C-SUITE CHALLENGE™ 2020

The CEO View of Risks and Opportunities in 2020

HOT-BUTTON ISSUES

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The CEO View of Risks and Opportunities in 2020

HOT-BUTTON ISSUES

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Executive Summary

Since 1999, The Conference Board CEO Challenge® survey has asked CEOs across the globe to identify the most critical issues they face and their strategies to meet them. Since 2017, the C-Suite Challenge has expanded the survey pool beyond CEOs to the entire C-suite. This year's survey, conducted between September and October 2019, asked 1,520 C-suite executives, including 740 CEOs across the globe, for their views on the external and internal stress points they face, the need and will to collaborate with nontraditional partners to drive future growth, and the impact that cyber risk and more sophisticated attitudes toward data privacy will have on their organizations in a digitally transformed business environment. This first report focuses on the hot-button issues, external and internal to firms, as seen by CEO and other C-suite executives.

External Hot-Button Issues

Recession risk and uncertainity about trade and global competition dominate concerns for 2020

	CEOs						Non-CEOs
EXTERNAL HOT-BUTTON ISSUES	Global	USA	Europe	Latin America	China	Japan	C-Suite
Recession risk	1	1	1	2	T-1	2	1
Uncertainty about global trade	2	T-4	3	1	T-1	5	3
More intense competition	3	2	4	5	3	3	2
Global political instability	4	T-4	2	3	4	4	4
Tight labor market	5	3	6	10	T-8	1	8
More demanding customers	6	7	5	6	T-5	8	7
Cybersecurity	7	6	10	8	11	T-6	6
Declining trust in political and policy institutions	8	8	7	7	T-8	T-12	10
Impact of climate change on our business	9	12	8	4	18	T-6	9
Tougher regulatory environment	10	9	11	11	7	10	5
Effects of economic sanctions	11	11	12	14	T-5	9	11
Currency volatility	12	T-14	16	12	10	15	13
Other	13	10	13	9	T-16	11	17
Effects of Brexit	14	T-14	9	16	T-16	18	12
Income inequality	15	13	15	13	T-13	T-12	16
Uncertainty in corporate tax policies	16	T-14	14	15	T-13	16	14
Volatility in energy prices	17	17	17	17	12	T-12	15
Terrorism	18	18	18	18	15	17	18
	N= 740	N=123	N=162	N=188	N=89	N=112	N=780

Note: T indicates tied ranking

Source: *The Conference Board C-Suite Challenge 2020*

Recession risk For the second consecutive year, *recession risk* is the top external concern for CEOs globally and other C-suite executives, including CFOs—despite leading economic indicators signaling that a small improvement in the global outlook is more likely than recession in 2020. Just two years ago, global recession was barely on the minds of CEOs in our survey. One real risk of this recession mindset is that it can become a self-fulfilling prophecy.

Anxiety amplified Today's heightened recession concerns are amplified by what CEOs see as continued uncertainty around global trade, increasing competition, global political instability, and tightening labor markets—which, in themselves, can be significant restraints on business growth.

Trade tensions Uncertainty around global trade is most acutely felt by responding CEOs in both China and Latin America. Though still a top-five external concern, CEOs in both Japan (ranked fifth) and the United States (tied for fourth) give it less emphasis than their global peers, while Europeans rank it as their third top concern. When looking at the full set of C-suite responses, executives in Manufacturing rank global trade as their number-one external issue—higher than C-suite executives in both Financial Services (fifth) and Nonfinancial Services (second).

Sanctions biting in China Responding CEOs in China believe dealing with the effects of economic sanctions will be a priority for their organizations in the coming year. They place this issue fifth—the highest ranking by any region/country by a considerable margin. CEOs globally and in the United States rank it eleventh, while CEOs in emerging markets rank it ninth and those in mature markets have it even lower, at thirteenth. The concern expressed by CEOs in China is likely linked to the US government's more aggressive trade approach. In November 2018, the US Justice Department launched its "China Initiative," which formally encourages US law enforcement agencies to aggressively advance their China cases—many more indictments are expected to follow on the heels of Huawei, which is accused of selling communications equipment to Iran in violation of US sanctions on that country.[1]

Tight labor market There is really no single global labor market story. CEOs in mature markets give this issue a considerably higher ranking (third) than their peers in emerging markets (tenth). It is the top-rated issue in Japan. Human capital executives responding to our survey cite the *tight labor market* as their number-two external hot-button issue, after *recession risk*. Labor market tightness in many mature economies is reaching historic levels, including the United States, Germany, and Japan, creating angst about the ability to find qualified workers. This macro-level concern has a direct link to the global number-one internal hot-button issue in this year's survey—*attraction and retention of top talent.*

Cybersecurity The risks and potential costs of cyberattack, from securing corporate secrets and intellectual property to safeguarding customer, partner, and employee information, remain priorities for CEOs globally. *Cybersecurity* is ranked seventh among external hot-button issues for CEOs and sixth for C-suite executives. While more than 70 percent of responding CEOs globally say they plan to increase their

1 "The US/China Trade Dilemma," The Conference Board, webcast, February 20, 2019.

cybersecurity budgets in the coming year, almost 40 percent say their organizations still lack a clear strategy to deal with the financial and reputational impact of a cyber-attack or data breach.

How's the weather? *The impact of climate change on business* is slated to get more attention from CEOs globally in the coming year, rising to ninth overall on their list of external hot-button issues, up from eleventh in 2019. CEOs in both Latin America (fourth, up from tenth in 2019) and Europe (eighth, up from thirteenth) are driving the rise. But is it high enough on their radar? The heightened awareness of CEOs globally comes amid their expectations for increased regulation of environmental impacts and a greater focus by organizations on public reporting about climate-related risk.

Internal Hot-Button Issues

Talent is the number-one internal stress point globally. Creating innovative cultures and new business models are also a focus for CEOs in 2020

	CEOs						Non-CEOs
INTERNAL HOT-BUTTON ISSUES	Global	USA	Europe	Latin America	China	Japan	C-Suite
Attraction and retention of top talent	1	1	1	1	1	2	1
Create new business models because of disruptive technologies	2	2	2	3	3	4	2
Create a more innovative culture	3	5	3	2	4	3	3
Develop "Next Gen" leaders	4	3	5	5	T-6	1	4
Cost reduction	5	6	4	7	T-6	8	5
Data analytics/data collaboration	6	4	10	6	8	10	6
Volatility in cash flow	7	T-10	7	8	5	T-16	11
Better alignment of compensation and incentives with business strategy	8	8	14	9	2	7	9
Manage mergers and acquisitions	9	7	6	11	12	13	7
Build a more inclusive culture	10	9	11	14	T-13	5	8
A more effective performance measurement system for employees	11	T-15	9	10	9	9	10
Wage inflation	12	17	8	17	T-10	T-11	15
Redistribute work between humans and machines	13	14	16	12	T-10	T-11	13
Workforce diversity	14	T-10	12	16	T-16	6	16
Data privacy	15	13	15	15	15	T-16	12
Implement equal pay for equal work	16	19	13	4	19	T-16	14
Labor regulations	17	18	17	13	T-13	T-14	18
Other	18	12	18	18	T-16	T-14	17
Provide healthcare benefits for employees	19	T-15	19	19	T-16	19	19
	N=740	N=123	N=162	N=188	N=89	N=112	N=780

Note: T indicates tied ranking

Source: The Conference Board C-Suite Challenge 2020

Concerns about talent and skills shortages, disruptive technologies, and building an innovative culture to nurture talent are the top internal stress points CEOs say their organizations face in the coming year. Other concerns center on developing next-generation leaders and (with the risk of recession top of mind) controlling costs.

