavior and new and highly innovative global competitors. The foundation of any agile organization is its willingness and ability to change (most often, on the fly).[3] This requires the ability to share and communicate knowledge and information at high speed across the organization.

With the growing complexity of the global business environment and the increasing demands and expectations of constant change, it is clear that recognizing the criticality of "changing the way we change" is the first step in evolving change management. Embedding the capacity for effective change—from broadening accountability to developing individual resilience—is the new paradigm for organizational effectiveness. The Conference Board Council on Change Management believes organizations must focus on *behavioral* change to make change sustainable and become agile. It is about helping people embrace and adopt change by building personal competencies, not pushing change management methodology down to the rank and file. It is about instilling personal responsibility and accountability for change at every level. The ultimate goal is organizational self-sufficiency, in which all are enabled to personally manage change and deal with its effect. The focus should be on developing change leaders at all levels, not just reactive change managers. Becoming an agile organization in a VUCA (volatile, uncertain, complex, and ambiguous) world means the ability to lead change is a critical skill for future business leaders.

Managing the tradeoff between innovation and sustained execution One struggle CEOs say they face is managing the natural tension and tradeoff between maintaining a culture of innovation and one of high performance (daily high-quality execution). How innovators and executors view risk can be dramatically different. Much also depends on the specific business involved; for example, a low-cost, low-tech manufacturer is more likely to be driven by operational performance excellence to maintain margins, while businesses in the knowledge sector, such as technology, will be more heavily driven by innovation. Even the maturity of a business or product line can dictate the type of culture needed to succeed. A startup in e-commerce or the services sector may find that an innovative culture grew organically because of its business environment. However, as the product or service offering ages, it necessarily becomes increasingly driven by operational excellence to be successful. The challenge, CEOs say, is maintaining both cultures and rewarding each equally for their contributions.

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3   Agility is defined by The Conference Board Asia-Pacific HR Executives Council as the capacity to grasp opportunities, respond quickly and constructively, learn from experience, and build a sustainable, better-than-before culture at an individual and organizational level.

Chief Strategy Officer

Build sustainability into your risk portfolio CEOs identify **Sustainability** as one of their top five challenges in this year's survey, and, in a global business environment defined by risk, opportunity, and scarcity, how companies ultimately manage these three factors will determine the long-term value they create for stakeholders and society. While CEOs are focused on enhancing their portfolio of sustainable products and building sustainability into the corporate culture and brand, they also selected *treat sustainability issues as long-term risk issue* as a top-five strategy to meet this challenge.

Today, companies often separate sustainability issues from risk, which creates gaps in effective planning.[4] Most businesses can identify their day-to-day transactional risks and have effective systems, like business continuity plans, to mitigate them. Treating sustainability as a long-term risk takes imaginative thinking to perceive potential impact—on business models, product lines, and even the survivability of a business. Since it is hard to quantify, devising mitigating actions may be challenging because of the scope and scale of the risk, the lack of any immediate internal control or influence over it, and the propensity and ease of procrastinating about difficult, yet not immediate problems. Simply put, it is tough for some organizations to internalize the potential impact of large-scale trends when the time horizon falls out of the conventional risk range. This is especially true when the financial and auditing side of the business requires hard numbers to support the long-term case. It is at this cross-road where visionary leadership in the C-suite is critical. CEOs see the tradeoff between sustainability's potential longer-term dividends and short-term business performance, and some CEOs interviewed say this tradeoff is becoming easier to accept as they begin to realize the potential negative impact of not embracing sustainability as part of their business strategy will have on their organizations.

Chief Financial Officer

Investing in the intangible assets of the organization to drive growth The global economy's disappointing moderate growth continues to provide a challenging operating environment for business. *The Conference Board Global Economic Outlook 2015* predicts organizations are likely to see increasing pressure on profit margins and the bottom line through greater cost pressures, as well as challenges to topline growth as workforce productivity growth stalls.[5] We see this pressure reflected in responses to this year's survey. *Slowing growth in emerging markets* is a top-three hot-button issue for CEOs this year, along with the *emergence of new competitors globally* (ranked second). CEOs are looking to people, processes, and developing a culture of innovation to drive growth. They want to upskill their workforces through training and improve their leadership bench strength through more effective development programs. Investment in intangible assets, such as research and development, mega databases (big data analytics), workforce training, customer process improvement and effective brand building, are increasingly important components of a company's assets.

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4   *Water Worries: How Incorporating Long-Term Risk into Strategic Planning Pays Off,* The Conference Board, Council Perspective 39, June 2012.

5   *The Conference Board Global Economic Outlook 2015: Are We Asleep at the Wheel, StraightTalk®,* 25 no 1, The Conference Board, November 2014 (www.conference-board.org/economic-outlook).

The crucial questions facing many executives are how to value intangibles appropriately in making management decisions and how to present them accurately in financial statements.[6] Their accurate measurement is critical in making appropriate management decisions on raising and using capital. Accurate measurement and reporting is also a prerequisite for communicating a company's true worth to investors, lenders, and other stakeholders.

Chief HR Officer

CEOs believe in the power of engaged employees to drive growth CEOs rank **Human Capital** as their top global challenge, but beneath the surface is a clear emphasis on the importance of employee engagement, along with developing an entrepreneurial, customer-centric, and performance-based culture, to meet an array of growth challenges. For example, *raise employee engagement* is a top-five strategy to meet the **Human Capital** challenge, while *raise employee engagement to drive productivity* is among the top three strategies for **Operational Excellence** and *increase employee engagement initiatives* is a top-five enabler of improved profitability.

Strong employee engagement is a starting point to building an operationally high-performing organization, beginning with the link between talent acquisition and higher levels of engagement—when known as a "great place to work," high-quality talent is easier to recruit. And, with strong and engaged talent building strong cultures, innovation and customer-centricity become easier. Recent research by The Conference Board shows that best-in-class organizations with highly engaging cultures continually build on this positive momentum to drive business performance.[7] These top performers have much in common, including:

- A senior leadership team that commits to engagement as a business imperative

- Managers who continually foster a culture of engagement

- Human capital programs and processes that enable a culture of engagement

- A work environment that supports employees to deliver their higher levels of performance

CEOs are challenging the human capital function to instill a sense of purpose and pride and creating promising jobs to get and keep employees engaged. Our research shows that organizations with highly engaged cultures have these eight elements at their core:

1   Alignment of business strategy and engagement strategy

2   An organizational philosophy that emphasizes a core purpose

3   Formal programs and policies that drive the engagement agenda

4   Open, proactive, leader-driven communication about engagement

5   A workplace (physical and virtual) and organizational structure that promotes collaboration and inclusion

6   A regular cadence for assessment and follow-up

7   Leaders who are expected and empowered to build engagement

8   Demonstration of the business impact of engagement

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6   "How Do Companies Make the Value of Intangibles, Well, More Tangible?" The Conference Board, Executive Action Report 429, June 2014.

7   *DNA of Engagement: How Organizations Create and Sustain Highly Engaging Cultures*, The Conference Board, Research Report 1564, October 2014.

Building an innovative culture CEOs believe that culture has overtaken technology as the critical enabler of innovation, and they are emphasizing the importance of a strong entrepreneurial culture to drive growth. *Create culture of innovation by promoting and rewarding entrepreneurship and risk taking* is the top-ranked strategy to meet the **Innovation** challenge, *leverage innovation to increase efficiency of processes* is a top-five driver of profitability, and *support a culture of innovation and entrepreneurship that learns from failure* is a top 10 attribute of high-performing organizations. In the CEOs view, building that culture starts with an engaged and incentivized workforce and driving innovation skills deeply into and across their organizations. (*Find, engage, and incentivize key talent for innovation* and *develop innovation skills for all employees* rank among the top five innovation strategies.) A recent research report by The Conference Board*, Designing Global Businesses for Innovation and Growth*, found nine human capital practices are emphasized by companies considered top performers in the innovation field:[8]

1   Ensuring that hands-on learning is encouraged across the organization

2   Creating a culture that embraces innovation and change

3   Designing jobs to support participation in the innovation process

4   Making special efforts to retain innovators and key knowledge workers

5   Matching the right people with the right skills in innovative activities

6   Providing innovation guides and mentors for innovation process participants

7   Providing learning opportunities to develop innovation competencies

8   Setting innovation expectations as part of performance reviews

9   Targeting new hires with entrepreneurial mindsets and experiences

Chief Talent/Learning Officer

Leaning on leaders, and approaches to developing effective leaders CEOs are stressing the importance of strong leadership for organizational growth, along with improving leadership development programs. *Enhance effectiveness of the senior management team* and *improve leadership development programs* are both top-five strategies to meet the **Human Capital** challenge. A recent report by The Conference Board, *DNA of Leaders: Leadership Development Secrets*, found that companies known for consistently developing great leaders have: a clarity of vision about what strong leaders need to be and do (both now and in the future) that is intricately linked to core values; a highly involved senior leadership team; holistic, systematic processes; and dedicated professionals who do the hard work of forging leaders in a crucible of rapid change, accelerated time frames, and shifting geopolitical, economic, and demographic landscapes.[9] Among that report's key findings:

- while a *Global thinking/mindset* was the attribute selected most often as critical for successful global leaders, *Collaboration* and *Integrity* are also key attributes, closely followed by the ability to *Lead change*, develop others, and innovate;

- regional differences in leadership, while nuanced, still matter, and *Collaboration*, *Cultural sensitivity*, and one's personal style are key attributes for regional leaders;

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8   *Designing Global Businesses for Innovation and Growth,* The Conference Board, Research Report 1555, August 2014.

