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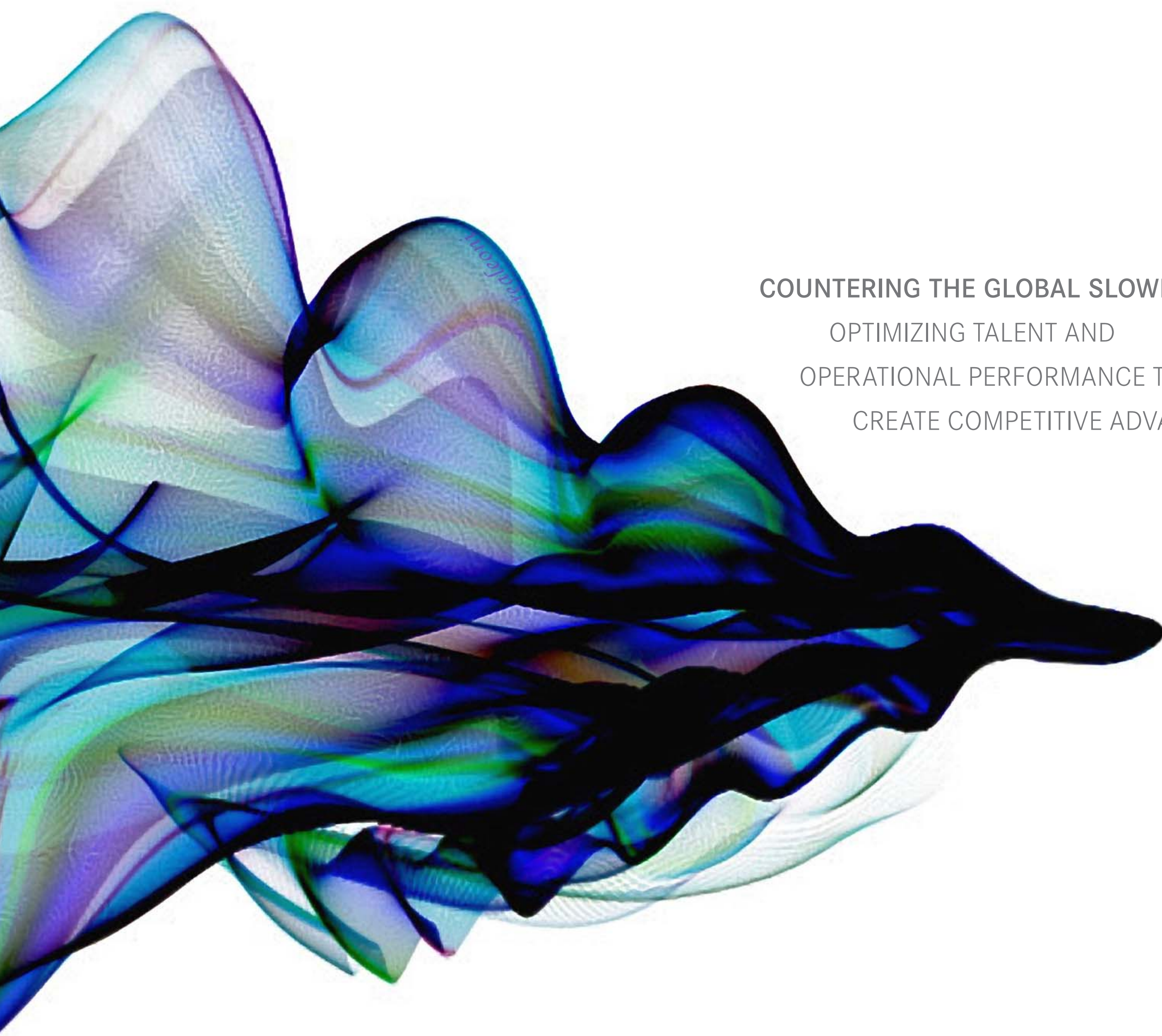

COUNTERING THE GLOBAL SLOWDOWN

OPTIMIZING TALENT AND
OPERATIONAL PERFORMANCE TO
CREATE COMPETITIVE ADVANTAGE

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CEO Challenge® 2013

Countering the Global Slowdown: Optimizing Talent and Operational Performance to Create Competitive Advantage

RESEARCH REPORT R-1523-13-RR

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

EXECUTIVE SUMMARY

THE TOP FIVE CHALLENGES

1. Human Capital
2. Operational Excellence
3. Innovation
4. Customer Relationships
5. Global Political/ Economic Risk

In today's slow-growth global economy, CEOs are taking a hard look at their own organizations, employees, customers, levels of efficiency, and innovation skills to plot a winning course in a challenging environment. This is the most important new insight to emerge from responses to the 2013 edition of *The Conference Board CEO Challenge* survey. Compared to last year's survey, CEOs appear somewhat less concerned than participants in previous years about external factors in the business environment that they cannot control (e.g., macro issues of risk and regulation). Instead, they are focusing on people-driven strategies to counter slow market and economic growth and improve performance.

Managing in a slow-growth environment presents a unique set of challenges for business leaders across the globe as they seek to leverage **Human Capital**, **Innovation**, and **Operational Excellence** to create value. In many ways, meeting these challenges is about engaging and retaining talent and improving processes and existing customer relationships to stay neck and neck with competitors—or even an inch or two ahead.

Other results from this year's survey:

- **Human Capital** is the number one challenge globally and in Asia and Europe, with the latter region's ranking representing a dramatic rise from seventh in 2012. The other four global challenges in rank order are **Operational Excellence**, **Innovation**, **Customer Relationships**, and **Global Political/Economic Risk**.
- The top five strategies selected by CEOs to meet the **Human Capital** challenge focus on current employees—not supervisors, managers, or the senior team. This indicates a move toward overall organizational capability building and away from the narrower approach of previous surveys that emphasized individual high-potential talent. *Grow talent internally* is the top-ranked strategy for all three regions as well as in China and India.
- There is considerably more regional agreement on challenges in this year's results than there was in 2012—a reminder of the interdependency of global business and a growing commonality of success formulas for world commerce and competitiveness. **Human Capital**, **Operational Excellence**, **Innovation**, and **Customer Relationships** make the top five challenge lists in Asia, Europe, and the United States.
- *Raising employee engagement and productivity* is seen as a critical factor in achieving **Operational Excellence**, a new challenge category that replaces the **Cost Optimization** category used in previous surveys. CEOs in Asia, where growth is relatively strong compared to other regions, rank *invest more in new technologies* second as a way to meet this challenge, which is the highest ranking for any region. U.S. and European CEOs are more focused on *reducing baseline costs* as way to improve operations.
- CEOs in Europe, Asia, and the United States agree they need to take more responsibility to personally engage with key customers and clients to meet the fourth-ranked challenge of **Customer Relationships**, which is up from seventh in 2012. The strategies they will use to meet this challenge include *ensuring better product and service quality* and *developing a sharper understanding of customers' needs and motivations*.

- There appears to be some easing of concern among CEOs about the global risk environment. **Global Political/Economic Risk**, which was the third-ranked challenge globally in 2012, slips to fifth in the 2013 survey. Regionally, the challenge fell from second rank to sixth in the United States and from first to a tie for third in Europe. While the risks haven't declined that much, CEOs have become more used to them and have put the necessary risk management processes in place. Executives are also focusing on strengthening their own resilience.
- In what should sound a warning to CEOs in other regions about the dangers of complacency, CEOs in Asia rank **Innovation** their number two challenge—the highest of any region. CEOs in China, a nation hungry to move up the global value chain and shake its reputation as a copier rather than a creator, rank **Innovation** first.
- U.S. CEOs rank **Government Regulation** second after **Operational Excellence**, which reflects issues related to the "fiscal cliff" and a widespread aversion among U.S. CEOs to deep government interventions in health care and other areas. Globally, even though the costs of compliance have increased and regulations have intensified, the challenge of **Government Regulation** has fallen off the top five. It is, however, the top challenge for CEOs in the financial services sector, which, given its recent history, should come as no surprise.
- CEOs in Asia highlight a critical tradeoff faced by most companies in highly competitive markets. They rank *enhance quality of products and services* as their top strategy for improving **Customer Relationships**, while listing *increase speed of products and services to market* at number three. Making the decision as to when a new product or service is "good enough" to go to market is really about risk assessment. While time-to-market decisions can be an important determinant of a product or service's success or failure, it is certainly not the only factor and Asia companies are notorious for choosing speed over quality at launch time.
- When it comes to industry sectors, there are divergent views among CEOs as to their most critical challenges—a reflection of the unique business environments faced in manufacturing, financial services, and nonfinancial services. Only **Human Capital** and **Operational Excellence** are ranked in the top five across all three sectors.
- There is a considerable difference when it comes to the strategies CEOs in each industry sector favor to meet the common challenges of **Human Capital** and **Operational Excellence**. *Grow talent internally* and *provide employee training and development* are the only two **Human Capital** strategies that rank in the top five for every sector. Only one **Operational Excellence** strategy—*raise employee engagement and productivity*—makes all three top five lists.
- **Human Capital** is the top challenge across three of the four revenue groups—a clear indication that the war for talent is affecting small as well as large firms. Also, companies in the two smallest revenue categories (under $1 billion) place greater emphasis on the challenge of **Innovation** compared to larger firms. It ranks second in the smallest firms and third in the next highest category, firms of between $100 million and under $1 billion in revenue. Larger firms, with revenue greater than $1 billion, rank **Innovation** fifth in their list of challenges.

HUMAN CAPITAL AND OPERATIONAL EXCELLENCE ARE THE TOP CHALLENGES IN 2013

The global economy is under stress. As 2013 progresses, much of Europe is still in a recession. In the United States, the hoped-for acceleration in growth remains fairly anemic, and the economy is still not creating enough new jobs. The cooling of the once white-hot growth rates of China, India, and Brazil means there will not be an emerging market miracle to offset the stagnation and weak growth in the mature economies. In its global economic outlook for 2013, The Conference Board predicts a weak global GDP growth rate of just 3 percent (it was 3.2 in 2012). This projection means that the decline of the global annual growth rate, which has slipped from between 4 and 5 percent 10 years ago, will continue.[1]

The ongoing political drama in Washington, the once-in-a-decade leadership transition in China, the unresolved outcomes in countries that were part of the Arab Spring, the lingering debt crisis—a sword of Damocles that hangs over Europe and, to varying degrees, the entire global economy—and a creeping protectionism that is causing international trade tensions and tougher job competition are clouding the business environment and challenging corporate growth strategies while continuing to create risk and volatility in global markets.

> Achieving operational excellence was easier in the old days. You would have a manufacturing facility and you could focus on that. Now you've got a whole element of moving parts, and these parts are located around the world. You have to deal with a flood of real-time information. Achieving operational excellence is a far more complicated issue from the standpoint of today's world.
>
> **David Farr** Chairman and Chief Executive Officer, Emerson Electric

Since 1999, The Conference Board CEO Challenge survey has asked CEOs, presidents, and chairmen across the globe to identify their most critical challenges for the coming year. Four of the five top challenges selected by the 729 respondents to this year's survey—**Human Capital**, **Operational Excellence**, **Innovation**, **and Customer Relationships**—show executives' determination to "control the controllable" and prime their organizations for the slow-growth slog ahead. (The fifth-ranked **Global Political/Economic Risk** challenge is the exception.) This mood of self-examination and focus on managing the firm through a weakening business environment is a definite change from the sentiment of the 2012 survey results, which gave concerns related to the macro business environment (global risk, regulation, and global expansion) a more prominent role.

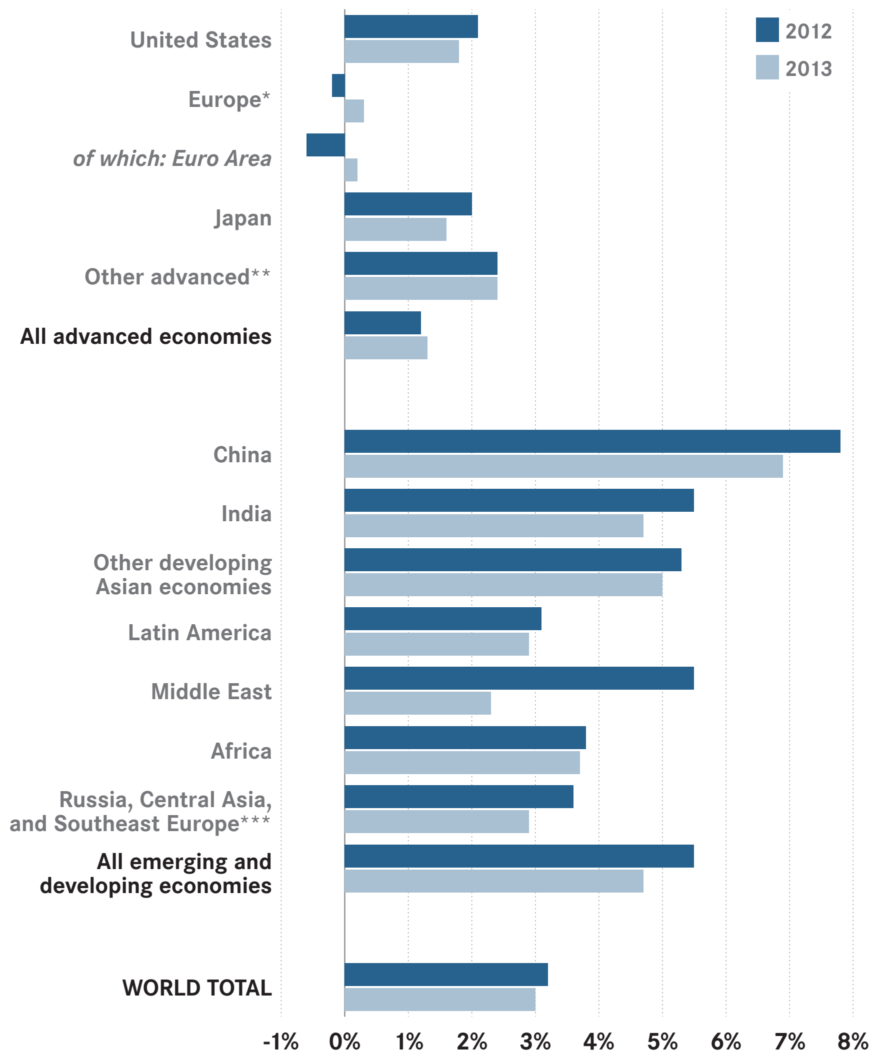
The consensus among CEOs who responded to the 2013 survey is:

- In a slow-growth environment, you have to compete harder and think more about building new markets and wringing out new efficiencies. You also need to pay more attention to the fundamentals.
- Building internal strength and creating value in a weakened business environment require a focus on your people, suppliers, and customers as well as an enterprise-wide dedication to true excellence regardless of the task, function, or external challenge.

- Innovation of both products and processes is a "must have"—not a luxury—in today's environment, as history has shown that innovators can prosper even during recessions and slow-growth periods.[2] Now is when innovative companies need to step up their game and position their organizations to take advantage of the inevitable upturn. The conventional wisdom: a down economy is the time to upgrade and up skill your work-force to improve your innovation capacity and operational efficiency.

SLIGHTLY SLOWER GROWTH IS ANTICIPATED FOR 2013

GDP projection for 2012 and 2013



*Europe includes all 27 current members of the European Union, as well as Switzerland and Norway.

**The other advanced economies are Australia; Canada; Iceland; Israel; Hong Kong; Korea; New Zealand; Singapore; and Taiwan, Province of China.

***Southeast Europe includes Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia, and Turkey.

Source: The Conference Board Global Economic Outlook 2013, November 2012, (www.conference-board.org/data/globaloutlook.cfm)

Making It Personal – in Their Words

The 2013 CEO Challenge survey includes an open-ended question that invites respondents to describe the most important personal challenge they face as a CEO or chairman. Responses focus on several themes, including managing change in a volatile world and effectively communicating company values down the line. Some examples:

The company will change drastically during the next 3-5 years. New skill sets will be required. Managing this transition would be the most important challenge.