Finding and keeping talent Regardless of a company's location, size, or industry sector, finding and keeping talent is the top internal stressor for CEOs and the C-suite in 2020. Demand for highly talented employees now exceeds supply in most mature economies and, as a result, job openings are more difficult to fill, while in some regions, labor costs are accelerating. However, talent challenges in emerging markets result from a shortage of qualified candidates, not a lack of people. The global challenge in acquiring and retaining talent requires companies to be more strategic—knowing not only what qualities and skills to recruit for, but also how to recruit more efficiently and effectively. One emerging tool: artificial intelligence, which can be used to significantly enhance the employee experience, supporting recruitment, engagement and retention of key talent.

New business models CEOs globally and C-suite executives cite *create new business models because of disruptive technologies* as their second most-critical internal hot-button issue. There is a feeling of greater urgency among emerging-market CEOs than those in more mature economies, which should raise a warning flag around complacency, considering the current speed of disruption. The impact of business model transformation on an organization goes well beyond the external relationship with customers and how a business goes to market. Organizations must quickly pivot in response to new risks and opportunities, requiring changes in organizational culture, structure, leadership, and a continuous evolution of talent and upskilling.

Building a culture of innovation A strong culture of innovation can energize and enhance a company's innovation performance. In turn, continuous innovation keeps a brand relevant and refreshed during periods of intensifying competition and frequent market disruptions and can serve as an effective recruitment and retention tool for quality talent. It's all about vision and looking forward, even if the "next big thing" means large-scale internal disruption. CEOs globally rank *create a culture of innovation* as their third most-critical internal hot-button issue. The ranking is consistent across geographies, industry sectors, and company size.

CEOs versus HC executives While there is general alignment between CEOs and other C-suite executives when it comes to the internal stress points affecting organizations, there are interesting differences between CEOs and responding human capital (HC) executives. While the HC executives agree with CEOs on the importance of attracting and retaining talent, HC executives show greater concern around building a more diverse workforce and creating the inclusive culture to support it.

C-Suite Challenge™ 2020

The global economy's continued weakness, disruptions in global trade relationships between the United States, China, Europe, and other parts of the world, uncertainty about how Brexit will play out, along with geopolitical events in the Middle East, Latin America, China, and Hong Kong, all make for a volatile and unsettling global picture for 2020.

Now couple those geopolitical stressors with the reality of more intense competition as the new digital economy forces a rethink on business models, higher expectations from more demanding and discerning customers, the pressure to innovate, and the struggle to find and retain quality talent—all while trying to hold the line on costs, defending against cyberattacks, and meeting tougher regulations on data. This is the environment today's business leaders and their organizations now face. No one ever said it would be easy.

With the world economy expected to grow by less than 3 percent per year over the next decade—and as global workforces shrink, output struggles to grow, demand for goods and services change, and populations age—firms should expect to compete more fiercely for market share. In this challenging context, firms will have to be even more strategic in their understanding of which areas of the globe will provide the best opportunities. They will also need to rethink how they can optimize these opportunities. It will likely require the transformation of business models, a more holistic and clear understanding of the business, political, and social ecosystems their organizations operate within, and new approaches to collaboration and partnerships, along with a re-evaluation of the risks and rewards such partnerships create.

Today, amid the disruptive impacts of digital transformation, few organizations have the knowledge or the resources to ensure future success by going it alone. The capacity to collaborate to build enough scale, re-imagine business models, and obtain (or at least borrow) hard-to-find skills and talent, requires cultural transformation, the creation of more flexible and fluid internal organizational structures, and development of wide-ranging external networks and nontraditional partnerships to achieve common goals. This capacity to collaborate will likely be a decisive factor in future success. The era of the "lone corporate wolf" successfully conquering new markets and creating breakthrough innovation through its own R&D function is in decline.

In this world of increasing complexity, disruptive innovation, and slow growth, what do business executives see as key challenges? And what actions can they take to ensure success?

Since 1999, The Conference Board CEO Challenge survey has asked CEOs across the globe to identify the most-critical issues they face and their strategies to meet them. Since 2017, the C-Suite Challenge has expanded the survey pool beyond CEOs to the entire C-suite. This year's survey, conducted between September and October 2019, asked 1,520 C-suite executives, including 740 CEOs across the globe, for their views on the external and internal stress points they face; the need and will to collaborate with nontraditional partners to drive future growth; and the impact that cyber-risk and more sophisticated attitudes toward data privacy and regulation will have on their organizations in a digitally transformed business environment.

This report, the first of three related to our 2020 survey, focuses on the CEO and C-suite views of "hot-button issues"—the issues and challenges that executives believe will require a special focus in the coming year. Additional reports will take more in-depth looks at CEO and top executives' views of collaborating with external partners to improve competitivenss and the risks and opportunities surrounding cybersecurity and data privacy—issues that pose unique challenges in the digital era.