9   *DNA of Leaders: Leadership Development Secrets*, The Conference Board, Research Report 1530, August 2013.

- the operating model for leaders, especially for regional ones, has evolved toward a "freedom in a framework" approach, which shifts emphasis from strict rules to guiding principles;

- leadership development programs and processes are being streamlined, simplified, and more closely aligned with corporate values; and

- the success of leadership development programs and processes are increasingly measured by business linkage and impact.

The diversity disconnect, and developing culturally sensitive leaders While CEOs place diversity-related strategies to meet various challenges low on their lists (among the 20s), our research, as well as the perspectives from human capital practitioners among Councils and conferences by The Conference Board, continually stress that future effective business leadership will be about understanding diversity of cultures, generations, customers, and thought processes and determining what motivates each generation within a culturally specific context. Culture differences and workforce and customer demographics are contributors to the intensifying complexity of the emerging global and regional environments, and cultural competency is now more important than ever. It appears that human capital practitioners are not effectively demonstrating the business case for diversity to their own leaders.

Participants in The Conference Board ASEAN Leadership 2.0 project say developing culturally aware leaders is never easy, but there are some basic principles that they have found effective, which organizations across the globe can apply:[10]

- Embed cultural awareness into corporate values. Define the dimensions of cultural sensitivity, and tackle the issue with sincerity from the top down.

- Set expectations that culture sensitivity is a critical competency early in an individual's employment. Guided by policies, HR has to hold accountable line management and leaders by setting key performance indicators.

- Introduce programs that expose potential leaders to new cultures. Place leaders in short-term international assignments.

- Organize pre- and post-assessments on assignments. Many companies ensure their people attend courses in culture before sending them to a new place.

- Include a cross-cultural sensitivity assessment or add cultural sensitivity as a core competency in the existing 360-degree feedback program. Tap into feedback from many channels, including local line managers.

- Encourage exploration: language, local customs, music, and foods.

- Conduct cross-cultural learning programs on a regular basis, and leverage the diversity of your existing staff. Hold cross-cultural sharing sessions (for example, sharing recipes/dishes) to build appreciation of differences among the staff.

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10 The 10 members of the Association of Southeast Asian Nations (ASEAN) are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. *The Future ASEAN Leader: Leading Growth and Change in a Borderless World*, The Conference Board, Research Report 1536, March 2014.

- Build emotional intelligence to improve openness toward the cultures of others. Encourage and reward displays of values, such as respect, empathy, and humility.

- Accept that there are different styles of working across countries, cultures, and generations. Make sure leaders are proficient in conflict management.

- Set up coaching for leaders who score low for cultural sensitivity. Hold internal counseling sessions between an experienced senior employee and the newcomer on cultural issues.

- Hire individuals who have a proven record of adapting to diverse cultures. When hiring, ask about cross-culture exposure and experience. Look at candidates' job/role history carefully.

General Counsel

Ethics, living corporate values, and ensuring compliance are growing in importance
Slowing global economic growth, pressure on profit margins, and changes in the global regulatory environment may entice some organizations and employees to take short cuts to make their numbers. This means monitoring and measuring the organization's ethical performance, effective third-party due diligence, and developing a strong ethical culture are even more critical to sustainable performance, trust building, and enhancing reputational capital. Points of emphasis in this year's responses are *strengthen internal regulatory compliance processes* (first for the **Government Regulation** challenge), and *communicate corporate values to customers and key stakeholders* and *ensure ethical accountability throughout the organization* (ranked first and second, respectively, for **Corporate Brand and Reputation**). Research by The Conference Board has found that ensuring a culture of compliance and strong ethics begins with ensuring:[11]

- Codes of conduct are clear, up to date, and relevant to the geographies in which your organization operates. It is also important that programs are fully integrated into the organization's mission, strategy, and operations.

- Corporate ethics codes and value standards are frequently and effectively communicated to all employees in language and terms that are understandable and relevant to their roles.

- Effective enforcement mechanisms with proper investigation methods and disciplinary procedures are in place.

- Regular oversight and review of codes, procedures, and enforcement techniques take place to achieve continuous improvement.

- Employees have a transparent and trustworthy option for reporting possible violations to management.

Admittedly, obtaining full funding and adequate resources for such programs in organizations that have not had serious ethical or reputational challenges is not easy, but it should remain a priority since the risks and costs of noncompliance are now higher than ever.

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11 *Ethics Issues and Programs: The Role of the Board*, The Conference Board, Research Report 1487, December 2011.

Protecting IP and data Cybersecurity is a top-five hot-button issue very much on the minds of CEOs this year, especially in more mature economies. Whether it's a natural disaster, an ill-intentioned insider, or an outside hacker armed with nefarious code that takes down the corporate network, success is judged on the ability to minimize downtime and damage and to bounce back quickly—it is about resiliency. Like it or not, businesses are assuming higher risks by chasing new digital revenue streams. The Conference Board Council of Corporate Security Executives says that cybersecurity is an enterprise-wide risk, and it warns not to underplay the human side—it's not just about technology. Too often, companies view the threat as emanating primarily from technology and ignore human behavioral aspects. Everything is a "technical breach." Such a focus is misplaced and too narrow. Questions that organizations need to answer about cyber risk include:[12]

- Are your IP and data and the risk to the corporate "crown jewels" prioritized by importance to the business and threat level?

- Has the company effectively allocated resources based on risk appetite and strategic assets?

- What technical capabilities are in place to identify malicious events in real time?

- How frequently does the board receive cyber-threat briefings from the company?

- What is the company's response plan in the event of a breach/attack? How often is the response plan tested?

- What relationships does the company have/need to develop with government and other third-party organizations to respond effectively to a breach?

Cyber Risk: The Role of the Board and C-Suite

With so much at stake for a business (just consider the Sony Pictures affair in late 2014), cyber risk management should be an enterprise-wide effort, with participation from senior executives, corporate officers, and directors, to ensure that the appropriate strategies, risk management policies, and budget are in place. Many corporate directors recognize that cyber risk management is an integral component of their fiduciary duty to the company, requiring them to act with care and diligence. Still, many boards struggle with how to effectively execute their duties to the company in the area of cyber risk management.

Prioritizing cyber risk management at the board level can help to increase awareness, establish management and oversight expectations, facilitate information exchanges about strategic and technical cyber risk challenges between the board and employees, and help facilitate a company-wide culture of cybersecurity. Directors should focus on both creating a board-level governance structure and evaluating the corporation's approach to cyber governance.

This approach should consider the role of key executives (e.g., CEO, general counsel, chief financial officer, chief information officer, and chief information security officer), the way that risk management decisions are made, and whether a cybersecurity committee or management team exists or should be created. This committee or team can provide the board with information about a variety of cross-functional cyber risk issues, including existing and emerging legal requirements related to network and data security. As a result of rapidly expanding legal liability, general counsels are increasingly being tasked with leading (or co-leading with the chief information officer), cyber risk governance programs. Fortune 500 companies that maintain enterprise risk management programs are incorporating cyber risk into this broader framework.

Source: The Board's Role in Cybersecurity, The Conference Board, Director Notes, 6 no. 6, March 2014 (www. conference-board.org/publications).

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12 "The Board's Role in Cybersecurity," *Director Notes,* 6 no 6, The Conference Board, March 2014.

REGIONAL DIFFERENCES
CONTRASTING PRIORITIES

Though there is global convergence around the top four challenges (**Human Capital, Innovation, Customer Relationships** and **Operational Excellence**), there are interesting contrasts at the regional level in the strategies CEOs plan to meet these challenges. Among the findings from the 2015 survey:

Asia

The quest to move up the value chain CEOs in Asia rank **Innovation** as their top challenge, while giving **Sustainability** its highest ranking globally at number five (more specifically, it is third in China and fourth in India). CEOs see innovation as a critical step in moving up the global value chain and a key component of solving the region's ongoing productivity crisis. Though, like their global counterparts, they give environmentally friendly strategies, such as *decrease carbon footprint/resource use* and *reduce consumption of energy, water, and other scarce resources,* low rankings—not only for the **Sustainability** challenge, but also **Corporate Brand and Reputation.** This is surprising in a region that arguably best exemplifies the worst effects of poor environmental management.