The environment across all geographies is in a state of flux. The CEO's function at this time is to lead the company through this uncharted territory with a strong sense of balance in benefit between customers, employees, and the shareholders. It's certainly not the "go-go" period of "greed is good" or the period of "maximizing return to shareholders." The purpose of the organization must reflect the social upheaval that is happening across the geographies and the CEO's role is to make this change acceptable with all the stakeholders.

The most important personal challenge to me is achieving a change in mindset within my organization toward treating customers as allies instead of payees. Our current thinking embraces business as being more transactional than relational.

To shorten the company's reaction time to changing business scenarios.

To align the mission and the objectives of our senior management team to ensure all will work toward common goal and reduce politicking.

To assure I seize every opportunity to communicate with the organization to build alignment and engagement, and inspire the organization to deliver upon our strategic ambitions.

To engage all the people of the organization toward our vision, mission, and values as the most important step to achieve our goals.

To lead as a role model for all staff.

Sustaining a corporate culture of growth, continuous improvement, and cost management.

Human resource management and development especially of front-line staff is most challenging because of the overall labor shortage.

To continue to operate ethically in a market where unethical marketing practices abound.

Is Trust Really an Issue?

In addition to **Operational Excellence**, the other new challenge in the 2013 survey is **Trust in Business**, which replaces **Investor Relations**. During follow-up interviews to last year's survey, several CEOs mentioned a lack of trust in business as a serious threat to growth and an issue that was souring relations with customers, society, and governments. According to the 13th annual Edelman Trust Barometer, a global survey of 31,000 respondents in 26 markets conducted in October and November by the public relations firm Edelman, trust in business to do what is right is at 50 percent while trust in business leaders to tell the truth is 18 percent, a 32-point trust gap; the gap between trust in government and government officials is 28 points. The trust gap between business and business leaders is amongst the largest (35 points) in the United States and China. At 47 points, China had the greatest divide between government and government officials. All these point to faith in a country's institutions but little faith in those individuals that run them.

In contrast, academics, technical experts, and a "person like yourself" are nearly twice as trusted as a chief executive or government official.[3]

Respondents to The Conference Board 2013 survey do not share these trust concerns, however, and **Trust in Business** is the bottom-ranked challenge globally and in each of the individual regions except the United States where it is second from last, just above **Sustainability**. One possible explanation for this low ranking could be that new regulations and their more consistent enforcement have created even greater transparency, which is the first step in restoring an atmosphere of trust. What is clear is that many executives believe business has done a poor job of telling its story and let hostile critics define it by the misdeeds and malfeasance of a minority of corrupt individuals. It is worth noting that 11 of the top 15 strategies selected to meet the **Trust in Business** challenge are directly related to human capital and leadership behaviors, including a CEO's focus on his or her own behavior, better communication of corporate values, and more accountability for compliance with company ethics policies.

REGIONAL VIEWS
GLOBAL CONVERGENCE ON CHALLENGES, REGIONAL DIFFERENCES ON STRATEGIES

In the 2013 survey, there is considerable regional convergence when it comes to the challenges. Four challenges—**Human Capital**, **Operational Excellence**, **Innovation**, and **Customer Relationships**—make the top five challenges in Asia, Europe, and the United States. CEOs in Europe and Asia agree on **Global Political/Economic Risk**. The U.S. results have an outlier in the second ranking of **Government Regulation**, which did not make the top five in any other region.[4]

Regional results reflect a global convergence on challenges

CHALLENGES*	Global N=729	Europe N=136	United States N=138	Asia N=395	China N=54	India N=55
Human capital	1	1	5	1	2	1
Operational excellence	2	2	1	3	5	4
Innovation	3	T3	4	2	1	3
Customer relationships	4	5	3	T5	6	6
Global political/economic risk	5	T3	6	4	4	2
Government regulation	6	6	2	7	T8	5
Global expansion	7	7	7	T5	T8	7
Corporate brand and reputation	8	9	8	8	7	9
Sustainability	9	8	10	9	3	8
Trust in business	10	10	9	10	10	10

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 2013 Survey" on page 65.

In addition to other countries, the Asia category includes China, India, and Australia.

*__Operational Excellence__ was added to the list of challenges in 2013 to replace **Cost Optimization**.
Trust in Business was also added in 2013 to replace **Investor Relations**.

Source: The Conference Board

THE UNITED STATES

Is Government Regulation Getting in the Way?

Operational Excellence is the first-ranked challenge in the United States, followed by **Government Regulation**. The United States is the only region where **Government Regulation** is a top-five challenge. Despite the availability of relatively large cash reserves, the continuing polarization of U.S. Congress over taxes, spending, and regulation has created a partial paralysis in the private sector when it comes to new investment. It would appear that many CEOs are taking the view that regulation is a hindrance to growth rather than an opportunity to create new products and processes that can meet or exceed regulations and create a market advantage over slower moving competitors.

CEOs in the United States rank **Human Capital** fifth, which is the lowest ranking for the top-ranked global challenge of any region. As for strategies to meet the **Human Capital** challenge, U.S. CEOs give the highest ranking of any region to *hire more talent on the open market*, which indicates a belief that recessionary layoffs and a weak recovery in employment have created a buyer's market for talent. The relatively low ranking for **Human Capital** by U.S. CEOs may also indicate that they feel more confident than their peers that they have the right processes in place to maximize their workforce.

Government regulation continues to be a critical challenge in the United States

	United States	
	2012	2013*
CHALLENGES	N=248	N=138
Operational excellence	NA	1
Government regulation	1	2
Customer relationships	6	3
Innovation	3	4
Human capital	4	5
Global political/economic risk	2	6
Global expansion	7	7
Corporate brand and reputation	8	8
Trust in business	NA	9
Sustainability	9	10

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 "Survey Methodology" on page 64.

*__Operational Excellence__ was added to the list of challenges in 2013 to replace **Cost Optimization**. **Trust in Business** was also added in 2013 to replace **Investor Relations**.

Source: The Conference Board

These are also the only regional group of CEOs to rank *improve performance management processes and accountability*, which has a clear link to **Operational Excellence**, a top-five strategy.

- U.S. CEOs give their second-highest strategy ranking for **Operational Excellence** to c*ontinual improvement through Six Sigma, total quality, etc.* (They rank *raise employee engagement and productivity* first.) CEOs in Asia, a region where the quality of export products is a major concern, also place this strategy in their top five.
- The decline of *increase efforts to retain critical talent* in the **Human Capital** strategy rankings of U.S. CEOs from sixth in 2012 to ninth in 2013 may be a reflection of the belief in the "buyer's market" mentioned previously.
- CEOs rank *improve succession planning for current and future needs* higher than in any other region, highlighting concerns about an aging workforce as well as the inability to simply *hire more talent in the open market*—a strategy that dropped from number three in 2012 to six in 2013.
- *Improve leadership development programs* dropped from last year's number two ranking to number seven, which signals a shift in focus to employees across the enterprise; it joins the other leadership groups in the middle of the pack. For example, more highly ranked this year at number eight was *enhance the effectiveness of the senior management team* (tied for thirteenth in 2012); holding fairly steady at number 10 is *improve the effectiveness of front-line supervisors and managers* (eighth in 2012). While it is important to address the skill and effectiveness of managers, it is not as critical, it seems, as boosting the skills of the rank-and-file.
- *Manage multigenerational workforce* is ranked higher in the United States at number fourteen than in any other region but there is little appetite for the *use of contingent or non-traditional workers*, ranked sixteenth in the United States and tied for seventeenth globally.
- While innovation can be seen as a lever for growth, U.S. respondents say, "not so much" and rank *promote and reward entrepreneurship and risk taking* at number eleven, just missing the top 10 for 2013, although it did rise up from sixteenth in 2012. Still it was more highly ranked in the United States than in other regions.
- To meet the **Government Regulation** challenge, CEOs in the United States are looking to get their own houses in order. They rank *strengthen internal regulatory compliance processes* their number one strategy and *encourage more industry self-regulation* number five. U.S. CEOs do, however, see the value of engaging with competitors to influence the regulatory agenda and with the public to influence government, both of which are ranked in their top five strategies. They are in fact more willing than any other regional group to work with their competitors to influence the regulatory agenda, ranking that strategy as number two.
- Interestingly, U.S. CEOs also apparently feel political spending for campaigns has little impact. They rate *increase corporate spending on political campaigns* dead last on their strategy list to meet the regulation challenge.

The question is not the number of regulations, although I guess that does affect us somewhat. But the most dramatic impact is the relationship between the regulator and the regulated.

George Barrett Chairman and Chief Executive Officer, Cardinal Health

Coping with a New Era of Global Regulation

Beyond government regulation, there will be more oversight and more scrutiny by non-governmental organizations and other stakeholders in the coming years. Trade and industry organizations are requiring more uniform standards of practice, reporting, and self-policing. Leaders have to become more comfortable with the levers of governance and with oversight from outside, including specific country regulations. The costs of non-compliance, especially for corporate and personal reputation, can be very high. When it comes to the skills required for leading in an era of increased global regulation and oversight, members of The Conference Board councils involved in leadership development say the leaders of today and those of the future must have the ability to:

- utilize relationship- and network-building skills that make them influencers, not dictators;
- shape policy by getting involved early in the cycle—reacting to policy means it's probably too late to change it;
- avoid being perceived as self-serving by understanding that taking a broader view gives them credibility with stakeholders, from governments to customers; and
- be globally adaptable, because the influencing skills that work in one part of the world won't necessarily work in others.

Source: Charles Mitchell, *Go Where There Be Dragons – Leadership Essentials for 2020 and Beyond*, The Conference Board, Council Perspectives 23, October 2012.

EUROPE

Countering the Doom and Gloom

Even if Europe's governments somehow managed to instantly resolve the region's sovereign debt crisis, their problems would be far from over. With the average unemployment rate running as high as 12.2 percent in the Euro Area in April 2013 (and over 25 percent in Spain and Greece), the road to recovery will be stressful and uncertain. Overall growth expectations for the region are not encouraging.[5] Europe still accounts for a very large portion of the global economy (between 20 and 25 percent), so its troubles have hurt emerging markets as well as the United States and other key trading partners that export to Europe.

Against this gloomy backdrop, European CEOs are looking to people-driven strategies to improve operational inefficiency, fuel innovation, and reconnect with customers to drive growth and, in some cases, ensure survival. Unlike 2012, when they were highly focused on external challenges—**Government Regulation**, **Global Political/Economic Risk**, and **Global Expansion**—CEOs in Europe have shifted their focus inward to concentrate on strong leadership, good management, and excellent execution.

With new investment capital difficult to obtain, European firms realize that their best opportunity to solve problems is by expanding the capabilities of their current employees. They realize that, even in today's challenging business environment, taking steps to raise efficiency will place them in the best position possible, regardless of how general economic

Human capital **grew as a challenge in Europe in 2013**

	Europe	
	2012	2013*
CHALLENGES*	N=158	N=136
Human capital	7	1
Operational excellence	NA	2
Innovation	2	T3
Global political/economic risk	1	T3
Customer relationships	6	5
Government regulation	3	6
Global expansion	T4	7
Sustainability	9	8
Corporate brand and reputation	8	9
Trust in business	NA	10

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 "Survey Methodology" on page 64.

*__Operational Excellence__ was added to the list of challenges in 2013 to replace **Cost Optimization**.
Trust in Business was also added in 2013 to replace **Investor Relations**.

Source: The Conference Board

conditions evolve. If firms succeed in increasing the ability of their workers to get the most out of their current capital stock, they will not only improve their own fortunes but will also improve future economic prospects in the Euro Area.

CEOs in Europe need to reposition their companies to secure profits in mature markets through restructuring, incremental product innovation, and operational excellence even while shifting their focus to emerging global markets. Managing this transition is not so much a challenge of shifting funds/investments as it is about managing the **Human Capital** implications that go along with it—a real challenge because of Europe's inflexible labor markets. CEOs in the region must have the leadership capabilities to manage both ends of the equation—costs and profitability in Europe and innovation and growth in developing markets. They must also keep the employees that they want to retain engaged in Europe as well as find the right ones in emerging markets. All of these factors may be behind the dramatic jump of **Human Capital** from seventh in 2012 to its current top rank in the region.

- European CEOs are highly focused on the human side of innovation, assigning *apply new technology* a lower ranking as a strategy to enable **Innovation**—the only challenge that made the top five list in this region in both 2012 and 2013. (This strategy is ranked third in Europe and number one in both Asia and the United States.) Instead, their focus is on the human capital strategies related to **Innovation**: *create culture of innovation by promoting and rewarding entrepreneurship and risk taking* (ranked number one) and *develop innovation skills for all employees* (ranked number two). No other region ranks these two strategies as high.
- *Encourage more product-specific incremental innovation for the short term* is the fifth-ranked **Innovation** strategy in Europe, up from twelfth in 2012. This result offers a clear indication that CEOs in the region are feeling bottom-line pressures to bring new products to market to retain customers and improve revenue.
- Concerning **Human Capital** strategies, *improve leadership development programs* dropped from fifth in 2012 to twelfth in 2013, and *improve effectiveness of front-line supervisors and managers* fell from tenth to sixteenth. In what is likely a signal that CEOs in Europe are feeling the need for better performance—not only from themselves, but also from their most immediate direct reports—*enhance effectiveness of the senior manager team* moved up from sixteenth in 2012 to eleventh in 2013.
- *Raise employee engagement* moved several places upward this year, from fifteenth in 2012 to eighth; perhaps a sign that a slowing economy and difficult labor regulations call for redoubled efforts to engage current employees. While more highly ranked this year, HC professionals in Europe wish engagement had an even higher commitment from the C-suite.
- Europe is the only region to rank *invest in education systems to improve workforce readiness* a top-five strategy to meet the **Human Capital** challenge, and while this is a long-term approach, it is a clear reflection of the long history of strong partnerships with vocational and academic institutions in the region. It may also be a reaction to the realization that *hire more talent in the open market*, which dropped from third in 2012 to seventh in 2013, is not really effective in the long term. Human capital practitioners in Europe who participated in the focus groups conducted for *The State of Human Capital 2012, False Summit: Why the Human Capital Function Still Has Far to Go* report cited "settling" for available talent as an issue for their organizations.
- CEOs in Europe rank *increase diversity and cross-cultural competencies* fifth, which is much higher than the rankings given by their counterparts in Asia (fourteenth) or the United States (tied for seventeenth).
- Among innovative strategies to address labor shortages, *expand talent pools by recruiting nontraditional workers* was only fourteenth in Europe but still more highly ranked than any other region—a sign of an aging workforce with few options amidst a very slow economy.

ASIA

Focused on People and Innovation

CEOs in Asia are the only regional group to rank both **Human Capital** and **Innovation** within their top three challenges. Both are seen as essential to maintaining the region's growth trajectory—even if it is slowing slightly. These rankings are not surprising given how prominently both human capital and innovation figure in the Twelfth Five-Year Plan. Significant for human capital executives, the latest FYP (2011-2015) released in March 2011, emphasizes the "human factor" in economic development more than ever. As such, it is both directly and indirectly relevant to the human capital function, both from a strategic planning perspective (e.g., demographic change, employment conditions, future labor supply, workforce readiness) as well as for program implementation (e.g., potential changes in labor laws, health care requirements, and pension contributions).[6]

The second-place ranking CEOs in Asia give to **Innovation** (the highest ranking of any region) is a clear sign that the traditional flow of innovation from the West to the East is being challenged. This is a logical outcome of the eastward tipping of consumer markets and wealth creation and the movement of emerging economies up the global value chain, as they transform from cheap sources of product manufacturing to product creators and innovators. The quest is no longer a product label that says "made in" but rather one that boasts "designed in" or "created in." Executives in other regions should also take note that CEOs in China rank **Innovation** their number-one challenge.

CEOs in Asia are focused on *human capital* and *innovation*

			Asia		China		India	
	Global	Asia	2012	2013	2012	2013	2012	2013
CHALLENGES*	N=729	N=395	N=259	N=395	N=156	N=54	N=46	N=55
Human capital	1	1	2	1	1	2	1	1
Operational excellence	2	3	NA	3	NA	5	NA	4
Innovation	3	2	1	2	2	1	3	3
Customer relationships	4	T5	8	T5	9	6	T6	6
Global political/economic risk	5	4	5	4	5	4	2	2
Government regulation	6	7	7	7	7	T8	5	5
Global expansion	7	T5	T3	T5	8	T8	T6	7
Corporate brand and reputation	8	8	9	8	4	7	9	9
Sustainability	9	9	T3	9	3	3	8	8
Trust in business	10	10	NA	10	NA	10	NA	10

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 "Survey Methodology" on page 64.