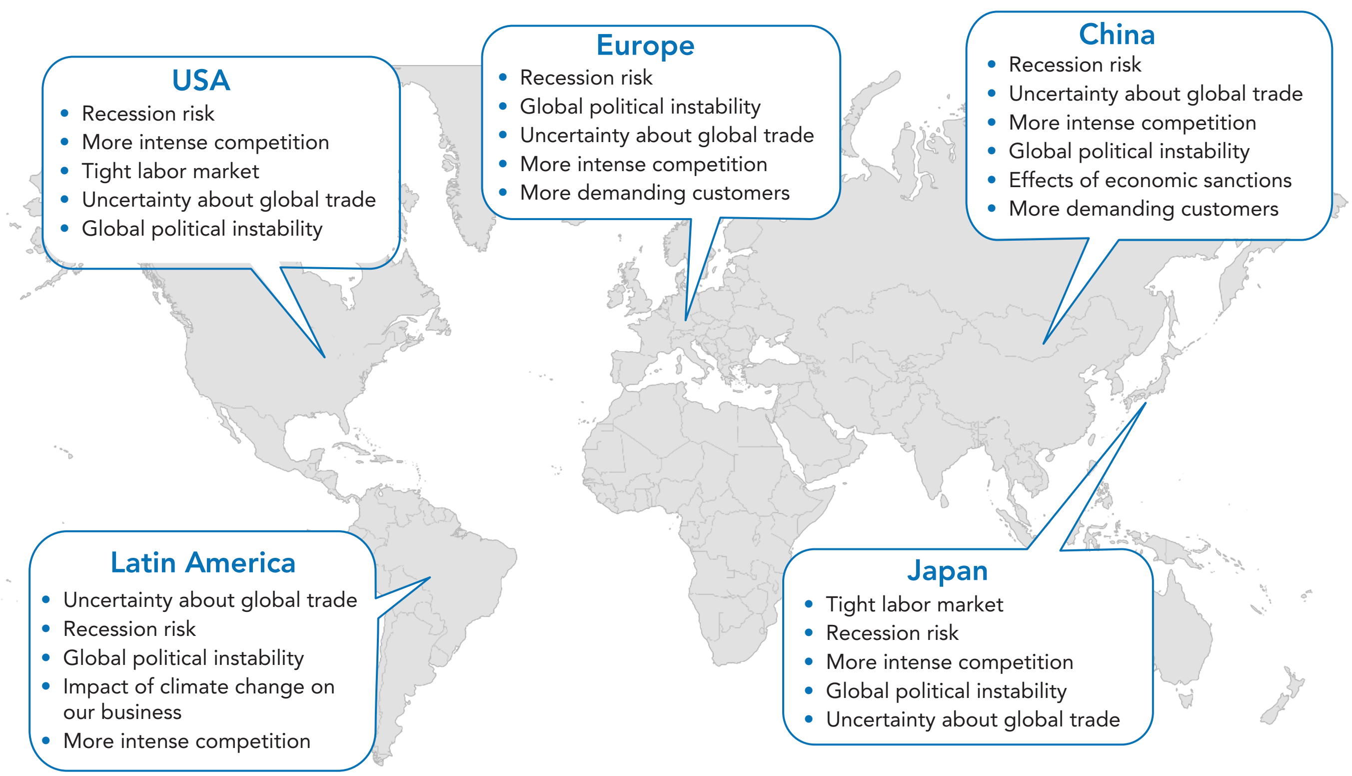
External Hot-Button Issues

Recession risk, trade disruptions, and intensifying competition head the list for 2020

For the second consecutive year, *recession risk* is the top external concern for CEOs globally—a view also shared by other C-suite executives, including CFOs. Just two years ago, in 2018, global recession was barely on the minds of CEOs—it ranked a lowly nineteenth on a list of 28 combined external and internal hot-button issues.

Today's heightened recession concerns are amplified by what CEOs see as continued uncertainty around global trade, increasing competition, global political instability, tightening labor markets (which themselves can be significant restraints on business growth), more demanding customers, and growing risk around cybersecurity and data use and protection. Only CEOs in Japan and Latin America do not rank *recession risk* as their top concern in the coming year—however, they do have it ranked second.

Recession risk is the top external concern for CEOs in the United States, Europe and China. Disruption of global trade, more intense competition, and political instability are shared stressors across all regions.



Source: The Conference Board *C-Suite Challenge 2020*

One clear and present danger of this recession mindset is that it can be a self-fulfilling prophecy. Nobel Prize-winning economist Robert J. Shiller, in his 2019 book *Narrative Economics: How Stories Go Viral and Drive Major Economic Events*, writes that the probability that a recession will come soon—or be severe when it does—depends in part on the state of ever-changing popular narratives about the economy.[2] For consumers, these narratives affect decisions on whether to spend or save, whether to take a demanding or easy job, and whether to take a risk or stick with something safer. For business leaders, the prevailing narratives affect deliberations on whether to hire more help or lay off employees, whether to expand or retrench, or even when to start a new enterprise.[3]

The temptation is that, when faced with uncertainty, business leaders will take a wait-and-see attitude, delaying investment, or will (in a more extreme case) mortgage their long-term strategic plans—by skimping on both the time and the resource investment required to maintain future competitiveness—to boost short-term results. The result: an organization is likely to find itself behind the competitiveness curve when the downturn ends.

It's not just a theory. There is a hint that the fear of recession is turning into concrete action—*cost reduction* is a top-five internal hot-button issue for CEOs in this year's survey, particularly in Europe. The Atlanta Federal Reserve reported at the end of November that 12 percent of surveyed businesses, including one in five manufacturers, cut or delayed capital spending in the first half of 2019 because of trade tensions and tariff worries—double the rate seen in the first half of 2018.[4]

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2 Robert J. Shiller, *Narrative Economics: How Stories Go Viral and Drive Major Economic Events* (Princeton, NJ: Princeton University Press, October 2019).

3 Robert J. Shiller, "What People Say about the Economy Can Set Off a Recession," *New York Times*, September 12, 2019.

4 Theo Francis and Thomas Gryta, "U.S. Firms Pull Back on Investment ," *Wall Street Journal,* November 24, 2019.

Global Economic Outlook: Are Recession Fears Justified?

The global economy took a bigger hit in 2019 than anticipated, slowing to 2.3 percent, down from 3.3 percent in 2017 and 3 percent in 2018. The slowdown is disconcerting because, over the past two decades, a dip in global growth below 2 percent has often meant recessions in the form of GDP contractions across a broad range of regional economies. The downturn has been particularly strong among manufacturers. Recession fears are currently widespread, but appear to be overblown. We expect global growth to remain slow, but slightly improve, in 2020, reaching 2.5 percent.

While no widespread global recession has occurred in the last decade, global growth has now dropped below its long-term trend of around 2.7 percent. The fact that global GDP growth has not declined even more in recent years is mainly due to solid consumer spending and strong labor markets in most large economies around the world. Of course, current conditions and future challenges differ in regions throughout the world.

Most of the expected uptick to global growth in the coming year is thanks to the continued strength of consumer spending and tight labor markets, which ensures a favorable salary and income situation for the working population. Perhaps the biggest potential downside risk is a notable loss in consumer confidence affecting actual consumer spending. The risk lies in the possibility that consumers may join business leaders in responding negatively to a drumbeat of news about potential volatilities, whether a financial market shock, the escalation of a geopolitical event, or a tariff war that raises prices of consumer goods. If consumers get concerned about their jobs and income or the prices for the goods and services they want to buy, the risks of a continued slowdown or even a recession will escalate.