After years of struggling to bring a more innovative culture into their organizations, CEOs in Asia are prepared to leverage their renewed focus on customers to help them drive creativity and meet the **Innovation** challenge. At number two, after *incentivizing talent for innovation,* they give the highest global ranking to the strategy *adopt a user-centric approach to innovation—* which, in itself, is an innovative approach to innovation.

ASEAN

Filling the leadership gap As in other regions, **Human Capital** is the top challenge in ASEAN, with CEOs expressing particular concern about the quality of their leadership pipeline and succession plans, along with the overall skill level of their workforces. With the upcoming launch of the ASEAN Economic Community in 2015, CEOs says increased competition for both management talent and skilled labor will increase. Their top three strategies to address the **Human Capital** challenge—*improve leadership development programs*; *provide employee training and development*; and *improve succession planning for current and future needs*—directly address these concerns. Their fourth most-favored strategy, *raise employee engagement,* addresses both their concerns about improving productivity and retaining their workforces.

United States

Is government getting in the way? The challenge of **Government Regulation** remains in the top five for CEOs in the United States, but it's not all negative. Their second-highest rated strategy, after *strengthen internal compliance*, is *focus on competitive opportunities created by regulation,* which shows a willingness to be agile and innovative to leverage the competitive advantage that changing regulatory standards can provide. Their concern about government and its role in the economy is also reflected by their high ranking of government-related hot-button issues, including healthcare and the political paralysis in Washington. As noted earlier, US CEOs give **Sustainability** the lowest ranking of any global region, putting this challenge last on their lists.

Europe

Focusing on customers and reputation, CEOs in Europe give **Customer Relationships** their highest ranking among challenges, as the stagnant regional economy heightens competition for market share and squeezes profit margins. Reinforcing this focus on customers is the relatively high ranking they give to **Corporate Brand and Reputation**. To meet this challenge, Europe CEOs plan to improve product quality, make greater use of social media, and increase marketing and communication budgets to open new markets, win new customers, and retain current ones.

Latin America

The human capital link across challenges CEOs in Latin America see raising employee engagement as a critical component of their ability to meet their key challenges of **Human Capital** and **Operational Excellence**, as well as a driver for higher profitability. *Raise employee engagement to drive productivity* is their top-ranked strategy to improve operational efficiency. Also, three of their top four strategies to drive **Innovation** are people-oriented (*create culture of innovation by promoting and rewarding entrepreneurship and risk taking*; *develop innovation skills for all employees*; and *ensure more diversity on innovation teams and projects*). CEOs in Latin America give the diversity strategy the highest ranking of anywhere in the world.

The Quest to Build a High-Performing Organization

In a special section of this year's survey, CEOs 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. In a surprising result, CEOs ranked developing a global mindset among leaders and 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	Create/maintain a culture of accountability
T6	Promote agility and flexibility in our organizational design to reflect rapidly changing business needs
T6	Support a culture of innovation and entrepreneurship that learns from failure
T6	Empower employees to make appropriate decisions and execute effectively
9	Raise employee engagement to drive productivity
10	Improve performance management processes

Note: Some rankings are revised due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49. T=Tie.

Source: The Conference Board, 2015

The Road to Profitability

In a special section of 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, while providing for a more engaged and better-trained workforce. There is some ambivalence, however, when it comes to capital-spending programs to increase profitability—CEOs rank *increase capital spending program* twentieth on their strategies list, one position ahead of *decrease capital spending programs*—an indication that, while pushing for incremental performance and productivity improvement to drive growth, they have more of a "wait and see" attitude on capital commitments as the growth of the global economy slows.

Responses also indicate relative comfort with current sourcing locations. Strategies involving moving production locations either onshore to improve quality and market access or offshore to control costs and gain new market access are rated near the bottom of their lists. Surprisingly, CEOs put less emphasis on cost containment as a source of strengthening profitability.

CEOs in Latin America are the most optimistic about profit growth in the coming year, with more than 20 percent expecting profits to "increase substantially" in 2015 and 55 percent seeing moderate growth.

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	Launch customer engagement initiatives & loyalty programs to increase demand
9	Eliminate low margin operations
10	Consolidate supply chain for efficiency

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

THE HOT-BUTTON ISSUES
MICRO BUSINESS CLIMATES ARE VOLATILE

Hot-button issues—the short-term events, issues, and situations that CEOs believe will require their focus in the next year—tap into the business realities on the ground. In most cases, they reduce the global nature of business into highly specific regional pain points. While CEOs around the world have a common goal of driving business growth and improving their organizations' performance, the obstacles they face vary widely according to their location. What keeps a CEO up at night in Shanghai or London or New York is very different—with the exception of how their customers' behavior is changing. It is the only hot-button issue to make the top three in all regions. The differences in regional emphasis are telling: For example, while US CEOs have the *political paralysis of the US federal government* and *healthcare benefits for employees* among their top five, neither issue ranks any higher than seventeenth elsewhere in the world.

Global and regional hot-button issues, 2015

Changing customer behavior is on everyone's mind; CEOs in emering 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	5	T1	5	2	7	2
3	Slowing economic growth in emerging markets	12	7	3	4	6	4	3
4	Cybersecurity	2	3	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	8	13	19	13	9	T9
8	Diversity in our leadership ranks	10	6	11	9	12	12	8
9	Wage inflation	15	25	5	2	8	2	7
10	Big data analytics	9	9	15	11	16	8	12
11	Currency volatility	T24	12	9	15	4	1	5
12	Financial instability in Europe	14	2	19	20	23	11	19
13	Corporate tax reform	8	23	10	10	3	14	T17
14	Financial instability in China	16	10	7	7	26	20	T20
15	Labor relations	19	20	12	8	18	T5	6

Global and regional hot-button issues, 2015 continued

Changing customer behavior is on everyone's mind; CEOs in emering 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
T16	Healthcare benefits for employees	3	21	21	18	21	T17	T20
T16	Complying with government regulations on bribery and corruption	T24	27	8	13	14	T5	T9
18	Activist shareholders/ stakeholders	17	T16	T16	14	10	T17	15
19	Workplace safety	T20	15	18	16	15	T22	11
20	Political instability/ conflict in the Middle East	18	4	24	T24	20	25	T17
21	Political instability/ conflict in Asia-Pacific	T22	T18	14	17	11	13	27
22	Migrating data to the cloud	13	T16	23	21	17	T22	22
23	Political paralysis of US federal government	4	26	25	22	22	26	24
24	Political instability/ conflict in Russia/Ukraine	T22	10	20	23	25	27	26
25	Volatility in energy markets	26	T18	22	T24	7	T17	T13
26	Restrictive immigration regulations that limit talent pool	T20	22	T26	27	24	24	25
27	Human rights risk in our supply chain	27	24	T26	26	NR	21	23

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie. In addition to other countries, the Asia category includes China, India, and Australia.

* European data revised on 11 February 2015 due to re-weighting of results.

Source: The Conference Board, 2015

Last year's top global hot-button issue, *big data analytics,* slid all the way down to the tenth spot—an indication that CEOs have at least managed to get their heads around the concept and are now trying to operationalize it. Among the regional differences:

Asia

While CEOs in Asia are concerned about the emergence of new competitors, customer behavior, and slowing emerging-market growth, they, like their counterparts in ASEAN, are feeling the bite of wage inflation in a talent market that remains tight and where they say key positions are even harder to fill than in the previous year. Their concern about *financial instability in China*, by far the region's largest market and dominant influence, and *volatility in cash flow* and *currency volatility* represent the possible fallout from slowing growth rates in both regional and global economies.

ASEAN

With the end of the US government's quantitative easing program, falling energy and commodity prices, and the upcoming launch of the ASEAN Economic Community in 2015, CEOs in ASEAN are focused on *currency volatility*—it is their number-one hot-button issue. *Wage inflation* and *labor relations* are also among their top five, reflecting not only the tightness of the top-end talent market but the restiveness and growing activism among the rank and file. The year 2014 was marked by numerous labor actions and strikes in almost every country within ASEAN—and there are signs of more of the same in 2015.