*__Operational Excellence__ was added to the list of challenges in 2013 to replace **Cost Optimization**.
Trust in Business was also added in 2013 to replace **Investor Relations**.

Source: The Conference Board

In another reflection of the aggressive growth mentality of CEOs in Asia, it is the only region to rank **Global Expansion** in its top five (it is tied for fifth with **Customer Relationships**).

The top four strategies selected by CEOs in Asia to deal with the **Human Capital** challenge—*grow talent internally*, *provide employee training and development*, *raise employee engagement*, and *increase efforts to retain critical talent*—are all inwardly focused and center on employees rather than management. *Improve effectiveness of front-line supervisors and managers*, which is the fifth-ranked strategy, focuses on one of the region's perceived weak points—the availability of experienced middle managers. The inward focus on retention may be a reaction to slowing regional economies, a revolving

Invented Here: China's Move up the Value Chain

In a major indication of its advancement, China is now the world's top patent filer. According to a research report by Thomson Reuters and the Derwent World Patents Index, the patents produced by the country now surpass those registered in the United States and Japan. Published applications from China's patent office have increased an average of 16.7 percent annually between 2006 (171,000) and 2010–2011 (nearly 314,000), and it is this increase that has secured China's status as the world leader in patent application volume. Thomson Reuters projects that China will publish 493,000 patent applications annually by 2015. For comparison, the projection is that the United States will publish close to 400,000 and Japan 300,000 during the same period. The report also finds that China's global ranking for citations in international science papers increased from thirteenth in 2006 to eighth in 2012, a recognition of the growing respect globally for Chinese research and development.[a]

But patents do not always translate into successful commercial products or processes. The quality of China's patent filings also matters, and research conducted by The Conference Board China Center reveals that patent applications in China, which are mostly "utility patent filings," are considered to be of low quality and are not representative of increased innovation capability. Similarly, while China's intangible investment (which is critical to fostering innovation) has risen swiftly as a share percentage of GDP over the past two decades, it has not yielded the expected returns in terms of increased output per person. This suggests that, despite substantial top-line growth, overall spending on intangibles in China has largely been policy driven and has not been the result of firm-level innovation, which is where most innovation is eventually moved from initial concept to finished product.[b]

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a *Thompson Reuters*, "Chinese Patenting: Report on the Current State of Innovation in China," December 2011, (img.en25.com/Web/ThomsonReutersScience/China_Report_2011.pdf); Lee Chyen Yee, "China Tops U.S., Japan to Become Top Patent Filer," *Reuters*, December 21, 2011, (www.reuters.com/article/2011/12/21/us-china-patents-idustre7bk0lq20111221).

b For a more detailed look at intangible investment in China as well as the role intangibles play in the growth of the global economy, visit The Conference Board Intangibles and Innovation website (www.conference-board.org/data/intangibles).

door of high employee turnover, and the realization that employee development is a critical driver of higher engagement and productivity. Of particular interest is the bounce of the *raise employee engagement* strategy, which jumped from ninth in 2012 to third in 2013.

Another indication that the **Human Capital** focus has shifted to employees in the region is the drop in ranking for *improve leadership development programs*, which was third in 2012 and twelfth in 2013.

Even as more Asia-based companies expand their operations globally, CEO respondents appear to be paying less attention to diversity issues. *Increase diversity and cross-cultural competencies*, which tied for third in the 2012 strategy rankings, falls significantly to fourteenth in 2013. One possible explanation for this is that the expansion rate for Asian-based multinational companies has slowed and, since diversity is not predominantly internally focused as in the U.S. model, its status as a critical driver has lessened.

Improve corporate brand and employee value proposition to attract talent is the third-ranked strategy to meet the **Human Capital** challenge in China, which is the highest ranking of any region or country for the strategy. This is a clear reflection of the growing competition between multinational companies and the domestic enterprises that are beginning to tout their global aspirations.

When it comes to **Operational Excellence**, CEOs in Asia, unlike their U.S. and European peers, do not see a pressing need to *break down internal silos*. As a strategy, they rank it tenth, compared to first in Europe and fourth in the United States. The traditional collective culture, where the individual is subsumed by the group, may account for silos not being as large a concern in Asia as it is in other regions.

Sustainability, which has never ranked particularly high globally, in the United States, or Europe in previous surveys, dropped out of the top five challenges in Asia in 2013. (It was third in 2012.) With growth slowing in the region, CEOs appear to be turning to more immediate concerns that can affect growth. **Sustainability** does, however, remain the third-ranked challenge for CEOs in China, where the government included an aggressive sustainability program in its Twelfth Five-Year development plan. Contributing positively and demonstratively to the sustainability agenda in China is seen as an increasingly important component to the value proposition for multinational corporations operating in the country.

Quality is job one when it comes to meeting the **Customer Relationships** challenge. CEOs in Asia are the only executives to rank *enhance quality of products/services* as their number-one strategy for this challenge.

As a **Human Capital** strategy, *redesign financial rewards and incentives* ranks higher in China than in India (or any region for that matter), which may reflect the need to adjust wages that have skyrocketed in recent years. Slower growth may mean talent moves less and has less room to demand higher pay and benefits because of fewer employment choices and less payroll flexibility on the part of employers.

In a reflection of the changing economic landscape and the impending free movement of skilled labor as part of a regional economic intergation plan, CEOs in countries of the Association of Southeast Asian Nations (ASEAN) are unique compared to their global peers when it comes to favored strategies to meet the **Human Capital** challenge.[7] They are focused on looking for solutions both inside and outside their corporate walls. They rank *grow talent internally* as their top strategy (as do CEOs in all other regions), but they also rank *hire more talent on the open market* as number three—the only region to consider this a top-five strategy.

In sharp contrast to the mature economies of the United States, Europe, and (regionally) Australia, CEOs within ASEAN rank *focus on the reduction of baseline costs* very low as a strategy to meet the **Operational Excellence** challenge. While CEOs in the United States and Europe rank it number three (it is number two in Australia and number one in India) it is thirteenth among ASEAN CEOs, a clear indication they are more focused on top-line growth than their global peers.

Human capital is the dominant challenge across Asia

CHALLENGES	Global N= 729	Asia N=395	Singapore N=58	Australia N=55	Hong Kong N=38	Malaysia N=27	Philippines N=49	Thailand N=42
Human capital	1	1	1	1	1	2	1	1
Operational excellence	2	3	3	2	5	5	2	2
Innovation	3	2	2	3	7	1	5	3
Customer relationships	4	6	6	5	2	6	3	4
Global political/economic risk	5	4	4	4	3	10	6	7
Government regulation	6	7	7	6	4	4	4	8
Global expansion	7	5	5	9	6	8	9	6
Corporate brand and reputation	8	8	8	8	8	7	8	5
Sustainability	9	9	9	7	9	3	7	9
Trust in business	10	10	10	10	10	9	10	10

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 2013 Survey” on page 65.

Source: The Conference Board

Women and the Talent Shortage in Asia

The global talent shortage represents one of today's greatest human capital challenges. It is particularly acute in Asia, where Western multinationals and local companies compete to attract and retain top talent. Meanwhile, in India, China, and other emerging Asian markets, women are largely concentrated in low-skilled or low-wage jobs. Leveraging women in the workforce is essential to resolve the talent shortage in Asia and promote both social and economic development.

Though most developing countries have large populations of young workers, many do not have the necessary skills for modern companies. For example, while India graduates 450,000 engineers annually, executives at Western multinationals consider only 25 percent to be employable, a sentiment echoed by NASSCOM, a global Indian technology advocacy organization. For humanities majors, the number is just 10 percent. Executives blame poor post-secondary education and a lack of accreditation laws.[a] In China, Western executives cite a lack of necessary soft skills including creativity, communication, teamwork, and innovation.[b]

Meanwhile, many women do not participate in the workforce or are concentrated in low-skilled labor. For example, the labor force participation rate for Indian women is only 29 percent, compared to 51 percent for women globally, and most work in agriculture.[c] A major barrier is education: the literacy rate for Indian women is only 51 percent, compared to 75 percent for men.[d] In contrast, most Chinese women are in the workforce, yet they too tend to be concentrated in low-wage jobs in agriculture, manufacturing, or services.

Promoting female employment in developing countries is a valuable investment with lasting benefits for both private companies and national governments aiming to build sustainable economies. Companies benefit from a larger talent pool to alleviate shortages of skilled talent, and evidence shows that companies benefit from hiring women. The ability to solve organizational problems in an increasingly complex world depends on diverse perspectives and leadership styles. Innovation, too, requires a diverse set of perspectives and backgrounds.[e]

For any economy as a whole, a more educated and high-quality labor force triggers a cycle of greater productivity, a more competitive economy, innovation, income growth, and higher living standards.

Specific policies on behalf of governments and private companies can help bridge the gap to achieve full human capital potential for women in many emerging markets. Within organizations, human resources can support the attraction, development, and retention of women. Many companies have had success in corporate social responsibility (CSR) programs that benefit local women, including micro-lending and business advice, or community programs encouraging leadership for girls.[f] One of the most fundamental prerequisites is improved education and skills training. Over the long term, this critical source of talent, women, can contribute to a much demanded strong and growing talent pool.

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a Mary Young, *Sleepless in Delhi: What Keeps Indian HR Executives Awake at Night*, The Conference Board, Executive Action 353, June 2011.

b Anke Schrader, Amy Lui Abel, Xiaoqin Li, *Reading the Tea Leaves: The Impact of China's Twelfth Five-year Plan on Human Capital Challenges*, The Conference Board, Research Report 1502, November 2012.

c *International Labour Organization*, "Key Indicators of the Labour Market Database," October 16, 2011.

d *UNESCO Institute for Statistics*, "National literacy rates for youths (15-24) and adults (15+)," available from the UIS website, (http://www.uis.unesco.org).

e Joanna Barsh, Sandrine Devillard, and Jin Wang, "The Global Gender Agenda," *McKinsey Quarterly*, November 2012.

f *Standard Chartered*, "Goal," (www.standardchartered.com/en/sustainability/our-strategy/initiatives/Goal.html).

Source: Yolanda Lannquist, *Addressing the Talent Shortage in India and China: Leveraging Women in the Workforce*, The Conference Board, Executive Action 392, January 2013.

CHALLENGES BY INDUSTRY

REGULATION IS THE CHIEF CONCERN FOR FINANCIAL SERVICES; MANUFACTURING CEOs ARE FOCUSED ON TALENT AND OPERATIONAL PERFORMANCE

When it comes to industry sectors, there are divergent views among CEOs as to their most critical challenges—a reflection of the unique business environments faced in manufacturing, financial services, and nonfinancial services. Only **Human Capital** and **Operational Excellence** are ranked in the top five across all three sectors.

- CEOs from both service sectors rank **Government Regulation** in their top-five challenges, with CEOs from the heavily regulated financial services sector ranking it their top challenge for 2013. Nonfinancial services CEOs rank it fifth, and manufacturing executives rank it seventh.
- CEOs in manufacturing rank **Human Capital** and **Operational Excellence** as their top two challenges, reinforcing the notion that true operational efficiency can only take place with an engaged and committed workforce.

Government regulation is the top challenge for financial services

CHALLENGES*	Global N=729	Manufacturing N=256	Financial services N=92	Non-financial services N=361
Human capital	1	1	4	1
Operational excellence	2	2	3	4
Innovation	3	3	6	3
Customer relationships	4	6	2	2
Global political/economic risk	5	4	5	6
Government regulation	6	7	1	5
Global expansion	7	5	10	7
Corporate brand and reputation	8	9	9	8
Sustainability	9	8	8	9
Trust in business	10	10	7	10

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 “Survey Methodology” on page 64.

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

Source: The Conference Board

- CEOs in both service sectors give **Customer Relationships** second rank.
- Financial services CEOs are the only group to leave **Innovation** out of their top five challenges. Close regulation, especially since the collapse of financial markets in 2008–2009, has stifled creativity in this sector. For example, Britain's Financial Conduct Authority, launched in April 2013, will have the power to ban the sale of products that the government feels pose unacceptable risks to consumers for up to 12 months and will not need to wait for results from a full investigation into the product's feasibility.[8]
- There is very little commonality when it comes to the strategies CEOs in each sector favor to meet the common challenges of **Human Capital** and **Operational Excellence**. *Grow talent internally* and *provide employee training and development* are the only two **Human Capital** strategies that rank in the top five for every sector. Only one **Operational Excellence** strategy—*raise employee engagement and productivity*—makes all three industry top five lists.
- Even in the financial services sector, whose reputation took a beating following the financial markets collapse, **Trust in Business** finishes seventh, which is the highest sector ranking for the challenge.

CHALLENGES BY COMPANY SIZE

HUMAN CAPITAL IS A CRITICAL CHALLENGE ACROSS ALL REVENUE GROUPS; LARGEST FIRMS ARE THE MOST CONCERNED WITH GOVERNMENT REGULATION

Human Capital is the top challenge across three of the four revenue groups—a clear indication that the war for talent is affecting small as well as large firms. However, companies in the two smallest revenue categories, aware of the importance of being innovative to remain competitive and grab market share, place greater emphasis on the challenge of **Innovation** compared to larger firms. It ranks second among the smallest firms and third in the next highest category, firms of between $100 million and under $1 billion in revenue. Larger firms rank **Innovation** fifth in their list of challenges.

- CEOs of the largest companies, those with revenues of $5 billion and above, are the only group to mention **Government Regulation** as a top-five challenge. Their size alone means these organizations likely reach across multiple consumer and product sets as well as geographies, exposing them to more complex regulatory challenges. Three of the top five strategies selected to meet this challenge deal with public outreach, including attempts to influence the regulatory agenda at an early stage. *Increase lobbying activities to promote a level playing field* and *engage with the public to influence government* are the first- and fifth-ranked strategies, respectively, while *engage in public/private partnerships* is second. Despite lobbying and engaging in partnerships, the largest group is also the least likely to be willing to engage with competitors to influence the regulatory agenda.
- CEOs in all revenue groups tend to see the regulatory glass as half full. *Focus on competitive opportunities created by regulation* is a top-five strategy in each revenue class.
- The smallest companies, those with revenues of less than $100 million are the only group to rank **Sustainability** as a top-five challenge (fifth). The largest companies rate it last. While *develop a portfolio of sustainable products and services* is considered an important strategy by small-firm CEOs, they are more focused on developing a culture of sustainability within their organizations. *Engage with stakeholders to manage short-term performance pressures with long-term sustainability goals*, *ensure sustainability is part of the corporate brand identity and culture of the organization*, *improve sustainability measurement and reporting*, and *incorporate social and sustainability goals into strategic performance objectives* make up four of the top-five strategies for small organizations.