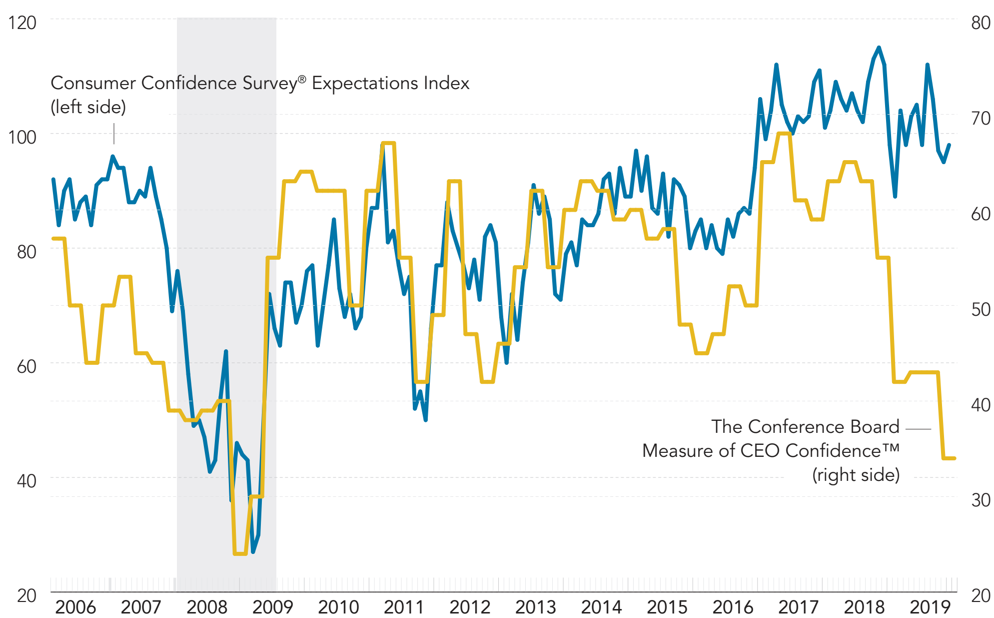
Source: Bart van Ark, et al., *Global Economic Outlook 2020: Stagnating Growth amid an Uncertain Outlook*, The Conference Board, Research Report 1707, November 2019.

The confidence gap: how business and consumers see the future

In many countries, the gap between business confidence and consumer confidence is exceptionally wide. Two measures of business and consumer confidence tracked by The Conference Board, the ***Consumer Confidence Survey***® and ***The Conference Board Measure of CEO Confidence***™, show that this is especially true in the United States (chart below). Business leaders are more affected by uncertainties in the global economy (such as the US-China trade disputes, Brexit, the Hong Kong conflict, and continued tensions in the Middle East) than consumers are. Consumers are certainly not immune, but are less likely to respond to these risks until they pose an immediate threat to their jobs, incomes, and lives. Ultimately, these divergent views will have to come closer together. Either consumers will be infected by negativity, especially if slower business growth puts their jobs at risk, or business leaders may temper their concerns once the risks they perceive fail to escalate. In this outlook, we argue that consumer strength is most likely to continue, while business confidence will recover as the industrial production decline bottoms out and trade tensions recede.

The gap between consumer and business confidence is exceptionally wide

Consumer Confidence Survey™ (Expectations Index) and The Conference Board Measure of CEO Confidence™, 2006–2019



Note: *Shaded areas represent periods of recession.

Sources: Consumer Confidence Survey®, The Conference Board Measure of CEO Confidence™, and the National Bureau of Economic Research business cycle dates

Table 1

Recession risk, trade disruptions, and intensifying competition are critical external stress points for 2020

CEOs in the United States and Japan share growing concern over tight labor markets. In Latin America, the impact of climate change is a majaor stressor. Generally, there is strong alignment between CEOs and the C-suite, though C-suite executives have more concern over a tougher regulatory environment.

Dealing with today's hot-button issues is an essential part of a C-suite executive's job. Rank the TOP THREE hot-button issues in relation to the external environment that you believe will require your greatest attention in 2020.

	CEOs						Non-CEOs
EXTERNAL HOT BUTTON ISSUES	Global	USA	Europe	Latin America	China	Japan	C-Suite
Recession risk	1	1	1	2	T-1	2	1
Uncertainty about global trade	2	T-4	3	1	T-1	5	3
More intense competition	3	2	4	5	3	3	2
Global political instability	4	T-4	2	3	4	4	4
Tight labor market	5	3	6	10	T-8	1	8
More demanding customers	6	7	5	6	T-5	8	7
Cybersecurity	7	6	10	8	11	T-6	6
Declining trust in political and policy institutions	8	8	7	7	T-8	T-12	10
Impact of climate change on our business	9	12	8	4	18	T-6	9
Tougher regulatory environment	10	9	11	11	7	10	5
Effects of economic sanctions	11	11	12	14	T-5	9	11
Currency volatility	12	T-14	16	12	10	15	13
Other	13	10	13	9	T-16	11	17
Effects of Brexit	14	T-14	9	16	T-16	18	12
Income inequality	15	13	15	13	T-13	T-12	16
Uncertainty in corporate tax policies	16	T-14	14	15	T-13	16	14
Volatility in energy prices	17	17	17	17	12	T-12	15
Terrorism	18	18	18	18	15	17	18
	N= 740	N=123	N=162	N=188	N=89	N=112	N=780

Note: T indicates tied ranking

Source: The Conference Board C-Suite Challenge 2020

Table 2

CEOs in mature markets and emerging markets see their worlds differently

Mature-market CEOs have heightened concern around tight labor markets, while emerging-market CEOs see declining trust in political institutions, tougher regulation and currency, and energy volatility as more important external stress points in the coming year

Rank the TOP THREE hot-button issues in relation to the external environment that you believe will require your greatest attention in 2020.

EXTERNAL HOT-BUTTON ISSUES

Mature Markets CEOs	Rank	Rank	Emerging Markets CEOs
Recession risk	1	1	Uncertainty about global trade
More intense competition	2	2	Recession risk
Tight labor market	3	3	More intense competition
Uncertainty about global trade	4	4	Global political instability
Global political instability	5	5	Declining trust in political and policy institutions
Cybersecurity	6	6	More demanding customers
More demanding customers	7	7	Tougher regulatory environment
Declining trust in political and policy institutions	8	8	Cybersecurity
Impact of climate change on our business	9	9	Effects of economic sanctions
Tougher regulatory environment	10	10	Tight labor market
Other	11	11	Currency volatility
Effects of Brexit	12	12	Impact of climate change on our business
Effects of economic sanctions	13	13	Volatility in energy prices
Income inequality	14	14	Uncertainty in corporate tax policies
Uncertainty in corporate tax policies	15	15	Income inequality
Currency volatility	16	16	Terrorism
Volatility in energy prices	17	17	Other
Terrorism	18	18	Effects of Brexit

N = 436

N = 304

Source: The Conference Board *C-Suite Challenge 2020*

Uncertainty about Global Trade

While the feeling of uncertainty is certainly justified by current events, The Conference Board, in its *Global Economic Outlook for 2020*, believes that a further escalation of current trade disputes will be avoided in the coming year.[5] The US-China trade dispute will remain stuck in a holding pattern, as neither side sees an easy road to a substantive deal that creates a clear win-win. A short-term deal is more of a Band-Aid than a "grand bargain." Anxiety over global trade extends beyond just the US-China tiff and the December tariffs imposed by Washington on Brazil and Argentina. Rather, it is a symptom of a much broader issue about the future of globalization, and the response of those who haven't benefited from it.