United States

While CEOs in the United States may share concerns with their global counterparts about changing customer behaviors and the emergence of new global competitors, what keeps them up at night is considerably different—and highly specific to US political culture. Following high-profile data breaches at big-name retailers, such as Target, Home Depot, Kmart, and Staples, *cybersecurity* remains very much on the minds of US CEOs—it is their second most-critical hot-button issue and receives the highest ranking of any region globally. Also unique to the United States is the concern over *healthcare benefits for employees*—while third in the United States, it ranks no higher than 17 elsewhere. And it looks like the late US politician Tip O'Neil was right when he said that all politics are local. *Political paralysis of US federal government,* something that businesses in America must live with daily*,* is the fourth-ranked hot-button issue. Yet it seems that CEOs outside of the United States couldn't care less. Humbling as it is to Washington, the issue ranks no higher than 22 anywhere else in the world.

Europe

Like their counterparts in the United States, CEOs in Europe are also concerned about the threat that *cybersecurity* poses to their operations, but, unlike CEOs elsewhere, they are heavily focused on geopolitical and macroeconomic upheavals in both internal and external markets. They rank *financial instability in Europe* as the second most-critical hot-button issue, while *political instability/conflict in the Middle East* and *political instability/conflict in Russia/ Ukraine* make their top 10. *Financial instability in China* ranks eleventh. Considering the dependence of much of Europe on export markets for growth and foreign markets for energy, this outward focus is expected. At number six, they also give the highest global ranking to *diversity in our leadership ranks*, recognition that diversity of thought can be a competitive advantage in a down market. *Political paralysis of the US federal government*, which is so much on the minds of their US counterparts, ranks twenty-sixth in Europe, one spot ahead of *complying with government regulations on bribery and corruption*.

Latin America

CEOs in Latin America are feeling the pinch of slowing global economic growth, expressing concern over the emergence of *new competitors globally*, the slowdown in emerging markets— prime customers for the commodity-driven economies of the region—and *currency volatility*. *Labor relations* and *wage inflation*, two perennial issues in Latin America, are also among their top seven hot-button issues.

A Crowd-Sourced Self-Assessment of Emerging Market Leadership Gaps

In 2013 and early 2014, The Conference Board launched its Future Business Leader un-Conference series, an ongoing crowd-sourced dialogue focused on developing leadership solutions for the ASEAN, Indian, and Chinese business community, by the ASEAN, Indian, and Chinese business community. Harnessing the power of co-creation and crowd-sourcing to find peer-developed solutions and best practices to the leadership puzzle, The Conference Board un-Conference series brought together hundreds of the regions' most-experienced human capital practitioners, senior business executives, and industry experts, representing nearly 200 organizations, for a series of two-day deep dives into the essentials of business leadership in each region. In a true spirit of peer assist, many questions were answered, but many answers were also questioned.

And, according to participants in the un-Conference series, while most organizations in Asia may have a clear and evolving business strategy to meet the challenges ahead, few, if any, have a leadership development strategy that matches it. Participants see the failure to co-create these strategies in tandem as one of the biggest obstacles to developing the new type of business leader that is required. Too often, organizations use yesterday's tools and filters to develop tomorrow's leaders. The current paradigm of leadership development in ASEAN, India, and China, as well as in many places around the globe—cloning an organization's current leaders, shortcomings and all—creates the danger that companies and their leaders will become irrelevant and isolated in an environment that demands a new type of dynamic and culturally aware leader, able to perform on a global stage.

While 90 percent of all un-Conference participants say challenges for regional business leaders will increase considerably in the next three years, the vast majority says it is "difficult" or "very difficult" to find, develop, deploy, and retain local leaders, and there is significant concern about whether an organization's current leadership bench strength is sufficient to successfully meet future challenges.

Participants believe that, while there is much to admire in local business leadership styles today, leaders still need to adapt their styles considerably to meet a rapidly changing global environment. Un-Conference participants assessed current leaders in their region as follows:

A Crowd-Sourced Self-Assessment of Emerging Market Leadership Gaps continued

ASEAN

There is a crisis of confidence and communication. Leaders lack assertiveness, find it difficult to give honest and constructive feedback, are risk-adverse, and have difficulty delegating down the line. The most effective leaders in the region "manage with both their minds and their hearts." They need to be "progressive traditionalists," able to embrace change while respecting established tradition. On a global stage, leaders from the ASEAN region are simply too submissive and fail to advocate for themselves and their achievements.

India

There is belief that a certain arrogance exists within today's leadership—some call it overconfidence—that inhibits the ability to adapt to changing environments and continuously learn. Indian business leaders find it difficult to listen and take into account new ideas bubbling up from below in an organization. Working in or with a team is difficult because of their high individual drive and competitiveness. In many cases, leaders are more collaborative on a global stage than they are within India. There is a critical gap in both self-awareness and learning agility.

China

There is a strong bias toward performance and pragmatism, which sometimes limits the ability of business leaders to inspire and motivate. Participants see a growing importance of values and integrity as essential for emerging Chinese business leaders, especially as they move onto the global stage with more defined rules and higher behavioral expectations. There is a critical need for the development of greater cultural awareness and a global mindset. They must let the world in, not keep it out.

The Global Economy: Slowing Long-Term Growth

Barring major geopolitical upheaval, global economic growth in 2015 is expected to come in at 3.3 percent in 2015—slightly better than 2014, but the fourth year in a row of what, in historical perspective, is very modest growth, according to The Conference Board Global Economic Outlook 2015. The combination of modest job growth, weak business investment, and dismal productivity growth continues to affect most mature and several major emerging economies.

Looking into the next decade, our growth projections predict even less traction, at a 2.7 percent growth trend, from 2020 to 2025. While this outlook does not suggest the world economy is about to fall off a proverbial cliff again, it does create huge challenges for policy and business communities alike. An average 3 percent growth rate for the globe might only sustain a moderate rise in living standards. While this may just get us by, it is doubtful whether it will be enough to satisfy the needs of the growing middle classes in emerging economies, as well as the larger aging populations around the world, for adequate housing, education, and health care; a cleaner environment; and more security. A minimum average growth rate of 3.5 to 4 percent is necessary (even if not sufficient) to support the world's 8 billion people, with highly different demands, by 2025.

In 2015, our expectations are that the United States will continue to grow at about 2.9 percent, but the expansionary phase will show signs of maturing, causing a moderation in profitability, joined by a variety of cost pressures. Despite significant downside risks, the growth projection for the Euro Area in 2015 is about 1.4 percent, nearly double that of 2014, but there are dark clouds—from slowing exports to emerging markets, especially hurting Germany's growth engine, Greece's lingering debt crisis, and dysfunctional policy environment to tackle deflationary pressures. China, with an expected growth rate of 6.5 percent, will continue its "soft fall," as government stimuli will have less effect and monetary policy will become tighter. Other major emerging markets will continue to grow, but growth will vary, depending on the pace of reforms. We see Indian growth at 5.9 percent for 2015. New geographies for growth, such as Africa and parts of Asia, offer opportunities to build sustainable growth models, but they also bring challenges on economic, legal, and institutional fronts. Downsides to the global outlook relate to intensifying political and economic risks; upsides relate to the ability of policy and business to invest in people, raise productivity, and rebuild trust and confidence.

Source: The Conference Board Global Economic Outlook 2015, Are We Asleep at the Wheel?, StraightTalk®, 25 no. 1, November 2014 (www.conference-board.org/economic-outlook).

STRATEGIES TO MEET THE TOP FIVE GLOBAL CHALLENGES

HUMAN CAPITAL

	1	1	2	2	1	1	1	1
HUMAN CAPITAL	Global	United States	Europe	Asia	China	India	ASEAN	Latin America
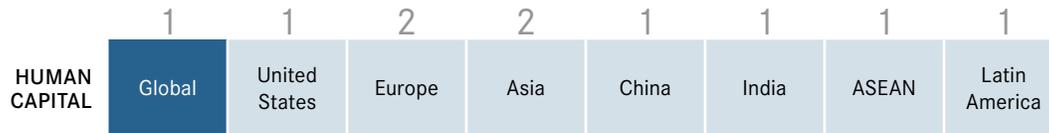
Human Capital is the number-one challenge globally. The strategies CEOs are using to meet it center on greater leadership effectiveness, building a performance culture through measurement and accountability, providing workforce training, and raising employee engagement. The trend is toward a "grow-your-own strategy," with few seeing hiring on the open market as an effective option. In Asia and China, the focus is on retention, while leadership development and succession planning are critical in the ASEAN region. CEOs in India are focused on raising employee engagement to spur productivity, while CEOs in Europe see succession planning and rewarding entrepreneurship as keys to success.