Smallest firms focus on *human capital*, *innovation*, and *sustainability*; largest firms see regulation as a major challenge

CHALLENGES	Global N=729	Less than \$100 million N=289	\$100 million to under \$1 billion N=161	\$1 billion to under \$5 billion N=121	\$5 billion and above N=141
Human capital	1	1	1	3	1
Operational excellence	2	4	2	1	3
Innovation	3	2	3	5	5
Customer relationships	4	3	6	4	7
Global political/economic risk	5	6	5	2	6
Government regulation	6	7	8	6	2
Global expansion	7	9	4	7	4
Corporate brand and reputation	8	8	7	9	8
Sustainability	9	5	9	8	10
Trust in business	10	10	10	10	9

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 2013 Survey" on page 65.
Source: The Conference Board

MEETING THE CHALLENGES
THE TOP STRATEGIES

THE TOP FIVE STRATEGIES TO MEET THE TOP FIVE GLOBAL CHALLENGES

	1 Human capital	2 Operational excellence	3 Innovation	4 Customer relationships	5 Global political/ economic risk
1	Grow talent internally	Raise employee engagement and productivity	Apply new technologies (product, process, information, etc.)	Enhance quality of products/services	Integrate long-term risk recognition into strategic planning
2	Provide employee training and development	Focus on reduction of baseline costs	Engage in strategic alliances with customers, suppliers, and/or other business partners	Sharpen understanding of customer/client needs	Reduce exposure to risky countries/regions
3	Raise employee engagement	Break down internal silos	Find, engage, and incentivize key talent for innovation	Engage personally with key customers/clients	Implement contingency plans for crises (e.g., geographical, political, relocation of employees)
4	Improve performance management processes and accountability	Continual improvement (Six Sigma, total quality, etc.)	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Increase speed of products and services to market	Manage currency risk
5	Increase efforts to retain critical talent	Seek better alignment between strategy, objectives, and organizational capabilities	Develop innovation skills for all employees	Use competitive intelligence to better understand customer/ client needs	Establish crisis management teams and procedures

1 Human Capital

CHALLENGE RANK	Global	Europe	United States	Asia	China	India
	1	1	5	1	2	1

In addition to being the top-ranked challenge globally, **Human Capital** is closely linked to the next three top challenges—**Operational Excellence**, **Innovation**, and **Customer Relationships**—in that they all demand a talented, engaged, and properly motivated workforce to be successful. **Human Capital** is number one in both Asia and Europe and number five in the United States. CEOs in India also rank it their most critical challenge, while their peers in China rank it second after the related challenge of **Innovation**. The critical lesson to be learned: if you do not have the right approach in place on the human capital side of the organization, you will struggle to be innovative, customer friendly, and operationally sound. While the sample size obtained from individual countries is generally small, trends among countries are interesting: **Human Capital** is the-top ranked challenge for successful economies like Germany, Hong Kong, Thailand, and Malaysia; in contrast, it is in seventh place among Greek respondents.

- In a clear indication of the stress across the global talent market and the scarcity of quality talent available on the open market, particularly in Asia where wage and title inflation are rampant, *grow talent internally* is the top strategy in all three regions and in China and India. Despite slowing growth, talent shortages are not abating.
- The five top strategies selected by CEOs to tackle their human capital challenges—*grow talent internally*, *provide employee training and development*, *raise employee engagement*, *improve performance management processes and accountability*, and *increase efforts to retain critical talent*—are all internally focused and put an emphasis on current employees and not on supervisors, managers, or the senior team. This indicates a shift toward overall organizational capability building and away from a narrower approach that emphasizes individual high-potential talent. In other words, it makes sense to develop, retain, energize, and manage the employees you have, especially when they may well be your best option in a tight global talent market.

> It is, in the end, all about human interaction in the workplace. It might be oversimplifying it; people join companies, but they leave their bosses. That's something that seems to be the truth all the time. You really have to work with management, with leadership, and especially middle managers, so everyone understands what is needed to sustain a positive work climate.
>
> **Dr. Harald F. Stock** Chief Executive Officer, Grünenthal GmbH

- *Improve leadership development programs*, which respondents ranked second as a strategy in 2012, drops to tenth in the current survey. Instead, *provide employee training and development* is ranked second in the 2013 survey, which is another indication that many organizations are looking to broaden their definition of "talent" (the biggest lever a company has to improve performance) beyond high potentials. It may also reflect a realization that hiring more talent in the open market, the fourth-ranked **Human Capital** strategy in 2012, has been unsuccessful.

Growing talent internally is the top strategy in all regions; Europe sees education as important to workforce readiness – investing in training and development also critical globally

Importance-adjusted strategies for managing human capital	Global N=545	Asia N=321	Europe N=85	United States N=95	China N=42	India N=42
Grow talent internally	1	1	1	1	1	1
Provide employee training and development	2	2	3	2	4	2
Raise employee engagement	3	3	T8	4	10	3
Improve performance management processes and accountability	4	7	T8	3	2	4
Increase efforts to retain critical talent	5	4	T5	9	5	5
Enhance effectiveness of the senior management team	6	8	11	8	7	6
Improve corporate brand and employee value propositions to attract talent	7	6	4	15	3	T8
Hire more talent in the open market	8	9	7	6	8	13
Improve effectiveness of front-line supervisors and managers	9	5	16	10	9	12
Improve leadership development programs	10	12	T12	7	14	T8
Invest in education systems to improve workforce readiness	11	11	2	12	12	7
Improve succession planning for current and future needs	12	13	10	5	13	T10
Redesign financial rewards and incentives	13	10	T12	13	6	T10
Increase diversity and cross-cultural competencies	14	14	T5	T17	11	14
Promote and reward entrepreneurship and risk taking	15	15	15	11	15	15
Expand talent pools by recruiting nontraditional workers	16	16	14	T17	T17	16
Manage multigenerational workforce	17	19	18	14	20	T17
Increase the use of contractual or contingent workers	18	T17	19	17	19	T17
Reduce per-employee costs through renegotiations with unions, freezing compensation, redesigning health and retirement benefits, hiring fewer workers, reducing hours worked, etc.	19	20	20	20	T17	20
Require the use of analytics to articulate the business impact of key human capital initiatives and programs	20	T17	NR	19	16	19

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

…I want to make sure right now that we are internally building capacity. So it is very important to me, for us, to get better at identifying the right talent, growing that talent, making sure that talent stays with us, that they're highly excited and full of zest about what we do, and that they're modeling the behaviors we need in terms of innovation and customer orientation.

George Barrett Chairman and Chief Executive Officer, Cardinal Health

- Three of the next five strategies are focused on either managers or the leadership team: *enhance effectiveness of the senior management team*, *improve effectiveness of front-line supervisors and managers*, and *improve leadership development programs*. Making the senior team more effective tops leadership development; perhaps a realization that the leadership at the very top of the organization needs support to be the kind of leaders that are needed now. Recent research including *The State of Human Capital 2012*—a report that was published in October 2012 by The Conference Board and McKinsey & Company—indicates a shifting focus in leadership development support for the senior teams in terms of critical thinking in a VUCA (volatile, uncertain, complex, and ambiguous) environment, particularly as it relates to two critical leadership skills: globalization and dealing with ambiguity/complexity. A business environment that is ambiguous by nature, culturally nuanced, positioned against a backdrop of rapid economic growth may have given leaders in Asia exactly the crucible they need to excel, according to *Fast Track: Accelerating the Leadership Development of High Potentials in Asia*, a research report published in June 2013 by The Conference Board and Right Management (see box on page 32).[9]
- The remaining two of the second cluster of five strategies (out of 21 possible choices, including *other*) are focused on bringing in new talent: *improve corporate brand and employee value propositions to attract talent* and *hire more talent in the open market* (ranked seventh and eighth respectively). Anywhere in the world, top talent is at a premium, and the employee value proposition (EVP) can be a critical differentiator.
- Four of the next five strategies are, for the most part, longer term plays (*invest in education systems to improve workforce readiness*, *improved succession planning for current and future needs*, *redesign financial rewards and incentives*, and *promote and reward entrepreneurship and risk taking*) and underscore the constant challenge facing CEOs of balancing the demand of short-term financial performance with long-term visions and policies that promote sustainable growth.
- Respondents in this year's survey indicated a greater understanding of the role of employee engagement in delivering business performance. As a **Human Capital** strategy, *raise employee engagement* ranked third in 2013 (up from eighth in 2012) on a global basis. Regionally, this trend holds true as well with a move upward of seven spots in Europe (from fifteenth to a tie for eighth), and up six spots in Asia (from ninth to third). In the United States, it is holding steady in fourth place for two years in a row. In India, where talent shortages abound even in a country of more than a billion people, it is also ranked third, in keeping with a traditional high ranking among respondents in that country and the understanding that engaged employees might well begin to close the productivity gap. China is an outlier with a rank of tenth for engagement. Raise employee engagement is also a top-five strategy for Australia, Thailand, and Singapore.
- Underscoring the growing importance of employee engagement as a strategy in the minds of CEOs, note that the top strategy for the second-ranked challenge of **Operational Excellence** is *raise employee engagement and productivity*. In the third-ranked challenge of **Innovation**, the strategy of *find, engage, and incentivize key talent for innovation* comes in second place.

Rounding out the top four challenges: a top strategy for **Customer Relationships** is *engage personally with key customers/clients*, perhaps a signal that, at the end of the day, business is in fact personal.

- In what appears to be a disconnect between CEOs and those responsible for talent management, the strategy most closely tied to human capital analytics (*require the use of analytics to articulate the business impact of key human capital initiatives and programs*) finishes dead last globally among CEOs for the second year in a row. While human capital professionals regard such analytics as a critical factor in helping their function contribute to business success, CEOs may think "big data" are the purview of the business-line leaders or they may not trust the veracity of human capital-related data.
- The use of expats is decidedly not a top strategy when it comes to the **Global Expansion** challenge. *Increase the use of expats to manage businesses locally* ranks last as a strategy to meet the expansion challenge, while *reduce use of expats in favor of local management talent* is, at number six, a relatively highly rated strategy. This echoes findings in *The State of Human Capital 2012* report cited previously. The report recommends that companies mandate the development of local talent as a key requirement of expat assignments. Ironically, in some Asian markets, the opportunity for local talent to work alongside expats can actually be a recruitment tool for multinationals, giving younger generations a chance to interface with people of different cultural backgrounds—something that local firms, regardless of size, cannot always do.[10]
- Despite the growth of contract workers in both the United States and Europe and the apparent willingness of new generations of workers to embrace nontraditional work arrangements, CEOs in all three regions (United States, Europe, and Asia) do not see *increase the use of contractual or contingent workers* as a viable strategy to cope with talent shortages. The strategy ranks no higher than seventeenth in any region, reflecting another divergence between CEOs and the senior human capital executives in the same three regions who view this as an important approach.[11]
- CEOs also differ from human capital practitioners in their low ranking of *expand talent pools by recruiting nontraditional workers* as a workable strategy to address talent shortfalls. According to research conducted by The Conference Board, human capital professionals faced with building talent pipelines view this as an important strategy, especially in emerging markets.[12] China and India, countries with critical talent shortages, could work toward reducing the cultural and work-readiness barriers that hamper labor force participation by women, creating a significant lever to close the gap. Women leaders face additional hurdles, as outlined in *Addressing the Talent Shortage in China and India: Leveraging Women in the Workforce*, a report published in January 2013 by The Conference Board.[13] (See box on page 20.)
- *Grow talent internally* is the top-ranked **Human Capital** strategy across all three industry groups, with CEOs supporting this strategy by providing training and development for employees—another top-five strategy in each group. CEOs in the manufacturing sector are also looking to middle management to help them meet the **Human Capital** challenge. They are the only group to rank *improve effectiveness of front-line supervisors and managers* as a top-five strategy. Compared to their peers, CEOs in the non-financial services sector are also looking to supplement their internal talent growth strategy with the addition of outside talent. They are the only group to rank *hire more talent in the open market* as a top-five strategy. It ranks tenth in manufacturing and eleventh in the financial services sector.
- While CEOs in all revenue groups agree on the importance of *growing talent internally* as a critical strategy to meeting the **Human Capital** challenge, CEOs in the largest firms are the only group to rank *raise employee engagement* within their top five **Human Capital** strategies (it is second). This is likely due to the relative anonymity that many employees feel working for large companies.

Non-financial services is the lone sector that sees outside hiring as a key human capital strategy; all see the importance of growing talent internally

Importance-adjusted strategies for managing human capital	Global N=545	Manufacturing N=192	Financial services N=74	Non-financial services N=267
Grow talent internally	1	1	1	1
Provide employee training and development	2	2	4	2
Raise employee engagement	3	8	5	3
Improve performance management processes and accountability	4	7	3	5
Increase efforts to retain critical talent	5	3	2	T10
Enhance effectiveness of the senior management team	6	5	8	6
Improve corporate brand and employee value propositions to attract talent	7	6	15	7
Hire more talent in the open market	8	11	10	4
Improve effectiveness of front-line supervisors and managers	9	4	T13	9
Improve leadership development programs	10	10	9	T10
Invest in education systems to improve workforce readiness	11	12	6	8
Improve succession planning for current and future needs	12	9	7	13
Redesign financial rewards and incentives	13	14	T11	12
Increase diversity and cross-cultural competencies	14	13	T13	16
Promote and reward entrepreneurship and risk taking	15	15	T11	14
Expand talent pools by recruiting nontraditional workers	16	17	19	15
Manage multigenerational workforce	17	16	17	18
Increase the use of contractual or contingent workers	18	T18	NR	17
Reduce per-employee costs through renegotiations with unions, freezing compensation, redesigning health and retirement benefits, hiring fewer workers, reducing hours worked, etc.	19	T18	16	20
Require the use of analytics to articulate the business impact of key human capital initiatives and programs	20	20	18	19

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

Only the largest firms are emphasizing employee engagement; growing talent internally is seen as critical across all revenue groups

Importance-adjusted strategies for managing human capital	Global N=545	Less than $100 million N=206	$100 million to under $1 billion N=128	$1 billion to under $5 billion N=96	$5 billion and above N=103
Grow talent internally	1	1	2	1	1
Provide employee training and development	2	2	1	8	3
Raise employee engagement	3	8	8	9	2
Improve performance management processes and accountability	4	3	6	3	6
Increase efforts to retain critical talent	5	5	5	6	T7
Enhance effectiveness of the senior management team	6	7	3	5	15
Improve corporate brand and employee value propositions to attract talent	7	4	7	10	5
Hire more talent in the open market	8	6	11	2	11
Improve effectiveness of front-line supervisors and managers	9	11	4	13	4
Improve leadership development programs	10	12	10	4	12
Invest in education systems to improve workforce readiness	11	10	13	7	T7
Improve succession planning for current and future needs	12	13	9	11	T9
Redesign financial rewards and incentives	13	9	12	14	13
Increase diversity and cross-cultural competencies	14	16	14	15	T9
Promote and reward entrepreneurship and risk taking	15	14	15	16	14
Expand talent pools by recruiting nontraditional workers	16	17	16	12	18
Manage multigenerational workforce	17	T18	T18	17	16
Increase the use of contractual or contingent workers	18	15	T18	T18	NR
Reduce per-employee costs through renegotiations with unions, freezing compensation, redesigning health and retirement benefits, hiring fewer workers, reducing hours worked, etc.	19	T18	20	20	17
Require the use of analytics to articulate the business impact of key human capital initiatives and programs	20	20	17	T18	19

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

The Unique Challenges of Accelerating the Leadership Development of High Potentials in Asia

In no part of the world is the shortage of leaders (and talent in general) more acute than in Asia, and in no part of the world is the pressure greater to develop leaders faster. The retention of top talent, acceleration of leadership development, and engaging and motivating top talent are three critical challenges facing human capital professionals in Asia whose responsibility it is to align business strategy with organizational capacity.

The task is daunting: fewer than 10 percent of respondents to a survey by The Conference Board as part of a Research Working Group report, *Accelerating the Leadership of High Potentials in Asia*, believe their company's leaders are very prepared to address business challenges over the next one to two years and almost half say their leaders are only marginally prepared.[a]

Just 11 percent of respondents say they have been very successful in identifying leadership talent and establishing a robust leadership pipeline.

But there are successful companies that are finding ways to consistently develop the leaders they need to execute their strategies.In building the leadership model (personal proficiency, human capital developer, strategist, talent manager, and executor), members of the Research Working Group analyzed more than two dozen leadership characteristics and, based on survey and interview data, found that the three most important leadership characteristics in Asia today are: global thinking and mindset, leading change, and retaining and developing talent.[b] Specific to the Asian context, leaders will need to master people engagement; navigating and making decisions in a complex, diverse, ambiguous environment; relationship building and collaboration; agility; and cultural sensitivity.