In our survey, the *uncertainty around global trade* is most acutely felt by responding CEOs in both China and Latin America, where reliance on external trade to generate growth is of paramount importance. Though still a top-five external concern, CEOs in both Japan (ranked fifth) and the United States (tied for fourth) give it less emphasis than their global peers.

When looking at the full set of C-suite responses, executives in the Manufacturing sector rank *uncertainty about global trade* as their number-one external hot-button issue, considerably higher than C-suite executives in both the Financial Services (fifth) and Nonfinancial Services (second) sectors. This is no surprise: The Manufacturing sector is THE external sector, where companies compete on a global scale. From the mid-1990s onward, manufacturers made their value chains more fragmented and more efficient. Components of the goods we consume daily started to be produced in the optimal location (usually offshore) and shipped to the final destination, where the assembling happened. As a result of this process, 26 percent of the value of the Manufacturing sector globally was produced outside the country where it was consumed in 2008. As of 2011, this process started to reverse under several pushes: the closing gap between labor cost in China and the West, automation, concerns over the sustainability of production, and risks associated with the complexity of a fragmented value chain. Manufacturers have started again to increasingly prefer local suppliers over foreign ones, bringing the percentage of value produced abroad down to 22 percent in 2015. Current trade tensions are most likely accelerating this process.

5 Bart van Ark, et al., *Global Economic Outlook 2020: Stagnating Growth Amid an Uncertain Outlook*, The Conference Board, Research Report 1707, November 2019.

The Effects of Sanctions Are Keeping China CEOs Up at Night

Responding CEOs in China believe dealing with *effects of economic sanctions* will be a priority for their organizations in the coming year. They place this issue fifth (tied with *more demanding customers*) on their list of external stressors—the highest ranking of this issue by any region/country by a considerable margin. CEOs globally and in the United States have it at number eleven. CEOs in emerging markets rank it ninth, while CEOs in mature markets have it lower, at thirteenth.

While tariffs are likely to be temporary and subject to negotiation, technology blockades are not. While current tariff actions can be considered a short-term phenomenon (economic sanctions have been a key element of the current administration's actions in response to geopolitical rivalry with China and conflicts in the Middle East), the technology "cold war" aspect of the contest is not. The clampdown has widespread and bipartisan support in Washington and is necessarily here to stay.[a]

Two new US government acts, the Foreign Investment Risk Review Modernization Act (FIRRMA) and the Export Controls Act of 2018 (ECA), extend the federal government's reach to cover the global operations of US firms like never before, including technology and real-estate transactions. New compliance and reputational risks now span minority investors, technology licensing agreements, intellectual property sharing arrangements, open-source collaboration, joint ventures, and technology transfers.

In October 2019, the United States blocked a group of 28 Chinese technology companies from buying US-made goods on the grounds of alleged human rights abuses. The list included eight artificial intelligence (AI) tech companies and 20 government entities. The blacklisted Chinese companies and organisations are principally involved in surveillance and AI, including facial and voice recognition. The United States took the same action earlier this year against Huawei, the Chinese telecommunications equipment maker, which has been accused of breaking US sanctions against Iran and stealing American technology.[b]

The concern expressed by responding CEOs in China is likely justified. Launched in November 2018, the US Justice Department's "China Initiative" formally encourages US law enforcement agencies to aggressively advance their China cases.[c] Many more indictments are expected to follow on the heels of Huawei, which is accused of selling communications equipment to Iran in violation of US sanctions on that country.[d]

Among the initiative's goals:

- Identify priority trade secret theft cases, ensure that investigations are adequately resourced, and work to bring them to fruition in a timely manner.
- Develop an enforcement strategy concerning nontraditional collectors (e.g., researchers in labs, universities, and the defense industrial base) that are being coopted into transferring technology contrary to US interests.
- Identify Foreign Corrupt Practices Act (FCPA) cases involving Chinese companies that compete with American businesses.

a "The US/China Trade Dilemma," The Conference Board, webcast, February 20, 2019.

b Yuan Yang, "US blacklists 28 Chinese entities in trade war escalation," *Financial Times*, October 8, 2019.

c US Department of Justice, "Attorney General Jeff Sessions's China Initiative Fact Sheet" November 1, 2018.

d "The US/China Trade Dilemma" The Conference Board.

Table 3

INDUSTRY VIEW: **Recession risk and concern over global trade uncertainity is top of mind for CEOs across all industry sectors**

Financial Services CEOs have heightened awareness around cybersecurity and the regulatory environment.

Dealing with today's hot-button issues is an essential part of a C-suite executive's job. Rank the TOP THREE hot-button issues in relation to the external environment that you believe will require your greatest attention in 2020.

	CEOs		
EXTERNAL HOT-BUTTON ISSUES	Manufacturing	Financial Services	Nonfinancial Services
Recession risk	1	1	1
Uncertainty about global trade	2	T-2	2
More intense competition	3	6	3
Global political instability	T-4	4	4
Tight labor market	T-4	9	6
More demanding customers	6	T-7	8
Impact of climate change on our business	7	11	9
Tougher regulatory environment	8	5	10
Declining trust in political and policy institutions	T-9	T-7	7
Cybersecurity	T-9	T-2	5
Effects of economic sanctions	T-9	T-12	13
Currency volatility	12	18	16
Uncertainty in corporate tax policies	13	16	14
Other	14	10	11
Effects of Brexit	15	T-12	15
Income inequality	16	T-12	12
Volatility in energy prices	17	15	17
Terrorism	18	17	18
	N=238	N=53	N=287

Note: T indicates tied ranking

Source: The Conference Board C-Suite Challenge 2020

Additional Insights

More intense competition It's not just the entrance of emerging-market companies into the global playing field and the expanded reach of western-based multinationals that is creating more intense competition. The flood of new disruptors—those agile and innovative (and often technology-based) companies—and the digital platforms they create are forcing more established firms to rethink business models and how to create value for customers.

One critical challenge that speaks to intensifying competition in a different way: when trying to enhance the customer experience (digitally), companies are essentially competing with the best experience a consumer has had with *any* company, regardless of product or service, industry, or whether through an offline or digital channel. It is an extremely high bar to meet, and it widens the field of competitors in unexpected ways.

While CEOs and C-suite executives around the globe are feeling this intensification, it is responding CEOs in the United States, as well as those in Manufacturing and Nonfinancial Services, that express the most concern. CEOs in both China and Japan have also moved this issue up in the rankings compared to 2019 (seventh in China in 2019, third in 2020; fifth in Japan in 2019, third this year).[6]

Tight labor market There is really no single global labor market story. For example, CEOs in mature markets give this issue a considerably higher ranking (third) than their peers in emerging markets (tenth). Also, CEO respondents, particularly in Japan (first) and the United States (third), see *tight labor markets* and the potential threat they pose to business growth as a top-five external hot-button issue. Human capital executives responding to our survey cite a *tight labor market* as their number-two external hot-button issue (after *recession risk*).