Human Capital strategies, global and regional

Globally, CEOs view talent broadly, focusing on leadership development, upskilling, and engaging their workforces; improving performance management and accountability is also seen as critical

Global N=694	Human Capital Strategies 2015	United States N=184	Europe* N=90	Asia N=217	China N=66	India N=61	ASEAN N=114	Latin America N=70
1	Improve performance management processes and accountability	2	8	1	4	3	5	T2
2	Provide employee training and development	1	3	5	7	2	2	1
3	Enhance effectiveness of the senior management team	8	10	2	1	5	8	5
4	Raise employee engagement	6	4	6	8	1	4	T2
5	Improve leadership development programs	T4	7	8	10	4	1	6
6	Focus on internally developed talent to fill key roles	7	5	7	5	7	7	7
7	Increase efforts to retain critical talent	T4	9	4	2	10	6	4
8	Improve succession planning for current and future needs	3	1	12	13	8	3	9

Human Capital strategies, global and regional continued

Globally, CEOs view talent broadly, focusing on leadership development, upskilling, and engaging their workforces; improving performance management and accountability is also seen as critical

Global N=694	Human Capital Strategies 2015	United States N=184	Europe* N=90	Asia N=217	China N=66	India N=61	ASEAN N=114	Latin America N=70
9	Improve corporate brand and employee value propositions to attract or retain top talent	11	11	3	3	6	10	15
10	Improve effectiveness of front-line supervisors and managers	9	12	9	6	9	11	8
11	Promote and reward entrepreneurship and risk taking	12	2	10	14	13	16	12
12	Hire more talent in the open market	10	15	14	12	T15	14	10
13	Increase diversity and cross-cultural competencies	13	6	15	T17	14	19	14
14	Redesign financial rewards and incentives	15	13	11	9	12	12	13
15	Invest in education systems to improve workforce readiness	14	T17	16	15	11	13	16
T16	Pay more attention to labor relations issues	22	T20	13	11	NR	9	17
T16	Expand talent pools by recruiting nontraditional workers	17	16	17	T21	T15	17	T18
18	Manage a multigenerational workforce	18	14	22	T21	T18	18	11
19	Require the use of analytics to articulate the business impact of key human capital initiatives and programs	16	19	18	16	T18	15	22
20	Encourage use of social media for talent recruitment and acquisition	20	T17	20	20	17	20	21
21	Increase the use of contractual or contingent workers	19	T20	21	19	T20	21	T18
22	Decrease the use of contractual or contingent workers	21	NR	19	T17	T20	22	20

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

* European data revised on 11 February 2015 due to re-weighting of results.

Source: The Conference Board, 2015

INNOVATION

2	4	3	1	2	5	4	4
INNOVATION Global	United States	Europe	Asia	China	India	ASEAN	Latin America
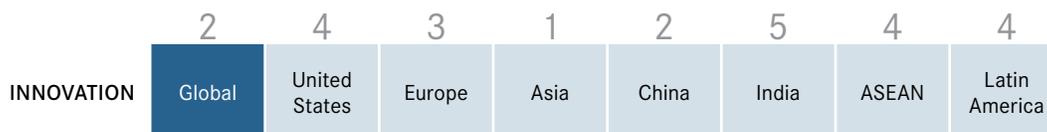
Globally, CEOs act on the critical importance of building innovation into the organizational DNA by incentivizing talent to take risks and spreading innovation skills throughout the enterprise. CEOs in China and India stress the importance of a customer-centric approach. European CEOs are stressing incremental innovation for the short-term, while ASEAN CEOs stress a long-term approach to R&D.

Innovation strategies, global and regional

While technology still plays a role, CEOs favor corporate culture and an engaged workforce as critical enablers; CEOs in Latin America place great value on diversified innovation teams, while CEOs in ASEAN and China take a longer-term view of R&D

Global N=599	Innovation Strategies 2015	United States N=151	Europe* N=84	Asia N=216	China N=65	India N=62	ASEAN N=80	Latin America N=43
1	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	1	1	5	8	T1	4	1
2	Engage in strategic alliances with customers, suppliers, and/or other business partners	2	2	4	3	T1	3	5
3	Find, engage, and incentivize key talent for innovation	3	3	1	1	3	7	8
4	Apply new technologies (product, process, information, etc.)	4	5	3	2	6	1	2
5	Adopt a user-centric approach to innovation	8	6	2	4	4	11	16
6	Develop innovation skills for all employees	6	10	9	5	7	2	3
7	Ensure more diversity on innovation teams and projects	12	7	7	7	8	T9	4
8	Pursue "open innovation" concepts	13	8	6	12	5	6	12
9	Invest more in long-term research and development	9	9	10	6	9	5	9
10	Encourage more product-specific incremental innovation for the short term	10	4	12	10	T10	T13	10

Innovation strategies, global and regional continued

While technology still plays a role, CEOs favor corporate culture and an engaged workforce as critical enablers; CEOs in Latin America place great value on diversified innovation teams, while CEOs in ASEAN and China take a longer-term view of R&D

Global N=599	Innovation Strategies 2015	United States N=151	Europe* N=84	Asia N=216	China N=65	India N=62	ASEAN N=80	Latin America N=43
11	Leverage expertise of senior leaders to develop high-potentials and transfer knowledge	7	14	11	11	12	8	7
12	Change business model	11	11	8	9	T14	15	11
13	Leverage competitive business intelligence	5	12	14	13	T10	T9	6
14	Support the strengthening of intellectual property and patent protection	14	15	13	14	T14	12	15
15	Use social media tools for internal knowledge sharing	15	16	15	15	13	T13	14
16	Seek government support and funding for research and development	16	13	16	15	16	16	13

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

* European data revised on 11 February 2015 due to re-weighting of results.

Source: The Conference Board, 2015

CUSTOMER RELATIONSHIPS

3	2	1	3	5	6	3	3
Global	United States	Europe	Asia	China	India	ASEAN	Latin America

CUSTOMER RELATIONSHIPS
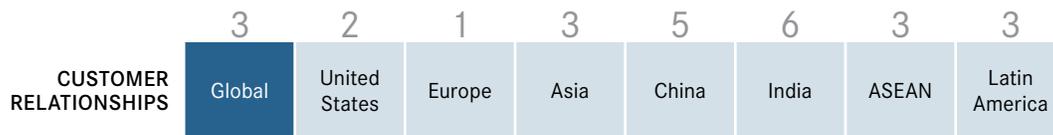
Globally, CEOs stress the need for personal contact with key customers, while trying to both enhance quality and increase speed to market—a tough balancing act. It is also about building a customer-centric culture. Asia's focus on sustainability is reflected in the high ranking its CEOs give to developing sustainable products and services as a strategy to meet this challenge. CEOs in India and Latin America stress the trust-building measure of increasing transparency, while CEOs in the United States, Europe, China, and ASEAN plan more tailored promotion and communication to reach diverse markets.

Customer Relationship strategies, global and regional

Globally, CEOs see quality products/services as the first step toward customer loyalty; their own personal engagement with key customers and clients is seen as critical. CEOs in ASEAN emphasize the importance of frontline employees to brand building.

Global N=658	Customer Relationships Strategies 2015	United States N=175	Europe* N=92	Asia N=221	China N=57	India N=61	ASEAN N=86	Latin America N=55
1	Engage personally with key customers/clients	1	1	2	2	4	6	2
2	Enhance quality of products/services	2	5	1	1	1	1	4
3	Develop a more outward looking customer-centric culture	3	2	5	4	3	5	7
4	Increase speed of products and services to market	T6	6	4	7	11	7	5
5	Tailor marketing, promotion, and communications campaigns to key customer needs	4	3	7	3	15	2	6
6	Use competitive intelligence to better understand customer/client needs	5	4	9	12	7	8	1
7	Increase transparency of customer relationship processes	8	10	8	T14	2	4	3
8	Promote sustainable products/services	15	13	3	5	6	12	10
9	Use social media and new communication technologies	11	7	6	T10	10	9	13
10	Broaden range of products/services	9	8	11	9	13	10	9

Customer Relationship strategies, global and regional continued

Globally, CEOs see quality products/services as the first step toward customer loyalty; their own personal engagement with key customers and clients is seen as critical. CEOs in ASEAN emphasize the importance of frontline employees to brand building.

Global N=658	Customer Relationships Strategies 2015	United States N=175	Europe* N=92	Asia N=221	China N=57	India N=61	ASEAN N=86	Latin America N=55
11	Increase user-friendliness of products/services	T6	11	10	6	5	11	12
12	Provide incentives for front-line employees to improve customer engagement	12	16	13	T10	12	3	T14
13	Employ new metrics on customer engagement and retention	10	12	15	T14	8	14	11
14	Employ big data analytics to better understand shifts in customer patterns	13	15	12	T14	14	13	8
15	Increase diversity and cross-cultural competencies of the organization	14	8	14	13	9	15	T14
16	Lower price of products/services	16	14	16	16	16	16	16

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

* European data revised on 11 February 2015 due to re-weighting of results.