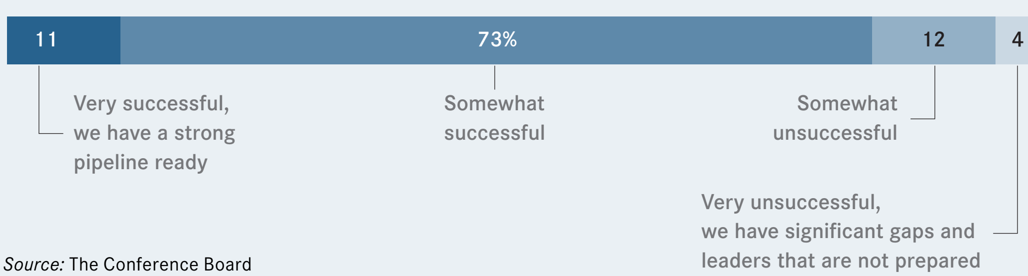
The three primary factors shaping decisions about leadership development in the region, according to the findings of the Research Working Group report and survey, are the rush toward globalization as Asia-based companies are becoming players on the world stage, an emphasis on experience, and the increased demand for leaders that results in a compressed timeframe in which leaders in Asia must be developed—sometimes in little more than a year. Successful companies have:

- a planned, structured, and formal process to develop high potentials;
- a clear articulation of the selection criteria;
- a defined roadmap of developmental opportunities; and
- a tracking mechanism to monitor progress.

In terms of investment in leadership development programs, the vast majority of human capital leaders in Asia are either maintaining or increasing their budgets; only 8 percent of survey respondents are decreasing levels of spending on leadership development. The two largest investment areas are in action learning (business challenges and

FEW COMPANIES SAY THEY ARE VERY SUCCESSFUL IN BUILDING A LEADERSHIP PIPELINE

How successful have you been in identifying and accelerating leadership talent?



Source: The Conference Board

continued...

The Unique Challenges of Accelerating the Leadership Development of High Potentials in Asia (continued)

simulations) and executive coaching/mentoring. Rotational programs are a close third.

What is the impact of those investments? While there is an ongoing debate on the exact ratios of education, exposure, and experience for Asian leaders, there is agreement that accelerated development should primarily focus on exposure and job-related experience activities to more quickly close skill gaps and make the high-potential candidates role-ready for their job. These four programs (often customized for local needs) have the greatest impact on developing leaders in Asia:

1. Action learning
2. International assignments
3. Rotational programs
4. Executive coaching/mentoring

Taken alone any of those could be found in global programs, but together they constitute a demanding, fast track program in the Asian context, and give a clear indication that globalization and an emphasis on experience are guiding factors in the choice of these methods of development. Focused skill development, executive education programs, and executive assessments were rated as significantly less impactful; the purported impact of social learning was negligible.

Some of the critical elements of a successful leadership development program are that it is:

- holistic;
- transparent in terms of who is selected;
- led by senior leaders, customized;
- measured in business terms;
- varied in terms of the development approaches;
- challenging;
- future focused;
- experiential;
- global in nature; and
- candid (even tough) in its constructive performance feedback to participants.

After examining the many models for accelerating leadership, members of the Research Working Group derived a framework for accomplishing this in Asia. The framework provides a roadmap for effective accelerated development—incorporating assessment, some foundational training and exposure, experiential learning, team action learning, critical experiences, and ongoing assessment after assuming a new role.

The study confirms that more often than not, leadership models and characteristics as well as development programs have more in common with each other than they do differences, even when viewed from an East/West perspective. One strength in Asia is that, having grown up in a volatile world, Asian leaders know what turbulence is like and are better equipped to navigate an ambiguous environment. Leadership is a journey, one that takes time and offers a chance to absorb the lessons of the trip while appreciating the scenery. The risk of accelerating the development process is that leaders may arrive at the destination not quite knowing how they got there and, perhaps, not having all they need to be truly successful.

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a Rebecca L. Ray, Amy Lui Abel, Nicholas Sutcliffe, Gary Schmidt, Ric Roi, and Dr. Nadani Lynton, *Fast Track: Accelerating the Leadership Development of High Potentials in Asia*, The Conference Board, Research Report 1522, June 2013.

b David Olson Ulrich, W. Norman Smallwood, and Kate Sweetman, *Leadership Code: Five Rules to Lead By* (Boston: Harvard Business Press), December 9, 2008.

The Challenge to Human Capital Professionals

As the pace and sweep of change intensify, human capital (HC) professionals are coming under increased pressure to be innovative and strategic and implement their programs and initiatives more efficiently. Despite making good progress in many areas—the introduction of HR-related technology, increasing workforce diversity, and becoming more globally focused—a 2012 report by The Conference Board and the management consulting firm McKinsey & Company shows that the human capital profession still has a long way to go before it can claim complete relevance as a strategic business partner. *The State of Human Capital 2012* reveals that there is little innovation and a distinct lack of confidence within the human capital function as well as little correlation between implemented programs and impact. Few human capital leaders have the time to develop the innovation and strategic planning skills needed and, even if they had a plan of attack, many lack the budget to implement necessary changes. When asked about taking action, 58 percent are taking action on priority items, but only 35 percent are doing anything innovative and slightly less than one-third have high confidence that what they are doing will have the desired impact.

In addition to a comprehensive literature review, the report is based on a survey of more than 500 HC professionals worldwide and insights gained from 18 focus groups consisting of more than 175 HC professionals who are members of The Conference Board councils. The report identifies the following as critical issues holding back the progress of the human capital function:

- Human capital professionals are still unable to confidently and assertively solve business issues with line leaders.
- Many human capital departments still have a support function mindset and cannot convincingly communicate the value of their function as a strategic business partner.
- There is a lack of access to data that prevents many human capital practitioners from relating the ROI or business impact of their function.
- A crisis of confidence in the function is leading to a lack of faith in the ability to execute necessary changes.
- The function suffers from a low strategic license that restricts its role, the talent and tools available, and the expertise needed to be strategic.

Source: Rebecca L. Ray, Charles Mitchell, Amy Lui Abel, Patti Philips, Emily Lawson, Bryan Hancock, Allison Watson, and Brooke Weddle, *The State of Human Capital 2012, False Summit: Why the Human Capital Function Still Has Far to Go*, The Conference Board and McKinsey & Company, Research Report 1501, October 2012.

2 Operational Excellence

CHALLENGE RANK	Global	Europe	United States	Asia	China	India
	2	2	1	3	5	3

Operational Excellence, which replaces **Cost Optimization** in 2013's list of challenges, is in the top three challenges for all of the regions. Successfully addressing this challenge can create an obvious competitive advantage over less-efficient competitors, especially in a weak business environment, and failure to achieve some level of operational efficiency can quickly lead to an organization's demise.

But **Operational Excellence** is more than **Cost Optimization**, which was ranked sixth in the 2012 survey. As mentioned earlier, CEOs recognize a clear connection to **Human Capital** in ranking *raise employee engagement and productivity* as the number one strategy to improve operations. There is research to support the connection between engagement and improving operational performance: companies with high levels of engagement outperform the total stock market index, posting returns 22 percent higher than average in 2010.[14] Organizations with low engagement levels had total shareholder returns 28 percent lower than the average. Another study found fully engaged employees who were energized and continued learning on the job had 16 percent better overall performance (as reported by their managers) and 125 percent less burnout (self-reported) than their peers.[15] In addition, an analysis of 54 companies sorted by median earnings per share (EPS) growth during 2008–2009 found that those with higher engagement (the "top decile/exceptional growth" group) outperformed their industry competitors by more than four times.[16]

Overall, the top five strategies globally to meet this challenge are a mix of the human element and process improvement and alignment—key actions to eliminate wasteful and inefficient internal silos. Interestingly, CEOs in China, again reflecting the unique business environment there, emphasize process over people with their top three strategy choices—*invest more in new technologies*, *improve cash management*, and *ensure supply chain integrity*. Employee engagement is tied for the fifth spot with *improve speed to market*.

The number two strategy globally, *seek better alignment between strategy, objectives, and organizational capabilities*, is at the very heart of operational excellence. Isolationist mindsets, indifference to other departments' needs, office politics, and department priorities trumping corporate priorities prevent the achievement of true operational excellence. Companies forge alignment by breaking down internal silos, integrating systems across the enterprise, replacing internal competition with cooperation and communication, and creating clear incentives to act accordingly.

Employee engagement critical to improving operational efficiency; Europe, United States, and India concerned about cost controls

Importance-adjusted strategies for achieving operational excellence	Global N=544	Asia N=291	Europe N=103	United States N=108	China N=38	India N=40
Raise employee engagement and productivity	1	1	2	1	T5	2
Focus on reduction of baseline costs	2	13	3	3	12	1
Break down internal silos	3	T10	1	T4	4	9
Continual improvement (Six Sigma, total quality, etc.)	4	5	7	2	8	3
Seek better alignment between strategy, objectives, and organizational capabilities	5	7	6	T4	T21	17
Invest more in new technologies	6	2	8	9	1	7
Redesign business processes	7	T10	4	6	9	16
Improve speed to market	8	12	9	7	T5	8
Improve cash management	9	9	18	T20	2	11
Ensure supply chain integrity	10	8	T12	12	3	12
Deeper integration of global operations	11	3	T10	14	20	4
Improve performance and accountability of middle management	12	4	22	10	10	10
Improve performance and accountability of senior management	13	6	16	13	T14	14
Better align IT with business goals	14	14	T12	8	11	6
Achieve economies of scale through organic business growth	15	18	17	11	T21	15
Achieve economies of scale through product/process standardization and harmonization	16	21	5	16	19	T18
Consider sourcing opportunities globally	17	15	T10	17	18	13
Secure lower costs for materials and other input resources	18	T16	21	15	17	5
Better align executive compensation and incentives with business performance	19	T16	T23	23	7	T20
Better manage outsourced operations and offshore operations	20	20	14	19	T14	T18
Improve capital investment decision process	21	24	15	18	T24	T22
Enhance the effectiveness of board governance	22	19	T23	24	13	T20
Reduce management layers	23	22	20	25	T14	24
Optimize number of global suppliers	24	25	19	22	T24	T22
Achieve economies of scale and/or synergies through mergers and acquisitions	25	23	25	T20	23	T25
Decrease carbon footprint/resource use	26	26	26	26	26	T25

Operational Excellence was added to the list of challenges in 2013 to replace **Cost Optimization**. N=Number of overall responses. The response rate varies for each strategy. T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

CEOs interviewed for this report stress that **Operational Excellence** is therefore more than simply introducing process improvement and clear alignment; it is about creating a culture of excellence. To maintain excellence you have to "keep score" with performance accountability and recognize and reward those who outperform. Above all, operational excellence requires consistency and a true commitment to strategy. A CEO can't drive an organization from pillar to post to follow the newest idea if it doesn't fit with the overall strategic direction. Instead, he or she should demonstrate consistency of direction and commitment.

> When it comes down to operational excellence, there are a couple of ways that people get there. One is a culture where people are punished if they don't execute well. The other is where people have a set of shared and aligned objectives and a pride in what they're trying to accomplish. That culture is sustainable.
>
> **Keith Williams** President and CEO, Underwriters Laboratories

- Asia is the only region to rank *invest more in new technologies* in its top-five strategies to achieve **Operational Excellence**. (In China specifically, this strategy receives the top rank.) This unique regional choice makes sense from a macroeconomic view: in Asia, technological progress is critical to maintaining current high returns, speeding up the productivity "catch up" with mature economies, and helping the emerging economies in the region climb the value chain. In the mature economies, in contrast, there are signs that the contribution of technology to growth rates and productivity has peaked, and intangibles (e.g., human capital and training and development) are emerging as more important contributors to future growth. This difference is also highlighted by the relatively higher rating of *better align IT with business goals* as a strategy in emerging markets such as Thailand (fourth), Hong Kong, and Malaysia (fifth in both) compared to more mature economies. In Europe the strategy was twelfth and in the United States it was eighth.
- CEOs in the United States and Europe rank *focus on the reduction of baseline costs* third as a strategy to meet the **Operational Excellence** challenge. In Asia, despite wage inflation and pressure on energy and commodity costs across the region, CEOs rank the strategy thirteenth. In India, however, CEOs rank *focus on reduction of baseline costs* their top strategy and *secure lower costs for materials and other input sources* number five (the only region/country to rank this in the top five). These strategy choices are a reflection of a tight talent market that is creating pressure on wages, especially in the technology and business process outsourcing sectors, and structural rigidities in labor, product, and capital markets that add a significant cost to businesses in India. Senior business leaders in China suggest to The Conference Board that controlling costs will become a much more important issue in the region in 2013.
- Asia is also the only region where CEOs are looking to emphasize middle management accountability and performance as a critical contributor to improving **Operational Excellence** (it is ranked fourth). This approach speaks to the shortage of experienced managers in the region and a concern that accelerating leadership development to meet aggressive growth targets may mean newly or swiftly promoted managers are not yet fully capable of handling their positions effectively.
- In the mature economies of Europe and the United States, CEOs are seeking to break down internal silos to achieve operational efficiency, improve organizational performance, and open the door to new innovations in products and services. In a surprising result, the *deeper integration of global operations* is an important strategy for CEOs in Asia, where it is ranked third (it is fourth in India), but it is not a concern for CEOs in the United States or Europe even though functional executives in the field say global integration of programs and processes is

one of the most challenging issues they face. Members of councils of The Conference Board in such diverse disciplines as talent management, leadership development, compensation and benefits, quality, and corporate security agree that the coordination of programs and metrics while developing a common organizational leadership language on a global basis is an essential step to building an effective and globally competitive organization. These executives also acknowledge that true global integration of policies and processes requires considerable time and resources and remains one of their most elusive goals. But given the low ranking in the United States for *deeper integration of global operations* (fourteenth of 26 possible strategies and tied for tenth in Europe), U.S. CEOs may believe their organizations are further along in global integration than they actually are.

- From an industry standpoint, manufacturing CEOs see their best opportunity for achieving operational excellence through supply chain management along with better global process management. *Ensure supply chain integrity* is their top-rated strategy, while *deeper integration of global operations* is tied for second. Manufacturing is also the only industry group to rank *focus on baseline costs* as a top-five strategy. Compared to their peers, they believe their organizations do a good job in aligning strategy and objectives—while both financial and non-financial services rank *seek better alignment between strategy, objectives, and organizational capabilities* in their top-five strategies, CEOs in manufacturing rank it fifteenth.
- From a revenue size standpoint, the smallest firms are looking to technology as a magic bullet to improve operating performance. CEOs in this group rate *invest more in new technologies* as their number one strategy to achieve **Operational Excellence**. It ranks ninth and eleventh in the two largest revenue categories—an indication that it is talent, not technology, that will be the differentiator for the biggest of companies.

Manufacturing sees supply chain and global process integration as critical along with cost control; employee engagement is a focus across all sectors

Importance-adjusted strategies for achieving operational excellence	Global N=?	Manufacturing N=196	Financial services N=67	Non-financial services N=266
Raise employee engagement and productivity	1	T2	3	1
Focus on reduction of baseline costs	2	5	6	8
Break down internal silos	3	T11	1	3
Continual improvement (Six Sigma, total quality, etc.)	4	4	2	9
Seek better alignment between strategy, objectives, and organizational capabilities	5	15	5	2
Invest more in new technologies	6	8	T7	5
Redesign business processes	7	9	10	4
Improve speed to market	8	7	9	12
Improve cash management	9	10	T22	7
Ensure supply chain integrity	10	1	T22	16
Deeper integration of global operations	11	T2	21	15
Improve performance and accountability of middle management	12	6	18	13
Improve performance and accountability of senior management	13	19	T7	6
Better align IT with business goals	14	T13	12	11
Achieve economies of scale through organic business growth	15	17	15	10
Achieve economies of scale through product/process standardization and harmonization	16	T13	11	18
Consider sourcing opportunities globally	17	16	19	14
Secure lower costs for materials and other input resources	18	T11	20	22
Better align executive compensation and incentives with business performance	19	20	T16	17
Better manage outsourced operations and offshore operations	20	18	14	21
Improve capital investment decision process	21	25	4	19
Enhance the effectiveness of board governance	22	23	T16	20
Reduce management layers	23	22	13	24
Optimize number of global suppliers	24	21	24	25
Achieve economies of scale and/or synergies through mergers and acquisitions	25	24	25	23
Decrease carbon footprint/resource use	26	26	26	NR

Operational Excellence was added to the list of challenges in 2013 to replace **Cost Optimization**. N=Number of overall responses.
The response rate varies for each strategy. T=Tie. NR=Strategy was not ranked by any of the respondents.
In addition to other countries, the Asia category includes China, India, and Australia.