Labor market tightness in most mature economies is reaching historic levels (e.g., the United States, Germany, Japan, and especially Central and Eastern Europe), creating angst about the ability to find qualified workers. This macro-level concern has a direct link to the global number-one internal hot-button issue in this year's survey—*attraction and retention of top talent.*

6 Note: The hot-button issue wording "New Competitors" was changed in the 2020 survey to "Intensifying Competition."

While increasing labor force participation rates, especially for women and older people in Japan and Europe, may reduce some of the hiring pressure, this trend will not be enough to offset the tightening labor market trend. But it's not the tight labor market itself that CEOs are concerned about; rather, it is the impact on their business growth potential.[7] For example:

- Accelerating labor costs and labor turnover are lowering corporate profits. If trends continue, corporate profitability in the United States will go back to the lows seen during the 1980s.
- Accessibility to qualified workers is having an impact on location strategies for large employers.

Research by The Conference Board shows that companies more impacted by shortages are much more proactive in exploring solutions.[8] As shortages continue to spread, we expect more companies to make tactical improvements to their recruiting efforts, to widen the talent pool by expanding target recruitment groups and relaxing hiring criteria, and to increase training and develop internal talent pipelines, focusing on evolving and upskilling existing internal talent bases.

While shortages put pressure on wages, which is a minus for companies that see their costs growing, it is a plus for workers, who improve their purchasing power.

Cybersecurity: Are companies doing enough to mitigate the threats? The risks and potential costs of cyberattack, from securing corporate secrets and intellectual property to safeguarding customer, partner, and employee information, remain priorities for CEOs globally. *Cybersecurity* is ranked seventh among external hot-button issues for CEOs and sixth for C-suite executives.

While organizations can't prevent all cyberattacks and data breaches, they can prepare for them, manage them, and limit their damage. How a company structures its cyber-security strategy and infrastructure can have a significant impact on whether and how much the company is able take advantage of the opportunities that technology presents while managing for legal, financial, and reputational risk. While more than 70 percent of responding CEOs globally say they plan to increase their cybersecurity budgets in the coming year—almost 40 percent say their organizations lack a clear strategy to deal with the financial and reputational impact of a cyberattack or data breach. Less than half conduct tabletop exercises (considered one of the most effective actions to mitigate risk) and just over half (53 percent) say they actually integrate cyber-risk in decision making and day-to-day operations.

7 Gad Levanon, Frank Steemers, and Elizabeth Crofoot, *Global Labor Market Outlook 2019: No End in Sight to Worker Shortages*, The Conference Board, Research Report 1692, 2019.

8 Gad Levanon, Elizabeth Crofoot, and Frank Steemers, *US Labor Shortages: Challenges and Solutions*, The Conference Board, forthcoming January 2020.

CEOs in the Services industry, and especially in Financial services, are more concerned about cybersecurity compared to those in Manufacturing, yet in a response to our survey question about cyber-risk, more than a third of manufacturing CEOs rank the Internet of Things (IoT—the essence of the smart manufacturing process and the servitization of products, cited in last year's survey as a critical strategy to meet the future demands of customers) as a potential threat to their organizations. Here's why: The number of connected devices that are in use worldwide now exceeds 17 billion, with the number of IoT devices at 7 billion (that number does not include smartphones, tablets, laptops, or fixed-line phones). That number is expected to grow to 10 billion by 2020 and 22 billion by 2025.[9] Most, if not all, are subject to outside hacking. The global connection growth is mainly driven by IoT devices—both on the consumer side (e.g., smart homes) as well as on the enterprise/B2B side (e.g., connected machinery).

CEOs in this sector may be underestimating the exposure to cyber-risk that the digital transformation of their process and products creates.

Climate change: A growing recognition of its potential impact on business *The impact of climate change on business* is slated to get more attention from CEOs globally in the coming year, rising to ninth overall on their list of external hot-button issues, up from eleventh in 2019. CEOs in both Latin America (fourth, up from tenth in 2019) and Europe (eighth, up from thirteenth) are driving the issue's rise.

The heightened awareness among CEOs globally comes amid CEO expectations for increased regulation of environmental impacts and a greater focus by organizations on public reporting about climate-related risk. According to a 2019 report by The Conference Board, based on a sample of the S&P Global 1200, the biggest increase in disclosure in 2019 compared to the previous year is in the number of companies reporting climate change risks. In 2019, 38 percent of S&P Global 1200 companies disclosed these risks, compared to 25 percent the previous year.[9]

Going forward, regulatory initiatives aimed at improving climate-related and emissions disclosures are expected to take shape in some of the largest economies, including China, India, and the United States. In addition to the regulatory factor, large companies in the public eye are facing increased pressure to shift from a primary focus on shareholder returns to a focus on broader stakeholder value. And large investors, including public pension funds, are recognizing an important connection between nonfinancial disclosure and stakeholder value, requiring business leaders to be more attuned to the impact of climate change on their businesses and risk profiles.

9 Thomas Singer, Anuj Saush, Anke Schrader, *Sustainability Practices: 2019 Edition*, The Conference Board, forthcoming.

Another likely driver behind the increased awareness is how fast this is becoming a top concern among consumers. Asked about their top concern for the next six months, 6 percent of consumers picked "global warming" from a list of 19 items, according to *The Conference Board® Global Consumer Confdence Index*, conducted in collaboration with Nielsen—twice as many as a decade ago. In countries such as France and Germany, the percentage reached 15 and 14 percent, respectively, in the third quarter of 2019.[10] Over time, there is a reasonable chance that this growing concern will eventually translate into behavioral changes among consumers—something companies ignore at their peril.

The longer-term threat of income inequality With the risk of recession, trade disruptions, and intensifying competition occupying top of mind for CEOs in the coming year, the issue of *income inequality*, albeit a longer-term issue that can't be fixed overnight, has slipped down the global rankings to fifteenth in this year's survey from tenth in 2019. While income inequality may not pose an immediate threat to organizational growth, its potential long-term impact warrants CEO attention, if not more immediate action to begin addressing the problem.[11]

More demanding customers Customers and their expectations are transforming faster than many companies can keep pace with. *More demanding customers* is a top-five external hot-button issue in both China and Europe and links directly to the two of the highest-rated internal hot-button issues for 2020—*creating news business models because of disruptive technologies* and *creating a more innovative culture*. Taking advantage of mobile technology, social media, and machine learning will help organizations reach target audiences and consistently improve service. To meet this challenge, companies should also embrace agility and design thinking so they can change at the same pace as their customers, competitors, and disruption in the marketplace.

Tougher regulatory environment Financial Services CEOs are more concerned about a *tougher regulatory environment* (third) than their peers in Manufacturing and Nonfinancial Services, as do CEOs in emerging markets compared to mature economies. Also, C-suite executives have it ranked in their top five (tenth for CEOs globally). In last year's survey, CEOs foresaw regulatory intensification in two specific areas—84 percent expected more regulation related to data privacy and 80 percent around environmental impacts.