Source: The Conference Board, 2015

OPERATIONAL EXCELLENCE

		4	3	4	4	4	2	2	2
OPERATIONAL EXCELLENCE		Global	United States	Europe	Asia	China	India	ASEAN	Latin America
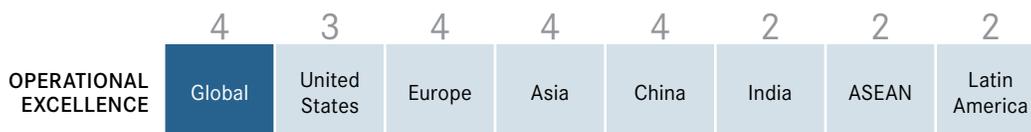
Globally, CEOs see better employee engagement to drive productivity as the first step in improving operations. CEOs in the United States have a strong bias toward organizational design and alignment to meet this challenge, as shown by their high rankings for strategies that include redesigning business process, improving agility, and breaking down organizational silos. CEOs in both ASEAN and Latin America are the only regions to rank *focus on reduction of baseline costs* among their top-five strategies, reflecting concerns about increased competition and slowing global growth and the impact it will have on low-cost manufacturing and commodity-driven economies.

Operational Excellence strategies, global and regional

CEOs favor an engaged workforce, along with organization alignment and agility. Compared to colleagues elsewhere, CEOs in Latin America and ASEAN are more focused on cost controls to improve efficiency.

Global N=677	Operational Excellence Strategies 2015	United States N=165	Europe* N=94	Asia N=232	China N=63	India N=66	ASEAN N=88	Latin America N=68
1	Improve our organizational agility/flexibility	3	3	1	5	2	12	2
2	Seek better alignment between strategy, objectives, and organizational capabilities	1	2	2	2	14	T6	11
3	Raise employee engagement to drive productivity	6	1	T5	3	1	1	1
4	Redesign business processes	2	T9	4	16	10	2	10
5	Continual improvement (lean six sigma, etc.)	7	4	8	6	5	5	3
T6	Invest in employee training and development to improve employee skills base	4	11	11	9	4	4	8
T6	Improve performance and accountability of middle management	8	T20	3	1	T12	T6	7
8	Invest more in new technologies	9	7	10	7	3	T9	9
T9	Achieve economies of scale through product/ process standardization and harmonization	18	8	T5	8	T16	23	T12
T9	Improve performance and accountability of senior management	8	13	7	4	6	8	16

Operational Excellence strategies, global and regional continued

CEOs favor an engaged workforce, along with organization alignment and agility. Compared to colleagues elsewhere, CEOs in Latin America and ASEAN are more focused on cost controls to improve efficiency.

Global N=677	Operational Excellence Strategies 2015	United States N=165	Europe* N=94	Asia N=232	China N=63	India N=66	ASEAN N=88	Latin America N=68
11	Break down internal silos	5	5	T16	14	T22	18	17
12	Improve speed to market	15	6	9	20	15	15	T12
13	Focus on reduction of baseline costs	T13	25	21	T23	11	3	4
T14	Better align IT with business goals	10	T9	T23	T27	T7	16	5
T14	Improve cash management	16	T14	13	11	T7	T21	14
16	Ensure supply chain integrity	17	T20	12	12	T12	T9	23
T17	Achieve economies of scale through organic business growth	12	17	T18	15	T18	20	18
T17	Secure lower costs for materials and other input resources	25	T14	T18	T21	24	T13	6
T19	Better align executive compensation and incentives with business performance	T20	T28	14	10	25	T13	15
T19	Reduce management layers	24	T18	T16	13	T18	T21	19
21	Increase diversity and cross-cultural competencies in the organization	23	16	15	T17	T16	27	26
22	Improve capital investment decision process	T20	22	20	T17	21	19	25
23	Deepen integration of global operations and policies	19	23	T23	T17	T28	24	20
24	Consider sourcing opportunities globally	28	12	28	T27	T26	11	NR
25	Better manage outsourced operations and offshore operations	22	T18	22	T23	9	26	27
T26	Enhance the effectiveness of board governance	27	26	25	T21	T18	17	24
T26	Achieve economies of scale and/or synergies through mergers and acquisition	18	24	26	T23	T28	28	21
28	Optimize number of global suppliers	26	27	27	26	T26	25	22
29	Decrease carbon footprint/ resource use	29	T28	29	NR	T22	NR	28

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

* European data revised on 11 February 2015 due to re-weighting of results.

Source: The Conference Board, 2015

SUSTAINABILITY

	5	10	9	5	3	4	6	9
SUSTAINABILITY	Global	United States	Europe	Asia	China	India	ASEAN	Latin America
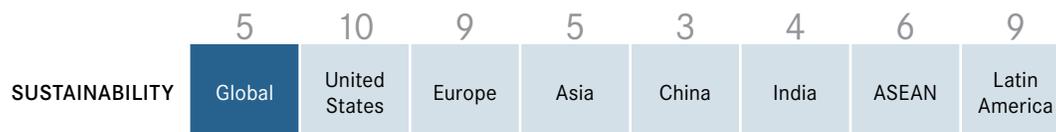
Globally, CEOs recognize the importance of a strong portfolio of sustainable products and services to meet evolving consumer demand, but they also see sustainability as a tradeoff between short-term performance and longer-term growth—a notion that some CEOs dispute. They also see sustainability as a risk issue and an essential aspect of corporate branding. CEOs in Asia (particularly, China, where environmental degradation is rampant), perhaps sensing an opportunity for competitive advantage in developing expertise in this field, give the highest global ranking to fostering research into sustainable technologies. CEOs in Latin America are looking at local community engagement as a way to foster sustainable growth and manage expectations.

Sustainability strategies, global and regional

CEOs globally see the importance of a sustainability culture and goals in their organizations. CEOs in Latin America and India favor community outreach; CEOs in India are more willing to reduce consumption of scarce resources.

Global N=362	Sustainability Strategies 2015	United States N=54	Europe* N=44	Asia N=161	China N=61	India N=58	ASEAN N=62	Latin America N=26
1	Ensure sustainability is part of the corporate brand identity and culture of the organization	2	**1**	2	5	3	**1**	2
2	Incorporate sustainability goals into corporate strategic performance objectives	**1**	3	3	**1**	2	3	3
3	Enhance portfolio of sustainable products and services	5	4	**1**	2	**1**	4	6
4	Engage with stakeholders to balance short-term performance pressures with long-term sustainability goals	T6	2	6	4	12	2	12
5	Treat sustainability issues as long-term risk issues	3	6	5	6	13	7	13

Sustainability strategies, global and regional continued

CEOs globally see the importance of a sustainability culture and goals in their organizations. CEOs in Latin America and India favor community outreach; CEOs in India are more willing to reduce consumption of scarce resources.

Global N=362	Sustainability Strategies 2015	United States N=54	Europe* N=44	Asia N=161	China N=61	India N=58	ASEAN N=62	Latin America N=26
6	Foster research and development in sustainable technologies	10	9	4	3	11	12	7
7	Incorporate sustainability goals into individual employee performance objectives	4	T10	8	7	7	6	1
8	Increase public relations and marketing efforts around sustainability	9	12	7	8	T8	13	10
9	Improve sustainability measurement and reporting	T6	5	9	10	4	5	11
10	Encourage improvements in sustainability performance from suppliers and other business partners	11	T10	10	9	T8	8	5
11	Engage with local communities to enable sustainable growth and manage expectations	12	T7	T12	11	6	10	4
12	Reduce consumption of energy, water, and other scarce resources	8	T7	T12	12	5	11	8
13	Invest in new technologies to reduce both environmental impact and exposure to resource scarcity	13	14	11	13	T8	9	9
14	Articulate social purpose to stakeholders	14	13	14	14	14	14	14

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

* European data revised on 11 February 2015 due to re-weighting of results.

Source: The Conference Board, 2015

APPENDIX

THE CHALLENGES, BY INDUSTRY

Challenges by industry

Manufacturing CEOs are highly focused on **Innovation**, while finance-sector CEOs find **Government Regulation** a critical challenge; **Human Capital** is a shared concern

Global N=943	Challenges 2015	Manufacturing N=261	Financial Services N=116	Nonfinancial Services N=550
1	Human capital	2	1	2
2	Innovation	1	5	3
3	Customer relationships	4	2	1
4	Operational excellence	3	3	4
5	Sustainability	5	T7	6
6	Corporate brand and reputation	9	T7	5
7	Global political/economic risk	6	6	8
8	Government regulation	8	4	7
9	Global/international expansion	7	10	9
10	Trust in business	10	9	10

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50. T=Tie.