Source: The Conference Board

Smallest firms see technology as a key enabler, largest firms have cost concerns; all revenue groups rate employee engagement as key

Importance-adjusted strategies for managing operational excellence	Global N=545	Less than $100 million N=200	$100 million to under $1 billion N=129	$1 billion to under $5 billion N=97	$5 billion and above N=107
Raise employee engagement and productivity	1	2	1	2	1
Focus on reduction of baseline costs	2	14	6	5	2
Break down internal silos	3	T6	4	8	6
Continual improvement (Six Sigma, total quality, etc.)	4	3	7	10	5
Seek better alignment between strategy, objectives, and organizational capabilities	5	T6	T11	T6	4
Invest more in new technologies	6	1	13	9	11
Redesign business processes	7	5	5	13	9
Improve speed to market	8	8	T9	4	13
Improve cash management	9	10	T11	1	19
Ensure supply chain integrity	10	4	8	15	10
Deeper integration of global operations	11	22	2	12	12
Improve performance and accountability of middle management	12	9	3	T19	T20
Improve performance and accountability of senior management	13	12	17	22	3
Better align IT with business goals	14	13	T9	T6	15
Achieve economies of scale through organic business growth	15	11	18	3	22
Achieve economies of scale through product/process standardization and harmonization	16	18	T14	T19	7
Consider sourcing opportunities globally	17	20	25	11	8
Secure lower costs for materials and other input resources	18	19	T14	16	T16
Better align executive compensation and incentives with business performance	19	15	16	17	24
Better manage outsourced operations and offshore operations	20	16	23	18	18
Improve capital investment decision process	21	23	T20	14	14
Enhance the effectiveness of board governance	22	17	22	23	23
Reduce management layers	23	21	T20	25	T16
Optimize number of global suppliers	24	T25	19	24	T20
Achieve economies of scale and/or synergies through mergers and acquisitions	25	24	24	21	25
Decrease carbon footprint/resource use	26	T25	26	26	26

Operational Excellence was added to the list of challenges in 2013 to replace **Cost Optimization**. N=Number of overall responses. The response rate varies for each strategy. T=Tie. NR=Strategy was not ranked by any of the respondents. In addition to other countries, the Asia category includes China, India, and Australia.

Source: The Conference Board

3 Innovation

CHALLENGE RANK	Global	Europe	United States	Asia	China	India
	3	T3	4	2	1	3

In today's slow growth environment, **Innovation** is a double-edged sword. It is your friend—and it can certainly be your enemy. Just consider some of the world's iconic brands (e.g., Kodak, Sharp, SAAB) that are in severe distress because of their inability to adapt, reinvent themselves, and innovate at the same pace as their competition. The third-place ranking for **Innovation** indicates that CEOs are concerned about recognizing the "next big thing" that could revolutionize their industry.

In this slow-growth environment many companies have cut costs and if they don't embrace innovation there are not many arrows left in the corporate quiver to spur growth. There is also more pressure from customers to innovate. They are demanding more variety, more and faster change, and more customization, which requires companies to segment their markets even further.

In some companies, innovation occurs naturally, supported by an energized, tolerant, and entrepreneurial culture starting at the top—and also bubbling up from the bottom. In others it can be a painful process requiring strong leadership and a commitment to consistency to change a complacent corporate culture and market.

> Technology changes, and if you don't learn how to adapt to it, then you're going to be in the bone yard.
>
> **David Farr** Chairman and Chief Executive Officer, Emerson Electric

- Although CEOs see technology as the primary driver of innovation, there is a clear recognition of the equal importance of a people-driven approach. Three of the top five global strategies to support innovation are related to human capital. *Create culture of innovation by promoting and rewarding entrepreneurship and risk taking*; *develop innovation skills for all employees*; and *find, engage, and incentivize key talent for innovation* are three of the top-five strategies in both Europe and the United States. The human capital function plays a critical role in these strategies by creating agility within the organization, emphasizing diversity of thought in the leadership pipeline, and bringing together leaders with the skills and competencies needed to manage cross-functional, multicultural teams that can successfully fulfill the innovation mandate. The high ranking of *develop innovation skills for all employees* (top five in all regions as well as globally) points to the realization that truly innovative companies understand that innovation is not the purview of a specially chosen few in an organization.

> …I think the whole cultural element–focusing on a customer, really rewarding innovation, rewarding risk taking, but also rewarding resilience, rewarding people that speak up, encouraging open discussions, flattening hierarchies–is utterly important to sustain a climate where innovation thrives.
>
> **Dr. Harald F. Stock** Chief Executive Officer, Grünenthal GmbH

- Rounding out the remaining human capital-related strategy for **Innovation** is *leverage expertise of senior leaders to develop high potentials and transfer knowledge*. Not only does this accomplish development for a new generation of leaders, it preserves organizational knowledge and also provides deep insights into these high-potential leaders that can then be tapped during succession planning conversations.
- CEOs in Asia and the United States rank *engage in strategic alliances with customers, suppliers, and/or other business partners*—a longer term approach for growth—a top-five strategy. None of the regions are eager to *pursue open innovation concepts*, which represent a step that can challenge an organization's business model and competitive strategy.

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

Technology is number-one enabler of innovation, while finding the right people is key to success

Importance-adjusted strategies for fostering innovation	Global N=467	Asia N=254	Europe N=84	United States N=91	China N=40	India N=38
Apply new technologies (product, process, information, etc.)	1	1	3	1	1	2
Find, engage, and incentivize key talent for innovation	T2	3	4	4	T3	3
Engage in strategic alliances with customers, suppliers, and/or other business partners	T2	4	6	2	T3	4
Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	4	6	1	3	7	1
Develop innovation skills for all employees	5	5	2	5	5	5
Change business model	6	2	8	9	2	10
Encourage more product-specific incremental innovation for the short term	T7	8	5	7	9	6
Invest more in long-term research and development	T7	7	9	10	6	7
Integrate social media into product and service offerings	9	T13	7	11	14	12
Leverage expertise of senior leaders to develop high potentials and transfer knowledge	10	9	15	8	8	T8
Leverage competitive business intelligence	11	T11	10	6	15	T8
Pursue open innovation concepts	12	10	13	12	11	14
Strengthen intellectual property and patent protection	13	T11	11	13	T12	11
Increase use of third-party providers to conduct research and development	14	T13	14	14	10	15
Seek government support and funding for research and development	15	15	12	15	T12	13

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.
Source: The Conference Board

- The transformation of business models is considered by CEOs in Asia to be one of the most important aspects of their innovation strategy. *Change business model* is rated second in Asia, where the speed of change and the constant emergence of new competitors is extremely intense.
- Roughly two-thirds of the executives surveyed by The Conference Board for a 2012 report on IP protection felt *theft of trade secrets* presents an extensive risk in emerging markets.[17] Respondents to the 2013 CEO Challenge survey do not share this view and are not overly concerned about this potential threat to innovation. *Strengthen intellectual property and patent protection* ranks no higher than eleventh in any of the regions as an innovation strategy.
- In the financial services sector, **Innovation** dropped out of the top five challenges between 2012 and 2013, likely because of the flood of regulation in most areas around the globe. Last year CEOs in this sector ranked *change business model* as their number three strategy, reflecting the impact regulation was having on their business. This year, with many of the new regulations already in place across the globe, that strategy falls to tenth—perhaps an indication that things have settled down somewhat in the sector. But that doesn't mean the innovative spirit has been drained from the sector entirely. CEOs in this sector are the only group to rank *integrate social media into product and service offerings* as a top-five strategy.
- CEOs in the smallest revenue class (under $100 million) are focusing on technology and seeking outside help to meet this challenge. CEOs of these smaller firms rank *apply new technologies* as their number one enabler of innovation, but they also feel it is critical to look outside the corporate walls for new ideas and inspiration. They rank *engage in strategic alliances with customers, suppliers, and/or other business partners* as their number two strategy—considerably higher than their colleagues at the largest firms where fostering innovation from the inside is a priority. CEOs in the largest revenue class rate *develop innovation skills for all employees* second as a strategy to foster innovation.

> ...people tend to obsess about innovation around the invention of the new iPhone or iPod or whatever it may be. But I'm talking about a different kind of innovation. I'm talking about business innovation and that's going to require a new kind of thinking in service industries. It's going to require that we challenge what we do now and maybe do some things that could threaten activities that have worked for us. It's going to require that we see certain kinds of companies, those we used to see as unrelated or even as competitors, as potential partners or collaborators. That's innovation for us.
>
> **George Barrett** Chairman and Chief Executive Officer, Cardinal Health

Technology is a vital enabler of innovation across all sectors, and financial sector looks to social media; all look to finding the right people

Importance-adjusted strategies for fostering innovation	Global N=467	Manufacturing N=175	Financial services N=46	Non-financial services N=231
Apply new technologies (product, process, information, etc.)	1	1	2	2
Find, engage, and incentivize key talent for innovation	T2	T3	4	1
Engage in strategic alliances with customers, suppliers, and/or other business partners	T2	2	6	5
Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	4	5	1	3
Develop innovation skills for all employees	5	T3	5	6
Change business model	6	6	10	4
Encourage more product-specific incremental innovation for the short term	T7	8	7	9
Invest more in long-term research and development	T7	7	8	11
Integrate social media into product and service offerings	9	15	3	T7
Leverage expertise of senior leaders to develop high potentials and transfer knowledge	10	T12	11	T7
Leverage competitive business intelligence	11	14	9	10
Pursue open innovation concepts	12	11	12	12
Strengthen intellectual property and patent protection	13	10	15	13
Increase use of third-party providers to conduct research and development	14	9	14	14
Seek government support and funding for research and development	15	T12	13	15

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

Technology is a critical driver in all sectors; largest firms focus on people-driven strategies, while smallest firms look for outside help

Importance-adjusted strategies for fostering innovation	Global N=467	Less than $100 million N=181	$100 million to under $1 billion N=102	$1 billion to under $5 billion N=82	$5 billion and above N=89
Apply new technologies (product, process, information, etc.)	1	1	1	1	1
Find, engage, and incentivize key talent for innovation	T2	4	5	4	5
Engage in strategic alliances with customers, suppliers, and/or other business partners	T2	2	6	2	6
Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	4	6	4	6	4
Develop innovation skills for all employees	5	5	2	5	2
Change business model	6	3	3	3	3
Encourage more product-specific incremental innovation for the short term	T7	8	10	8	10
Invest more in long-term research and development	T7	9	7	9	7
Integrate social media into product and service offerings	9	10	13	10	13
Leverage expertise of senior leaders to develop high potentials and transfer knowledge	10	7	11	7	11
Leverage competitive business intelligence	11	13	12	13	12
Pursue open innovation concepts	12	12	14	12	14
Strengthen intellectual property and patent protection	13	15	9	15	9
Increase use of third-party providers to conduct research and development	14	15	8	14	8
Seek government support and funding for research and development	15	11	15	11	15

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

Is Competitive Intelligence an Underused Weapon in the Innovation Arsenal?

Although CEOs do not rank the use of competitive intelligence highly in their list of **Innovation** strategies (its highest regional ranking was sixth in the United States), it may be one tool that is underutilized by most organizations. Competitive intelligence can play a critical role in understanding how the players in your industry are approaching innovation—and provide insights to streamline and focus your own company's innovation efforts.

Companies are meeting the innovation challenge through a mix of technology, talent, fostering an innovative risk-taking culture, and alliance building. As a result, in savvy organizations, innovation seems to come from everywhere, all the time.

Understanding how your competitors are innovating, what they are working on, who and what are driving their innovation program, and where they are investing are all questions that competitive intelligence can answer to yield critical insights. It can help companies prepare for and counter competitors' moves. It can also help in identifying new areas and opportunities where a firm can lead innovation.

Companies often leave analysis of competitive innovation to lawyers who study patents to determine issues of freedom to practice. Such an approach is one dimensional and, in many ways, backward looking. To understand the thinking that drives innovation or discover other avenues of innovation, bring a broad set of skills to the table—especially those of your own technical community. This requires a wide horizon that looks at all elements of the innovation process from people to processes:

- Understanding how players in the industry approach innovation is a crucial step to building innovation plans.
- Beyond intellectual property analysis, understanding competitor innovation requires analysis of past innovation, organization capability, investment choices, and corporate culture.
- Full analysis of innovation requires looking across the entire industry value chain from marketing to selling, from financing to supply chain, from technology to customer insight.

Some ways to execute innovation using competitive intelligence: profiling the skills and influence of key innovators at other companies, analyzing the patterns and processes used to move from invention to market introduction, charting a company's open innovation relationships and investments, and looking at a company's hiring practices. All can provide critical insight into a competitor's plans and direction while helping a firm's innovation program become more efficient.

Source: The Conference Board Council on Competitive Intelligence, *Competitive Intelligence: A Critical Tool for Innovation*, The Conference Board, Council Perspectives 30, April 2011.

4 Customer Relationships

CHALLENGE RANK	Global	Europe	United States	Asia	China	India
	4	5	3	T5	6	6

Although it was ranked only seventh as a challenge in last year's survey, respondents to the 2013 survey rank **Customer Relationships** fourth globally, and it is one of the top-five challenges in all three regions. Slowing growth and stagnant markets are creating more intense competition within those markets and for existing customers. Meeting the challenge of maintaining a solid customer base can be viewed as a defensive strategy—making sure you keep what you have when there is little to no growth to be had elsewhere. After all, customers are the lifeblood of any business.

As the global information flow intensifies, customers themselves are demanding different relationships with companies compared to the past. In many cases, especially in the consumer sector, it is becoming less about the product and more about the whole experience one has with a company. Consumers are expecting companies to act like their friends, to do the right thing proactively. The mantra for successful customer-centric organizations is: don't think like a company; think like a customer.

> ...The customer today, no matter if it's a big company or an individual, wants information; they want it faster, and they want to know what's going on at all times, which is not something that most global companies were set up to do, to be honest.
>
> **David Farr** Chairman and Chief Executive Officer, Emerson Electric

- For CEOs in all three regions, the top strategies to improve **Customer Relationships** are *enhance quality of products and services*, *sharpen understanding of customer/client needs*, and *engage personally with key customers/clients*, with the latter two a clear recognition that the voice of the customer is more important than ever before. The importance of CEOs' personal engagement with key customers should not be underestimated when it comes to the development and transmission of an enterprise-wide customer-centric culture. Too often CEOs are narrowly focused on running the business and forget that it is their customers who can help them run it better. If only they would listen—direct customer contact by the CEO can inspire the entire organization to higher performance. And in a digital world, customers are demanding that CEOs be available, if not in person, at least through social media.
- CEOs in Asia highlight a critical tradeoff faced by most companies in highly competitive markets. They rank *enhance quality of products and services* as their top strategy, while listing *increase speed of products and services to market* at number three (CEOs in India, Thailand, the Philippines, and Singapore all have these two potentially conflicting strategies in their top five). Making the decision as to when a new product or service is "good enough" to go to market and just how many flaws customers are willing to put up with in exchange for new design, enhanced capabilities, or the prestige of having the "latest thing" is really about risk assessment. While time-to-market decisions can be an important determinant of a product or service's success or failure, it is certainly not the only factor and companies in Asia are notorious for choosing speed over quality at launch time.

- CEOs in all three regions also agree on the importance of *use of competitive intelligence to better understand customer/client needs*: it is a top-five strategy in all. Competitive intelligence can play a role in improving the chances of an innovation's success by helping firms get a handle on the consumer of the future. The pace of change and innovation is such that your customer or consumer is not the same person as he/she was a month ago. Simply reacting to what customers want means you will always be behind your competition. Retaining and expanding market share requires clear and accurate insights into the markets and those of your competitors—not just information feeds, but analysis that explains competitive behavior, competitive intentions, and identifies competitive opportunities. European CEOs are the only group to select the *broaden range of products/services* strategy as one of their top five. Seeking to expand their range of products clearly fits with the expressed desire of CEOs in the region to increase incremental innovation as a way to meet the **Innovation** challenge and spur growth.