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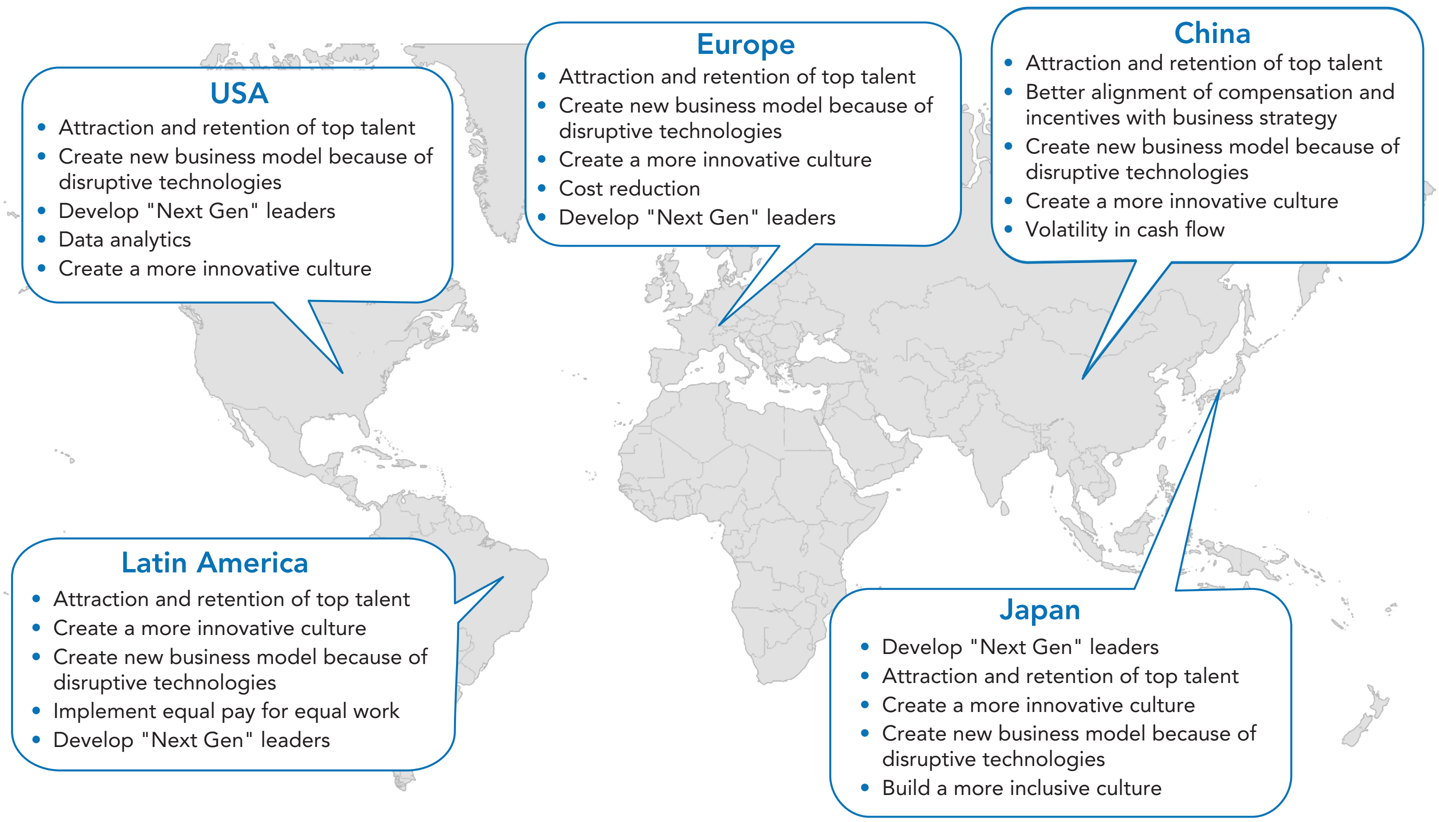
10 Denise Dahlhoff, *Consumers' Attitudes about Sustainability: What Consumers Mean by "Sustainability" and How They View Business Sectors' and Policy Makers' Sustainability Efforts*, The Conference Board, Research Report 1711, forthcoming December 2019.

11 For a more in depth discussion on the issue of income and wealth inequality see: Steven Odland and Joe Minarik, *Sustaining Capitalism: Bipartisan Solutions to Restore Trust & Prosperity*, Committee for Economic Development of The Conference Board, 2017.

Internal Hot-Button Issues

Concerns about talent and skills shortages, disruptive technologies, and building an innovative culture to nurture talent are top stress points CEOs face in the coming year. Other concerns include developing next-gen leaders and (with the risk of recession top of mind) controlling costs.

Concerns about talent and skills shortages, disruptive technologies, and building an innovative culture to nurture talent are top stress points CEOs in every region face in the coming year.



Source: The Conference Board *C-Suite Challenge 2020*

Attraction and Retention of Top Talent

Regardless of a company's location, size, or industry, *attraction and retention of top talent* is the number-one internal stressor keeping CEOs (and the C-suite) up at night. Only responding CEOs in Japan fail to give it top ranking. They do, however, have it second, after the closely related issue of next-generation leadership development.

Demand for highly talented employees now exceeds supply and, as a result, job openings are more difficult to fill and, in some regions, labor costs are accelerating. For example, the time to fill positions in the United States is way above 2007 pre-recession levels and is still rising. While quit rates are about equal to 2007 levels in the United States, they are rising across most industries and, willingly or not, employers are hiring less-educated workers, which leads in part to historically high levels of concern about labor quality.

The talent challenges in emerging markets result not from a lack of people, but from a shortage of qualified candidates. Despite the growing need to upgrade the ability of workers in emerging markets to operate in more sophisticated manufacturing and technological environments, in recent years, emerging markets' quality of education and technological intensity has failed to catch up to mature economies. Latin America, in particular, has shown an overall lack of progress in closing gaps with global leaders—largely due to the effects of political and economic crises in the region, especially in Brazil and Venezuela.[12]

12 Levanon, Steemers, and Crofoot, *Global Labor Market Outlook 2019*.

Seeking Solutions to the Talent Crunch

Research by The Conference Board shows that companies suffering the most recruitment and retention difficulties are making stronger efforts to make their company a more attractive place to work by improving working conditions (such as work environment, job hours, and responsibilities); increasing work schedule flexibility; increasing efforts to monitor and, if necessary, reduce employee workload; and decreasing required employee overtime. In addition, they are increasing efforts to streamline boring or burdensome tasks. Among white-collar employers, many companies are expanding teleworking and/or remote flexibility.[a]

Building a Culture of Engagement

Research by The Conference Board finds that employee engagement is one of the critical levers companies can use to retain workers and drive performance. Within each organization, there is an engagement ecosystem—a set of interconnected interpersonal, organizational, and environmental factors that, together, impact the employee experience, drive retention, and ensure talented workers can thrive in a pressurized workplace.