Source: The Conference Board, 2015

Top five strategies to meet the top five challenges, by industry

MANUFACTURING
(N=261)

	1 Innovation	2 Human Capital	3 Operational Excellence	4 Customer Relationships	5 Sustainability
1	Find, engage, and incentivize key talent for innovation	Improve performance management processes and accountability	Continual improvement (lean six sigma, etc.)	Enhance quality of products/services	Foster research and development in sustainable technologies
2	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Enhance effectiveness of the senior management team	Improve our organizational agility/flexibility	Increase speed of products and services to market	Incorporate sustainability goals into corporate strategic performance objectives
3	Apply new technologies (product, process, information, etc.)	Provide employee training and development	Raise employee engagement to drive productivity	Engage personally with key customers/clients	Enhance portfolio of sustainable products and services
4	Engage in strategic alliances with customers, suppliers, and/or other business partners	Improve leadership development programs	Achieve economies of scale through product/process standardization and harmonization	Develop a more outward looking customer-centric culture	Ensure sustainability is part of the corporate brand identity and culture of the organization
5	Pursue "open innovation" concepts	Raise employee engagement	Improve performance and accountability of middle management	Promote sustainable products/services	Engage with stakeholders to balance short-term performance pressures with long-term sustainability goals

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

FINANCIAL SERVICES

(N=116)

	1 Human Capital	2 Customer Relationships	3 Operational Excellence	4 Customer Relationships	5 Innovation
1	Improve performance management processes and accountability	Engage personally with key customers/clients	Improve our organizational agility/flexibility	Strengthen internal regulatory compliance processes	Apply new technologies (product, process, information, etc.)
2	Improve succession planning for current and future needs	Enhance quality of products/services	Break down internal silos	Focus on competitive opportunities created by regulation	Engage in strategic alliances with customers, suppliers, and/or other business partners
3	Raise employee engagement	Use competitive intelligence to better understand customer/client needs	Better align IT with business goals	Personally spend more time with regulators	Develop innovation skills for all employees
4	Provide employee training and development	Tailor marketing, promotion, and communications campaigns to key customer needs	Redesign business processes	Engage with competitors to influence regulatory agenda	Find, engage, and incentivize key talent for innovation
5	Focus on internally developed talent to fill key roles	Increase user-friendliness of products/services	Raise employee engagement to drive productivity	Encourage more industry self-regulation	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

NONFINANCIAL SERVICES

(N=550)

	1 Customer Relationships	2 Human Capital	3 Innovation	4 Operational Excellence	5 Corporate Brand and Reputation
1	Engage personally with key customers/clients	Provide employee training and development	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Seek better alignment between strategy, objectives, and organizational capabilities	Communicate corporate values to customers and key stakeholders
2	Develop a more outward-looking customer-centric culture	Focus on internally developed talent to fill key roles	Engage in strategic alliances with customers, suppliers, and/ or other business partners	Improve our organizational agility/flexibility	Enhance quality of products and processes
3	Enhance quality of products/services	Increase efforts to retain critical talent	Adopt a user-centric approach to innovation	Raise employee engagement to drive productivity	Ensure ethical accountability throughout the organization
4	Tailor marketing, promotion, and communications campaigns to key customer needs	Raise employee engagement	Apply new technologies (product, process, information, etc.)	Redesign business processes	Improve alignment of business practices/ management behavior with corporate values
5	Use social media and new communication technologies	Improve performance management processes and accountability	Find, engage, and incentivize key talent for innovation	Improve speed to market	(T) Increase investment in corporate brand communication externally (T) Enhance corporate brand awareness and understanding across different cultures (T) Use social media and new communication technologies to enhance brand image

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49. T=Tie.

Source: The Conference Board, 2015

Top 10 challenges, by revenue

There is convergence around **Human Capital**, **Innovation**, and **Operational Excellence** across all revenue groups; largest companies rank **Sustainability** lower than smaller companies, which see its growth potential for their businesses

Global N=943	Challenges 2015	Less than $100 million N=484	$100 million to under $1 billion N=192	$1 billion to under $5 billion N=95	$5 billion and above N=134
1	Human capital	3	1	2	1
2	Innovation	2	4	1	2
3	Customer relationships	1	2	3	3
4	Operational excellence	4	3	4	4
5	Sustainability	6	5	5	10
6	Corporate brand and reputation	5	7	9	9
7	Global political/economic risk	8	8	8	5
8	Government regulation	7	6	7	6
9	Global/international expansion	9	9	6	7
10	Trust in business	10	10	10	8

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015. For details, see "Survey Methodology" on page 49. N=Number of overall responses. The response rate varies for each challenge. Each score represents the mean of the ranks given the challenge. For information about how the scores were created, see "About the 2015 Survey" on page 50.

Source: The Conference Board, 2015

Top five strategies to meet the top five challenges, by revenue

LESS THAN $100 MILLION
(N=484)

	1 Customer Relationships	**2** Innovation	**3** Human Capital	**4** Operational Excellence	**5** Corporate Brand and Reputation
1	Engage personally with key customers/ clients	Engage in strategic alliances with customers, suppliers, and/ or other business partners	Provide employee training and development	Seek better alignment between strategy, objectives and organizational capabilities	Communicate corporate values to customers and key stakeholders
2	Enhance quality of products/ services	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Improve performance management processes and accountability	Improve our organizational agility/flexibility	Enhance quality of products and processes
3	Develop a more outward looking customer-centric culture	Adopt a user-centric approach to innovation	Enhance effectiveness of the senior management team	Raise employee engagement to drive productivity	Ensure ethical accountability throughout the organization
4	Tailor marketing, promotion, and communications campaigns to key customer needs	Find, engage, and incentivize key talent for innovation	Increase efforts to retain critical talent	Redesign business processes	Improve alignment of business practices/ management behavior with corporate values
5	Use social media and new communication technologies	Apply new technologies (product, process, information, etc.)	Improve corporate brand and employee value propositions to attract or retain top talent	Improve performance and accountability of middle management	Enhance corporate brand awareness and understanding across different cultures

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

$100 MILLION TO UNDER $1 BILLION
(N=192)

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

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

$1 BILLION TO UNDER $5 BILLION

(N=95)

	1 Innovation	2 Human Capital	3 Customer Relationships	4 Operational Excellence	5 Sustainability
1	Find, engage, and incentivize key talent for innovation	Improve performance management processes and accountability	Increase speed of products and services to market	Seek better alignment between strategy, objectives and organizational capabilities	Foster research and development in sustainable technologies
2	Pursue "open innovation" concepts	Improve leadership development programs	Enhance quality of products/services	Improve our organizational agility/flexibility	Treat sustainability issues as long-term risk issues
3	Engage in strategic alliances with customers, suppliers, and/or other business partners	Provide employee training and development	Increase transparency of customer relationship processes	Raise employee engagement to drive productivity	Ensure sustainability is part of the corporate brand identity and culture of the organization
4	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Improve succession planning for current and future needs	Promote sustainable products/services	Continual improvement (lean six sigma, etc.)	Incorporate sustainability goals into corporate strategic performance objectives
5	Leverage expertise of senior leaders to develop high-potentials and transfer knowledge	Raise employee engagement	Engage personally with key customers/clients	Break down internal silos	Enhance portfolio of sustainable products and services

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

$5 BILLION AND ABOVE

(N=134)

	1 Human Capital	2 Innovation	3 Customer Relationships	4 Operational Excellence	5 Global Political/ Economic Risk
1	Improve performance management processes and accountability	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Develop a more outward looking customer-centric culture	Improve our organizational agility/flexibility	Improve our organizational agility/flexibility
2	Improve succession planning for current and future needs	Apply new technologies (product, process, information, etc.)	Enhance quality of products/services	Achieve economies of scale through product/process standardization and harmonization	Integrate long-term risk recognition into strategic planning
3	Increase diversity and cross-cultural competencies	Find, engage, and incentivize key talent for innovation	Engage personally with key customers/clients	Redesign business processes	Reduce exposure to risky countries/ regions
4	Promote and reward entrepreneurship and risk taking	Engage in strategic alliances with customers, suppliers, and/ or other business partners	Increase speed of products and services to market	Break down internal silos	Update contingency plans and procedures for crises (e.g., geographical, political, relocation of employees)
5	Enhance effectiveness of the senior management team	Change business model	Use competitive intelligence to better understand customer/client needs	Invest more in new technologies	Diversify supply chain

Note: Some rankings are revised slightly due to re-weighting of European data, 11 February 2015.
For details, see "Survey Methodology" on page 49.

Source: The Conference Board, 2015

DEFINING THE CHALLENGES

CEOs were asked to choose from the following challenges, defined as:

Corporate Brand and Reputation How your organization and its products and services are viewed by stakeholders.

Customer Relationships How your company interacts with customers; winning and retaining customers.

Global/International Expansion Seeking growth in multiple markets outside your home country.

Global Political/Economic Risk Dealing with social, political, economic, and physical and cybersecurity factors in the global business environment.