Quality is of critical importance in all regions; personal CEO engagement with customers seen as effective regardless of location

Importance-adjusted strategies for managing customer relationships	Global N=480	Asia N=248	Europe N=96	United States N=94	China N=34	India N=30
Enhance quality of products/services	1	1	2	2	1	3
Sharpen understanding of customer/client needs	2	2	1	1	2	T1
Engage personally with key customers/clients	3	4	3	3	5	4
Increase speed of products and services to market	4	3	8	4	6	T1
Use competitive intelligence to better understand customer/client needs	5	5	4	5	7	8
Broaden range of products/services	6	6	5	7	3	T6
Tailor marketing, promotion, and communications campaigns to key customer needs	7	7	9	6	8	T6
Provide incentives for front-line employees to improve customer engagement	8	8	14	11	4	14
Increase transparency of customer relationship processes	9	10	7	8	10	5
Use social media and new communication technologies	10	9	6	12	13	T12
Increase user-friendliness of products/services	11	13	10	10	10	10
Employ new metrics on customer engagement and retention	12	12	13	9	T11	9
Promote sustainable products/services	13	11	11	13	9	11
Lower price of products/services	14	14	12	14	T11	T12

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.
Source: The Conference Board

Have CEOs Forgotten How to Connect with Customers?

Why have so many corporations become so customer unfriendly? Simply, because too few corporate leaders set out to recapture their entrepreneurial roots and build more customer-connected organizations.

Being customer connected is a blind spot because it is not considered a real leadership issue. Most CEOs believe that their companies are already connected with customers and, if it's a problem, it can be fixed by hiring a "customer officer" or increasing the customer service or market research budgets. Staying connected to customers is so basic that everyone assumes it is a priority for the company's leaders—except the company's leader.

Another reason why leaders of larger companies are insufficiently customer connected is that they have underestimated or ignored the symbolic power of their leadership practices. Being a role model is second nature to entrepreneurial leaders, and larger company CEOs should be more aware of this aspect of their leadership. If they expect that others will handle the task of connecting to customers, they are sending a message that reduces its cultural salience and, therefore, its importance.

CEOs cannot delegate the task of creating the organization's culture and climate. They are the most visible and influential symbols and communicators of "what counts" in the company. The CEO's personal leadership practices set the tone for the actions of the senior team and for countless other managers and employees. Even in large, complex multinationals, what the CEO says and does has a powerful impact on the organization. So when the CEO loses touch with customers, the whole organization does too.

There is no substitute for leading by personal example. To ensure an organization is truly connected to customers, a leader must:

- Set challenging goals for customer connection. This means "forcing" the organization to adopt stretch targets and challenging the organization to create a dramatically improved customer experience.
- Demonstrate personal commitment to achieving customer connection goals. This means the leader has to "walk the talk."
- Clarify who is responsible for what when it comes to staying connected to customers. The CEO should provide enough guidance and structure to coordinate the efforts of different functions and ensure that customer information gets to the right people. S/he must also clarify expectations regarding how to respond to the customer's voice.
- Encourage innovation and calculated risk taking when it comes to incorporating customer feedback. When the members of the organization feel free to experiment and try new things in response to what they hear from customers, the culture becomes more connected.
- Conduct team meetings that build trust. In the context of building a more customer-connected corporate culture, this classic management practice means listening to staff members and colleagues with a nonjudgmental attitude.
- Encourage participation in decisions related to connecting with customers. The leader must engage with and empower all those who have customer information and insights.

Source: Based on the article by Robert Stringer, "Connecting to Customers," *The Conference Board Review*, February 2011.

Boards May Know of Social Media, They Just Don't Know What to Do with It

Despite the buzz, innovation, and anticipation that surrounds social media as a marketing and communication tool, especially in the business-to-consumer space, it is no surprise that CEOs in the United States, at least for now, appear relatively unexcited by it—and according to research, it's really not on their boards' radar as yet.

In the spring of 2012, The Conference Board and the Rock Center for Corporate Governance at Stanford University conducted a survey of executives and board members to gain insight into how senior-level decision makers in North American companies view social media, and the extent to which they incorporate it into their corporate strategy and risk management practices.

The survey intent was to assess the sophistication of boards of directors and senior management regarding the business uses of social media. Unlike most surveys on social media, which rely on a demographic of mostly young practitioners, the survey sample includes only representatives from the highest level of the organization: CEOs, senior executives, and members of the board of directors. The respondents' average age is in the mid-50s, and they are employed in a broad set of industries, including manufacturing, banking, utilities, retail, and services.

The findings provide evidence of a general awareness and understanding of the potential of social media as a sales and marketing platform. Consistent with the results of other studies, survey results show that directors and executives appreciate the opportunity that social media offers to reach new customers and interact with them in a personal and direct way. They also understand the potential risk that social media poses in terms of product branding and corporate reputation. There is little evidence, however, that companies are acting on this knowledge to make operational decisions.

Companies appear to be relatively unsophisticated when it comes to formally gathering data from social media and incorporating it into corporate strategy, operational plans, and risk management. Directors and executives do not request this information nor rely on it for decision making. However, those who do rely on this information find it useful in pursuing corporate objectives. The findings suggest considerable opportunity for companies that develop a reliable infrastructure for capturing data from social media and distilling it into an actionable, usable form for corporate decision makers. Among the actions boards can take:

- Assess your current capabilities. Determine what social media activities are currently taking place in the organization and by whom.
- Determine how social media fits with your strategy and business model. The successful adoption of social media will depend on these.
- Map your company's key performance indicators (KPIs) and risk factors to information available through social media. Examine the metrics that the board of directors and senior management use to monitor corporate performance and risk factors facing the organization (where applicable, compare these factors to those disclosed in the company's 10-K and the types of questions asked by analysts during conference calls).
- Implement a "listening" system to capture social media data and transform it into metrics. There are several off-the-shelf software services that scan blogs, Twitter, and other social media sites, summarize online conversations, and convert them to quantitative and qualitative metrics.
- Develop formal policies and guidelines for employees, executives, and directors. Ensure that appropriate and inappropriate uses of social media are clearly articulated and shared with employees of all levels. Doing so can help minimize (but not prevent) the erroneous release of damaging information in a social media environment, where it can quickly become "viral."
- Consider the legal and behavioral ramifications. The board of directors is under no legal or regulatory obligation to act on data other than those provided by management. Therefore, the board should consult with the general counsel before requesting summary data from social media services.

Source: David F. Larcker, Sarah M. Larcker, and Brian Tayan, *What Do Corporate Directors and Senior Managers Know about Social Media?* The Conference Board, Director Notes 4, No. 12, 2012.

- A willingness to *use social media and new communication technologies* as an outreach to build customer relationships is relatively low in both Asia (ninth) and the United States (twelfth). The strategy does place slightly higher in Europe (sixth). These results are consistent with a 2012 survey of CEOs, board directors, and senior executives by The Conference Board and Stanford University that found executive respondents did have a general awareness of the potential of social media as a marketing and sales platform, but few companies said they were acting on this knowledge to make operational decisions (see box, page 50).[18]
- While successful organizations develop a culture where everyone in the company shares customer relationship responsibility, it was surprising that *provide incentives for front-line employees to improve customer engagement* was so low on the strategy list (eighth in Asia, fourteenth in Europe, and eleventh in the United States). The importance of each individual personal touch point has become greater with the explosion of social media where each customer becomes, in essence, a marketer (or critic) of your product or service.
- There is a subtle link between **Innovation** and **Customer Relationships** that can be seen in the importance CEOs place on the *engage in strategic alliances with customers, suppliers,*

At the Intersection of Innovation and Customer Relationships

Design thinking is a process that incorporates a more holistic, customer-driven approach to innovation that is built on ideas that were based on contextual observation. The first-person observations provide insights that are unavailable through traditional means (e.g., satisfaction surveys and focus groups). Knowing your customers, while always an element of business success, is critical today for successful innovation.

Many companies tend to focus their innovation programs on the notion of meeting "unarticulated consumer needs," or that customers simply don't know what they need or want to leave it up to the corporate innovators to decide for them. The world is littered with products abandoned late in the development cycle because they were not relevant to customers. Design-centered innovation reduces the risk of failure. In this process customer needs are brought to light through engaging with them: the customer "touch point" becomes a true site for innovation. People who are in direct contact, who "touch the customer," often have the best ideas—and in many organizations there is an inverse relationship between the number of good ideas emanating from an individual and the grandness of his/her job title.

The idea that innovation—big ideas—spring solely from the minds of the creative genius is dead. The new reality is that everyone in an organization is capable of design thinking and innovation, and that revolutionary ideas can be achieved through collaboration.

The design-centered approach carries through the entire product life cycle from inception to marketing. In today's "experience economy," telling a compelling story is a strong differentiator. Develop a powerful narrative about the impact of your products and services on the lives of your users. People want to know how your offerings improve their life experiences.

Source: Based on the report by James Lichtenberg, *Design-Centered Innovation: Observe, Learn, Innovate*, The Conference Board, Council Perspectives 45, January 2013.

and/or other business partners strategy to mitigate the **Innovation** challenge. The connection relates to the growing use and acceptance of design thinking and design-centered innovation, which preaches that the customer "touch point" is the real site for innovation. Hearing the voice of the customer is certainly important, but capturing the subtle yet critical insights gleaned from contextual observation and real-time, real-life interaction with customers is often the difference between a good-enough product or service and a great one.

- Regardless of the industry sector, CEOs are focused on quality improvement and better understanding the needs of the customer. *Enhance quality of products and services* is the top strategy in the non-financial services sector and second in manufacturing and financial services. While there is close alignment in the strategies selected by CEOs in manufacturing and non-financial services, CEOs in the financial services sector place a greater emphasis on competitive intelligence and social media than their peers. They also are the only group to see an *increase in user-friendliness of products/services* as a critical part of their **Customer Relationships** strategy—not a surprise for an industry that has been heavily criticized by regulators for the complexity of many of their products.

Quality and better customer understanding important across the board; finance sector looks to social media to enhance relationships

Importance-adjusted strategies for managing customer relationships	Global N=480	Manufacturing N=137	Financial services N=65	Non-financial services N=265
Enhance quality of products/services	1	2	2	1
Sharpen understanding of customer/client needs	2	1	1	2
Engage personally with key customers/clients	3	4	8	3
Increase speed of products and services to market	4	3	12	T4
Use competitive intelligence to better understand customer/client needs	5	6	3	T4
Broaden range of products/services	6	5	14	8
Tailor marketing, promotion, and communications campaigns to key customer needs	7	9	9	6
Provide incentives for front-line employees to improve customer engagement	8	8	13	7
Increase transparency of customer relationship processes	9	7	6	10
Use social media and new communication technologies	10	14	4	9
Increase user-friendliness of products/services	11	T12	5	12
Employ new metrics on customer engagement and retention	12	T12	7	11
Promote sustainable products/services	13	10	T10	14
Lower price of products/services	14	11	T10	13

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.
Source: The Conference Board

- Underscoring the notion that social media use is primarily a B-to-C communications tool, CEOs in the manufacturing sector rank *use social media and new communication technologies* dead last as a customer relationship strategy.
- CEOs across all revenue sizes are focused on quality and customer outreach as part of their relationship strategies. *Enhance quality of products and services* is the top-ranked strategy in all four categories, with *sharpen understanding of customer/client needs* second in all categories except the $1 billion to $5 billion range, where it is third. CEOs in smaller firms place more emphasis on personally engaging with their customers than CEOs in the larger revenue groups, who look to rely more heavily on the use of competitive intelligence to enhance customer relationship strategy than their peers in smaller firms.

Quality is job one across all revenue sectors

Importance-adjusted strategies for managing customer relationships	Global N=480	Less than $100 million N=196	$100 million to under $1 billion N=108	$1 billion to under $5 billion N=78	$5 billion and above N=89
Enhance quality of products/services	1	1	1	1	1
Sharpen understanding of customer/client needs	2	2	2	3	2
Engage personally with key customers/clients	3	3	3	5	5
Increase speed of products and services to market	4	T6	4	2	4
Use competitive intelligence to better understand customer/client needs	5	8	T8	4	3
Broaden range of products/services	6	4	6	10	7
Tailor marketing, promotion, and communications campaigns to key customer needs	7	T6	7	7	8
Provide incentives for front-line employees to improve customer engagement	8	5	12	6	10
Increase transparency of customer relationship processes	9	11	5	8	9
Use social media and new communication technologies	10	10	13	11	6
Increase user-friendliness of products/services	11	9	14	9	T11
Employ new metrics on customer engagement and retention	12	13	10	12	T11
Promote sustainable products/services	13	12	11	13	13
Lower price of products/services	14	14	T8	14	14

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

5 Global Political/Economic Risk

CHALLENGE RANK	Global	Europe	United States	Asia	China	India
	5	T3	6	4	4	2

Ranked third by respondents globally in 2012, **Global Political/Economic Risk** slips to fifth in the 2013 survey. In regional terms, U.S. CEOs rank it sixth, European executives rank it third (down from number one in 2012), and leaders in Asia rank it fourth (up one rank from 2012). While there are signs of some stabilization in the European financial markets, the downside risks remain high because of ongoing weaknesses in the most troubled economies and contagion risks for larger economies (e.g., France, Italy, and Spain). Despite wild speculation about the imminent collapse of the euro, Europe will probably manage to muddle through and continue on a slow growth path through 2013, as predicted by The Conference Board.[19] The risks, such as a more fragmented and less competitive Europe, are much more medium term. The same can be said of fiscal problems in the United States and even China's increased financial instability. The strategies selected by CEOs to cope with global risk show an interesting mix of long-term strategic planning (United States), managing currency risk (Europe), and a more reactive choice of implementing crisis and contingency plans (all three regions).

> Our business is heavily dependent on global trade flow. If we have a significant interruption in global trade for any reason, we're going to have a business problem…and there are so many economic risks right now, whether it's the mess in the European Union or the mess in Washington, D.C., or the generic weakness of the Chinese economy.
>
> **Keith Williams** President and CEO, Underwriters Laboratories

- CEOs in Europe, Asia, and the United States all recognize the importance of incorporating long-term risk into their strategic plans, which highlights the delicate balance between short-term goal setting and long-term sustainable performance. *Integrate long-term risk recognition into strategic planning* is the number-one strategy globally and in the United States. In many organizations, long-term strategic planning gets ahead of risk assessment—strategies are devised without a review of long-term risks that could make those strategies irrelevant. If an organization focuses solely on risks in operations or strategy without building the impact of large external risks into planning, opportunities will be missed, or worse, negative surprises could demolish the bottom line.[20]
- CEOs are also paying attention to the operational side of risk mitigation within their own organizations. *Reduce exposure to risky countries/regions* is the second-ranked strategy globally as well as in both the United States and Europe. (CEOs in Asia, a region where companies may be more comfortable doing business in more risky emerging market environments, rank it seventh.) *Implement contingency plans for crises* and *establish crisis management teams and procedures* are also among the top strategies across all the regions.

Risk mitigation strategies reflect local economies, and currency risk tops Europe's agenda; raising capital reserves is a focus in China

Importance-adjusted strategies for managing global political/economic risk	Global N=480	Asia N=173	Europe N=68	United States N=67	China N=24	India N=37
Integrate long-term risk recognition into strategic planning	1	3	4	1	T5	3
Reduce exposure to risky countries/regions	2	7	2	2	12	1
Implement contingency plans for crises (e.g., geographical, political, relocation of employees)	3	2	3	4	T2	4
Manage currency risk	4	4	1	5	7	2
Establish crisis management teams and procedures	5	1	5	3	1	5
Improve access to credit	6	8	6	14	T5	13
Diversify supply chain	7	9	9	T8	8	7
Partner with local businesses to mitigate risk	8	5	8	6	4	6
Raise capital reserves	9	6	7	7	T2	10
Get board more actively involved in enterprise risk management	10	10	15	11	9	8
Secure alternative methods for input resources	11	11	14	10	10	9
Cease business operations in unstable environments	12	13	10	12	13	12
Engage with governments to solve pressing social problems	13	12	12	13	14	11
Increase funding for cyber security	14	16	17	T8	15	NR
Hedge against future rises in energy costs	15	15	13	15	16	T15
Lobby governments to address sovereign debt issues	16	18	11	16	NR	14
Increase security presence in volatile regions	17	16	18	17	11	T15
Partner with governments to address sovereign debt issues	18	17	16	18	17	17

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

- Interestingly, *raise capital reserves*, last year's second-ranked strategy globally and in Europe and a top-ranked strategy in Asia, has given way to concerns over how to *manage currency risk,* which is in the top-five strategies for Europe (first rank), Asia (fourth rank), and the United States (fifth rank). Many companies have made progress in the last few years by strengthening their war chests against manageable short-term financial risks, and the liquidity position of large businesses is generally fairly strong. However, uncertainty about currency movements has become more important. As debt-ridden countries keep printing money, which creates downward pressures on their currencies, there is the risk in the Euro zone of a sharp devaluation. The luster has even faded off the Chinese RMB, which has felt the downward pressure of internal financial instability, a shrinking trade surplus, and persistent inflationary pressures.
- Similar to last year's survey, few CEOs have serious concerns about cyber security, though there are some indications that recent high-profile incidents involving attacks on U.S. banks in September 2012 and talk of China and North Korea's cyber warfare capabilities may be capturing the attention of some. As a risk mitigation factor, *increase funding for cyber security* moves to a tie for eighth in risk mitigation strategies for U.S. CEOs—up from twelfth a year ago. It also gains some traction in Asia, where it is sixteenth (after being unranked in 2012). European CEOs rank it second to last on their strategy list.
- CEOs do not see a role for themselves when it comes to the resolution of various regional debt crises. *Partner with governments to address sovereign debt issues* ranks dead last as a risk mitigation strategy globally and in the United States, and its position is not much higher in Europe (sixteenth rank) or Asia (seventeenth rank). The low rank in Europe is especially significant given the sovereign debt crises in that region.