Government Regulation The impact on the business environment of government rules, regulations, and reporting requirements.

Human Capital Addresses the full spectrum of the employee/employer experience, which includes understanding global labor markets and workforce readiness; determining the skills and competencies companies need to compete and win; creating a compelling employment brand; managing compensation, benefits, and wellness programs; attracting, developing, rewarding, engaging, and retaining diverse talent; managing performance; growing leaders at all levels; managing succession; and articulating the impact of all these efforts in business terms.

Innovation Creating value through new products, new processes, business models, and organizational structures to meet and anticipate customer demands and remain competitive in a global marketplace.

Operational Excellence The measure of effectiveness, efficiency, and alignment of an organization's processes, strategies, tactics, culture, and methodologies in such functions as finance, talent, governance, and operations that must be optimized to achieve business objectives and goals.

Sustainability The pursuit of a business growth strategy that creates long-term shareholder value by seizing opportunities and managing risks related to the company's environmental and social impacts. These impacts include elements of corporate citizenship, corporate governance, environmental stewardship, labor and workplace conditions, supply chain and procurement, community involvement, and philanthropy.

Trust in Business The perception and expectation that corporations and business leaders will do the right thing, will operate in an ethical manner, and meet the social, moral, and environmental expectations of stakeholders by doing business according to societal norms, values, rules, and laws.

SURVEY METHODOLOGY

This report is based on responses from CEOs, presidents, and chairmen to the CEO Challenge survey, distributed between September and October 2014. Respondents were asked to rank order their top five challenges from a list of 10.

To reach the aggregate ranking of challenges and to develop an importance-adjusted score, two additional computations were conducted. First, to reflect the ranking of the challenges by the respondents, each challenge was assigned a weight: if a particular challenge was ranked one, it was given a weight of five, a number two rank was given a weight of four, and a ranking of number three was given a weight of three, and so forth through the top five. (Challenges that were not ranked by respondents among the top five received zero weight.)

Second, each weighted score was then assigned an additional weight based on the share of respondent's country GDP as a proportion of all countries represented in the survey sample relative to the share of that country's respondents in the total of 943 responses. Similar weights were assigned to regions, industry sectors, and revenue groups.

For greater insight into how CEOs plan to meet their challenges, respondents were also asked rank order five critical "strategies" (or strategic priorities) for meeting each of their top five challenges, which were weighted in the same way as the challenges.

We acknowledge that a survey of almost 1,000 respondents creates limitations regarding the statistical significance of the rankings. Therefore, the results presented are mostly for groupings of more than 50 respondents. In particular, for the smaller samples, the rankings provide a qualitative and directional indication of the importance of challenges.

Two supplemental questions were part of the 2015 survey: One asking respondents to identify their top five "hot-button" issues, those events or issue that will require the attention of respondents in the coming year. A second question asked respondents to select five strategies they will you use to support their journey to becoming (or remaining) a high-performing organization.

Changes were also made in the strategy lists to better reflect the reality of the current business environment.

REVISED, 11 February 2015

Following our original release of the CEO Challenge 2015 results on January 7, 2015, we subsequently discovered that the methodology for aggregating the survey results to (multi-country) regional levels, which was successfully used for many years, created some exceptional outliers impacting the reporting of the results for Europe in 2015. In this survey, the average European response was heavily skewed as a result of a low response rate in two countries (Turkey and Spain) that weighed too greatly in the aggregate result for Europe due to the relatively large size of their economies.

The Conference Board decided to remove the country weights for Spain and Turkey, thus reducing their impact on the aggregate result. The revision impacts our European results, especially reducing the importance of Global Political/Economic Risk among the top challenges in Europe. The revision has very minor impact on the global results, and all other regions, except for Europe, are not affected.

For more information on the changes, please contact
ceochallenge_inbox2@conference-board.org

Respondents by Region, Industry and Revenue Size

Region	Count	Percent
Asia	332	35.2
Europe	133	14.1
United States	230	24.4
Rest of the World	39	4.1
ASEAN	129	13.7
Latin America	80	8.5
TOTAL	943	100.0

Industry	Count	Percent
Manufacturing	261	28.2%
Finance	116	12.5%
Service	550	59.3%
TOTAL	927	100.0%

Revenue	Count	Percent
Less than $100 million	484	53.5%
$100 million to under $1 billion	192	21.2%
$1 billion to under $5 billion	95	10.5%
$5 billion and above	134	14.8%
TOTAL	905	100.0%

Revenue by region	United States Count	United States Percent	Europe Count	Europe Percent	Asia Count	Asia Percent	ASEAN Count	ASEAN Percent	Latin America Count	Latin America Percent	Rest of the World Count	Rest of the World Percent
Less than $100 million	104	46.6%	73	56.6%	206	64.0%	62	51.2%	27	35.5%	12	35.3%
$100 million to under $1 billion	40	17.9%	17	13.2%	68	21.1%	30	24.8%	24	31.6%	13	38.2%
$1 billion to under $5 billion	29	13.0%	16	12.4%	23	7.1%	13	10.7%	7	9.2%	7	20.6%
$5 billion and above	50	22.4%	23	17.8%	25	7.8%	16	13.2%	18	23.7%	2	5.9%
TOTAL	223	100.0%	129	100.0%	322	100.0%	121	100.0%	76	100.0%	34	100.0%

Source: The Conference Board, 2015

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ABOUT THE AUTHORS

Charles Mitchell, executive director, knowledge content and quality at The Conference Board, is responsible for the development of member-generated content and ensuring the objectivity, independence, accuracy, and business relevance of the organization's research. Since joining The Conference Board in 1997 as the head of publishing, he has authored dozens of reports on business and economic issues including *Go Where There Be Dragons – Leadership Essentials for 2020 and Beyond*; *Give the Working Poor a Working Chance*, a look at the role of business in alleviating global poverty; and *Water Worries: How Incorporating Long-Term Risk into Strategic Planning Pays Off*. Prior to joining The Conference Board, Mitchell spent 14 years as a reporter and writer for United Press International, based in Johannesburg, Nairobi, Moscow, and Washington. He was foreign editor of the *Detroit Free Press* from 1990 to 1996 and European editor for *World Business* magazine. Mitchell is also the author of several books dealing with international business cultures, customs, and etiquette published by World Trade Press, including *A Short Course in International Business Cultures* and *A Short Course in International Business Ethics*.

Rebecca L. Ray, PhD, is executive vice president, knowledge organization, and human capital practice lead for The Conference Board. In this role, she has oversight of the research planning and dissemination process for three practices areas: Corporate Leadership, Economics & Business Development, and Human Capital. Ray is the leader of the global human capital practice. Previously, she held executive positions in global talent management for several marquee companies. Ray taught at Oxford University and New York University and led a consulting practice for many years, offering leadership assessment and development services to Fortune 500 companies and top-tier professional services firms. She was named "Chief Learning Officer of the Year" by *Chief Learning Officer* magazine and one of the "Top 100 People in Leadership Development" by *Leadership Excellence* magazine. She serves on the advisory boards for New York University's Program in Higher Education/Business Education at The Steinhardt School of Education and the University of Pennsylvania's Executive Program in Work-Based Learning Leadership. She is a frequent speaker at professional and company-sponsored conferences and business briefings around the world. Ray received her doctorate from New York University. She is the coauthor of numerous articles and books, including *Measuring Leadership Development* (McGraw-Hill, 2012), *Measuring the Success of Leadership Development: Case Studies* (ATD, expected in 2014), and *Measuring Employee Engagement* (ATD, expected in 2015).

Bart van Ark is executive vice president, chief economist and chief strategy officer of The Conference Board. He leads a team of almost two dozen economists in New York, Brussels, and Beijing who produce a range of widely watched economic indicators and growth forecasts and in-depth global economic research. A Dutch national, he is the first non-U.S. chief economist in the history of The Conference Board. Van Ark is also responsible for strategy development and major new initiatives at The Conference Board. He continues to steward the longstanding research collaboration of The Conference Board with the University of Groningen in the Netherlands, where he has been a professor since 2000 and holds the university's chair in Economic Development, Technological Change and Growth. Van Ark has been published extensively in national and international academic journals, and he is frequently featured in major international business media, including Bloomberg, CNBC, *Financial Times,* and *Wall Street Journal*.

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Charles Mitchell Executive Director,
Knowledge Content and Quality
Email charles.mitchell@conference-board.org

Rebecca L Ray Executive Vice President, Knowledge
Organization, and Human Capital Practice Lead
Email rebecca.ray@conference-board.org
Twitter @RebeccaLeaRay
Blog https://hcexchange.conference-board.org/blog

Bart van Ark Executive Vice President,
Chief Economist, and Chief Strategy Officer
Email bart.vanark@conference-board.org
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