> Nationalism is rampant, and it all comes back to countries trying to figure out, 'Okay, there's only so much economic growth out there, we've lived beyond our means for some time now, so now we have to figure out how to deal with the fact that you have an economy you have to protect.' Everyone is trying to figure out how to create job growth but you have this whole nationalistic approach going on in China, in Southeast Asia, in the United States, in Europe, in India, you name it. You see it much more today than ever before and it is worrying.
>
> **David Farr** Chairman and Chief Executive Officer, Emerson Electric

- From an industry standpoint, CEOs in all three sectors are seeking to limit their exposure to at-risk countries and regions while re-enforcing their crisis management teams and reviewing crisis procedures. In a more proactive mode, CEOs in all three sectors also rank *integrate long-term risk recognition into strategic planning* as a top-five risk mitigation strategy (it is number one in non-financial services and globally).
- *Raise capital reserves*, a top-five strategy in 2012 in all sectors, has fallen down the list for manufacturing (from second to eighth) and non-financial services (from fourth to tenth), though it does remain the number-two strategy for risk mitigation in the financial services sector.
- Smaller firms are looking to partner with local firms as part of their risk mitigation strategy. *Partner with local businesses to mitigate risk* is a top-five strategy for firms with under $1 billion in revenue but does not feature prominently among larger firms that are more concerned with *managing currency risk* as a risk mitigation strategy.

Why Incorporating Long-Term Risk into Strategic Planning Is Hard

Every business, regardless of size, location, or industry, faces risk. These risks range from big-picture strategic challenges to day-to-day financial and operational issues. Most businesses can easily identify their day-to-day transactional risks and generally have effective systems, like business continuity plans, to mitigate them.

But long-term risk is different. It is harder to grasp, takes imaginative thinking to perceive, and its potential impact—on business models, product lines, and even the survivability of a business—is harder, if not impossible, to quantify at present. Mitigation 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 of many organizations to procrastinate about difficult but not yet immediate problems.

Simply put, it is tough for some organizations to internalize the potential impact of large-scale trends whose time horizon falls out of the conventional risk purview of business managers. However, the reality is that if you wait for a crisis to manifest itself, you are probably way too late.

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

Reducing exposure to risky geographies is important across all three sectors; raising capital reserves critical for financial services

Importance-adjusted strategies for managing global political/economic risk	Global N=333	Manufacturing N=135	Financial services N=47	Non-financial services N=141
Integrate long-term risk recognition into strategic planning	1	3	4	1
Reduce exposure to risky countries/regions	2	4	1	T3
Implement contingency plans for crises (e.g., geographical, political, relocation of employees)	3	1	5	6
Manage currency risk	4	2	9	7
Establish crisis management teams and procedures	5	5	3	T3
Improve access to credit	6	9	6	2
Diversify supply chain	7	7	12	5
Partner with local businesses to mitigate risk	8	6	7	8
Raise capital reserves	9	8	2	10
Get board more actively involved in enterprise risk management	10	12	8	11
Secure alternative methods for input resources	11	10	14	12
Cease business operations in unstable environments	12	13	15	9
Engage with governments to solve pressing social problems	13	11	13	13
Increase funding for cyber security	14	16	T10	15
Hedge against future rises in energy costs	15	15	16	14
Lobby governments to address sovereign debt issues	16	14	T10	18
Increase security presence in volatile regions	17	17	NR	16
Partner with governments to address sovereign debt issues	18	18	17	17

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.
Source: The Conference Board

Smaller firms looking to partnerships to help mitigate risk; long-term risk planning an essential strategy in all revenue groups

Importance-adjusted strategies for managing global political/ economic risk	Global N=333	Less than $100 million N=101	$100 million to under $1 billion N=71	$1 billion to under $5 billion N=59	$5 billion and above N=92
Integrate long-term risk recognition into strategic planning	1	1	2	4	2
Reduce exposure to risky countries/ regions	2	4	9	T1	3
Implement contingency plans for crises (e.g., geographical, political, relocation of employees)	3	2	3	9	1
Manage currency risk	4	7	6	3	5
Establish crisis management teams and procedures	5	5	1	6	4
Improve access to credit	6	8	7	T1	10
Diversify supply chain	7	9	8	5	6
Partner with local businesses to mitigate risk	8	3	4	10	8
Raise capital reserves	9	10	5	7	7
Get board more actively involved in enterprise risk management	10	12	11	8	T12
Secure alternative methods for input resources	11	11	10	11	15
Cease business operations in unstable environments	12	6	15	12	T12
Engage with governments to solve pressing social problems	13	13	12	T13	9
Increase funding for cyber security	14	15	14	15	16
Hedge against future rises in energy costs	15	16	17	T13	14
Lobby governments to address sovereign debt issues	16	18	16	16	11
Increase security presence in volatile regions	17	14	13	18	18
Partner with governments to address sovereign debt issues	18	17	18	17	17

N=Number of overall responses. The response rate varies for each strategy.
T=Tie. NR=Strategy was not ranked by any of the respondents.

Source: The Conference Board

…It's time to move into the twenty-first century and recognize that the common shared problem we have today is not labor versus management in the U.S., it's the U.S. versus China, U.S. versus Indonesia, U.S. versus Germany, and how do we work together to compete with all of those nations and to make sure that everybody's quality of life is improving? It's not splitting the pie anymore, it's making it bigger as the world's changing.

Keith Williams President and CEO, Underwriters Laboratories

The Changing Nature of Global Offshoring Risk

In a business environment often driven by short-termism and quarterly performance, dealing with potentially game-changing but slow-evolving long-term risks is a challenge few organizations handle well. For many companies, the location of current offshoring centers is based on decisions made more than five years ago—and in some cases more than a decade ago. Risk and cost structures have changed.

In emerging economies the rules of the game are not cast in stone—guidelines can change overnight. For offshoring, the changing face of risk means defining and managing risk on a micro level—a task that in many regions of the world is incredibly difficult because of a lack of reliable data and trustworthy information. In many emerging markets such as China and India, companies are managing provincial or even city-level risk instead of regional or country risk. The level of due diligence required for successful relocation has intensified as the risk focus narrows.

When all the risks associated with a location are bundled together and reviewed in their entirety, the overall attractiveness of an outsourcing location may change. For home-country executives it may not resonate that current sourcing locations are high risk until all the risk is aggregated. When it comes to offshoring, mitigating risk is about building a resilient model—not just a low-cost one.

The Importance of Risk Management and Resilience in Your Global Supply Chain

Major corporations can have tens of thousands of suppliers with which they contract directly (Tier 1 suppliers) and indirect relationships with even more firms with which their Tier 1 suppliers subcontract (Tier 2 suppliers). Increasingly, small and mid-market companies also buy goods and services from outside suppliers. A survey of 281 executives conducted by The Conference Board in association with the U.S. Department of Homeland Security found that while 68 percent of respondents felt their companies have an *extremely* or *very clear* understanding of the resilience of their Tier 1 suppliers, only 49 percent believed they have this level of visibility into the resilience of their Tier 2 suppliers.

When selecting suppliers and vendors, many companies only focus on cost and quality without assessing their ability to recover from a disruption. Only 57 percent of executives said their companies make a *major* or *significant* effort to assess the resilience of potential new suppliers, and only about half said they *conduct site visits*, *require suppliers to complete a self-assessment questionnaire*, or *review the supplier's business continuity plans*. This apparent lack of due diligence can lead to disaster.

There is often a tension between the goals of reducing costs and creating a more resilient supply chain. Companies have sought to reduce their costs by negotiating lower costs with a smaller number of key suppliers, but this can make them less resilient by creating single points of failure in their supply chains. Striking the proper balance between cost reduction and resilience is a matter of business judgment. Designing a more flexible and resilient supply chain may not be the lowest cost solution, but it can be the lowest risk solution and pay significant dividends over the long term by minimizing lost revenue when a disaster occurs. To mitigate supply chain risk:

- Companies need to strike an appropriate balance between reducing costs and increasing the resilience of their supply chains. Companies should have the ability to switch to alternative suppliers located in other regions and to alternative logistics routes in case a major disruption occurs.
- Although cost has traditionally been the primary criterion when choosing suppliers, companies should also consider business continuity planning and resilience in vendor selection and should assist their suppliers in becoming more resilient.

Source: Daniel Sandy Bayer, *Preparedness in the Private Sector: 2012 Report*, The Conference Board, Research Report 1507, December 2012.

CONCLUSION
MANAGING THE REALITY OF SLOW ECONOMIC GROWTH

Five years after the eruption of the global financial and economic crisis in 2008, the global business environment remains weak. The ongoing crisis in Europe and Japan, a relatively anemic recovery in America, and small potential for emerging markets to be the post-recession global growth heroes offer little hope for anything close to the eye-popping expansion and rapid growth of pre-recession years. Continued downside risks also plague economic and business outlooks.

According to survey results for this report, businesses have armed themselves to mitigate and manage risks in the short and the medium term by streamlining their organizations, building their human capital potential, and seeking the creation of more value by improving and diversifying existing products and services and paying more attention to their increasingly sophisticated and restless customer base.

Companies in Asia, an area where growth continues albeit at a slower pace (but still one that other global regions would be thrilled to have), have a different perspective than those in mature economies. They also have considerably more options to leverage their challenges into critical growth drivers—**Human Capital**, **Innovation**, and **Operational Excellence**—to sustain growth. In mature markets, the focus is on strengthening the "people factors" through greater engagement of employees, leveraging and cultivating internal talent, integrating suppliers and customers in the value chain, and driving a softer people-driven version of innovation.

While the downside risks for business are significant, it is important to realize that during times of "negativism" and somber outlooks, positive trends and events may be brewing beneath the surface. History shows that pressures for change may be gradually building up on the lee side of the crisis, where there is little immediate pressure for high returns and more time for experimentation and improvement.

But the burden of steadying the ship does not rest solely on the shoulders of the private sector. Positive change requires a policy commitment to restore and strengthen the working of critical markets in finance, labor, and major product areas in both mature and emerging economies. The creeping protectionism and potential fragmentation of global trade exhibited through a plethora of bilateral and multilateral regional agreements may be misguided and unlikely to create the confidence needed to bring about a global economy where sustainable growth and rising middle classes are possible. The global economy is now so deeply integrated that countries run the risk of shooting themselves in the foot by trying to protect their workers and industries from competition. But in a down economy, political sentiment often leans toward protectionism, even at a time when global coordination is needed the most.

The potential mix of bad policy and high risk may create the biggest obstacle to reaping the fruits of the focus on strengthening organizational business performance—the most important theme that emerged in this year's CEO Challenge survey.

ENDNOTES

1 Bart van Ark, "Global Economic Outlook 2013: Is the Global Economic Speed Limit Slowing Down?" The Conference Board, *StraightTalk®* 23, No. 3, November 2012.

2 For a more detailed discussion of how companies have positioned themselves to take advantage of growth opportunities presented by distressed economic situations such as the Great Depression in the United States, see Charles Mitchell, *Corporate Brands: Meeting the Challenges of Changing Times*, The Conference Board, Council Perspectives 15, February 2010.

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4 Respondents to the survey from outside of the three listed regions have been categorized as "rest of the world" (ROW). Their responses are included in the global results, but results for this category are not discussed separately, because the geographic dispersion and economic disparity between the countries that make up the ROW category defies meaningful analysis.

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6 Anke Schrader, Amy Lui Abel, Xiaoqin Li, *Reading the Tea Leaves: The Impact of China's Twelfth Five-Year Plan on Human Capital Challenges*, The Conference Board, Research Report 1502, November 2012.

7 Formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, the ASEAN grouping has grown to include Brunei, Myanmar, Cambodia, Laos, and Vietnam. These countries are home to 600 million people or nearly 9 percent of the world's population. As part of a formal ASEAN Economic Community (AEC) pact, the region is moving to eliminate tariffs and develop a common market and production platform by 2015. Also to be introduced will be fewer restrictions on the movement of skilled labor from country to country and streamlined customs procedures.

8 *The Financial Conduct Authority*, *Approach to Regulation*, The Financial Services Authority (www.fsa.gov.uk/pubs/events/fca_approach.pdf).

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18 David F. Larcker, Sarah M. Larcker, and Brian Tayan, *What Do Corporate Directors and Senior Managers Know about Social Media?* The Conference Board, Director Notes 4, No. 12, 2012.

19 Brian Schaitkin, *The Conference Board Economics Watch: European View* 3, No. 4, The Conference Board, EWEV_V3N4, May 2013.

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ABOUT THIS REPORT

Survey Methodology

This report is based on responses from CEOs, presidents, and chairmen to ***The Conference Board CEO Challenge***® survey, distributed between September and November 2012. Respondents were asked to rank order their top five challenges, a change from the 2012 survey when they were asked to give only their top three.

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 729 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 729 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 additional adjustments were made in the list of challenges presented to respondents in the 2013 survey. **Operational Excellence** replaced the more narrowly defined **Cost Optimization** as a challenge, as did **Trust in Business** for **Investor Relations**. Changes were also made in several of the strategy lists to better reflect the reality of the business environment.

Definition of Challenges

Corporate brand and reputation How your organization and its product and services are viewed by stakeholders.

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.

Global political/economic risk Dealing with social, political, economic, and physical and cyber-security factors in the global business environment.

Global expansion Seeking growth in multiple markets outside your home country.

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.

Trust in business The faith 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.

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

Sustainability Corporate commitment to accountability for the triple bottom line of financial, social, and environmental obligations and opportunities. These include elements of corporate citizenship, environmental sustainability, and green business.

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 these efforts in business terms.

ABOUT THE 2013 SURVEY

Region	Count	Percentage
Asia	395	54.2%
Europe	136	18.7
United States	138	18.9
Rest of the world	60	8.2
TOTAL	729	100.0%

Industry	Count	Percentage
Manufacturing	256	36.1%
Finance	92	13.0
Service	361	50.9
TOTAL	709	100.0%

Revenues	Count	Percentage
Less than $100 million	289	40.6%
$100 million to under $1 billion	161	22.6
$1 billion to under $5 billion	121	17.0
$5 billion and above	141	19.8
TOTAL	712	100.0%

	Asia		Europe		United States		Rest of the world	
Revenues	Count	%	Count	%	Count	%	Count	%
Less than $100 million	175	45.5%	55	41.0%	37	27.6%	22	37.3%
$100 million to under $1 billion	97	25.2	15	11.2	30	22.4	19	32.2
$1 billion to under $5 billion	60	15.6	25	18.7	24	17.9	12	20.3
$5 billion and above	53	13.8	39	29.1	43	32.1	6	10.2
TOTAL	385	100.0%	134	100.0%	134	100.0%	59	100.0%

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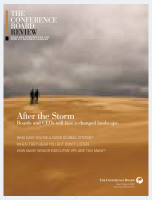

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