Despite expending significant amounts of energy, resources, and time on raising employee engagement levels to increase productivity and retention and improve the employee experience, most organizations still find the benefits elusive. The main roadblocks are a culture of distrust, absence of a clearly articulated strategy, ineffective leaders, employees who believe they lack development and opportunity, and a loss of faith in the company's future.

Organizations need to take a more holistic view of the way they engage their workforce. Research by The Conference Board finds everyone plays a role in building and sustaining engagement, including the organization, leaders, managers, and employees.[b]

Organizational support The organization should support the engagement process by defining career paths, establishing mentoring programs, investing in talent initiatives (e.g., formal training and talent mobility), and increasing transparency of internal job opportunities.

Manager behaviors Managers should pay attention to employees' strengths and interests, encourage stretch roles and job rotations, and have regular conversations with employees about career goals.

Employee behaviors Employees should take responsibility for their own career development, design their job around their career interests, make time to take advantage of training, seek out new roles and challenges, and mentor colleagues.

Artificial Intelligence: An Emerging Solution to Recruitment and Retention Challenges

The global challenge in acquiring and retaining talent requires companies to be more strategic, knowing not only what qualities and skills to recruit for but also how to recruit more efficiently and effectively. Artificial intelligence (AI) can be used to significantly enhance the employee experience, supporting engagement and retention of key talent.

AI—technology that mimics human thinking by making assumptions, learning, reasoning, problem solving, or predicting with a high degree of autonomy—can increase the efficiency of recruitment processes, improve employment brand, bolster recruitment marketing, improve candidate and hiring manager experience, optimize sourcing, and enhance the quality of candidates, all while driving down costs and streamlining boring and repetitive tasks. Among the HR functional areas, most AI offerings at present are focused on recruiting, as 80 percent of the AI-enabled HR solutions are addressing talent acquisition challenges.

But AI can also aid HR in personalizing the employee experience, tailoring both programs and outreach based on individual needs and preferences. This personalization can apply across all functions of HR, from triggering automatic nudges to combat implicit bias to providing networks for new hires to even suggesting rewards and compensation packages. The potential of AI in HR can be significant.[b]

Many HR organizations are making a determined effort to treat employees like customers, enhance employee experience, and customize HR offerings to specific segments and individuals within the workforce. AI can advance those efforts. In the future, companies may use AI to:

- Assess and rank candidates based on their role fit and readiness to switch jobs. The hiring manager uses this output to make the final selection decision.
- Analyze real-time data from multiple sources and then add or subtract resources from projects, manage deadlines, schedule meetings, take notes, and do basic follow-up.
- Track when new hires have completed required training; point them to coworkers they should connect with, based on their respective skills, experience, and jobs; and recommend other relevant development opportunities.
- Make customized health-benefit recommendations to individual employees, based on their personal profiles, family circumstances, past usage, and other factors.
- Listen in on online sales presentations and provide sellers with real-time pop-up suggestions to improve their pitches.
- Suggest compensation packages based on performance data, external market trends, and comparable internal data, to ensure managers award equal pay for equal work.
- Nudge managers to avoid referencing stereotypes or using biased language in performance reviews.
- Match employees' skills and experiences to future role openings to widen the pool of potentials and increase internal mobility.
- Mine qualitative data, such as online discussions and open-ended polling questions, to track employee sentiment and identify organizational issues that could affect attrition.

Missed opportunity Despite the concern around talent and skills shortages, CEOs responding to our C-Suite Challenge survey do not necessarily see talent and skill acquisition via external partnerships/collaboration as a primary benefit of undertaking such partnerships. It ranks twelfth out of 14 objectives for pursuing external collaborations and partnerships.

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a Gad Levanon, Elizabeth Crofoot, and Frank Steemers, *US Labor Shortages: Challenges and Solutions,* The Conference Board, Research Report 1713, forthcoming January 2020.

b Rebecca L. Ray, et. al, *DNA of Engagement How Organizations Can Foster Employee Ownership of Engagement*, The Conference Board, Research Report 1615, February 2017.

c Amy Lui Abel, Mary B. Young, Lyle Yorks, and Rebecca L. Ray *Artificial Intelligence for HR Separating the Potential from the Hype*, The Conference Board, Research Report 1709, December 2019, and *Artificial Intelligence in Talent Acquisition*, The Conference Board, forthcoming 2020.

Table 4

Talent is the number-one internal stress point globally. Creating innovative cultures and new business models are also a focus for CEOs in 2020

CEOs in the United States are stressing the use of data analytics within their organizations, while CEOs in China see the need to better match compensation with performance. CEOs in Europe, taking note of the risk of recession, are stressing tighter cost control. The focus in Japan is developing the next generation of business leaders and building a more diverse workforce and the inclusive culture that workforce will need to thrive.

Rank the TOP THREE hot-button issues in relation to your organization that you believe will require your greatest attention in 2020.

	CEOs						Non-CEOs
INTERNAL HOT-BUTTON ISSUES	Global	USA	Europe	Latin America	China	Japan	C-Suite
Attraction and retention of top talent	1	1	1	1	1	2	1
Create new business models because of disruptive technologies	2	2	2	3	3	4	2
Create a more innovative culture	3	5	3	2	4	3	3
Develop "Next Gen" leaders	4	3	5	5	T-6	1	4
Cost reduction	5	6	4	7	T-6	8	5
Data analytics/data collaboration	6	4	10	6	8	10	6
Volatility in cash flow	7	T-10	7	8	5	T-16	11
Better alignment of compensation and incentives with business strategy	8	8	14	9	2	7	9
Manage mergers and acquisitions	9	7	6	11	12	13	7
Build a more inclusive culture	10	9	11	14	T-13	5	8
A more effective performance measurement system for employees	11	T-15	9	10	9	9	10
Wage inflation	12	17	8	17	T-10	T-11	15
Redistribute work between humans and machines	13	14	16	12	T-10	T-11	13
Workforce diversity	14	T-10	12	16	T-16	6	16
Data privacy	15	13	15	15	15	T-16	12
Implement equal pay for equal work	16	19	13	4	19	T-16	14
Labor regulations	17	18	17	13	T-13	T-14	18
Other	18	12	18	18	T-16	T-14	17
Provide healthcare benefits for employees	19	T-15	19	19	T-16	19	19
	N=740	N=123	N=162	N=188	N=89	N=112	N=780

Note: T indicates tied ranking

Source: The Conference Board C-Suite Challenge 2020

Table 5

Emerging-market CEOs are placing greater emphasis on new business model creation

Rank the TOP THREE hot-button issues in relation to your organization that you believe will require your greatest attention in 2020.

INTERNAL HOT-BUTTON ISSUES			
Mature Markets CEOs			Emerging Markets CEOs
Attraction and retention of top talent	1	1	Attraction and retention of top talent
Develop "Next Gen" leaders	2	2	Create new business models because of disruptive technologies
Create a more innovative culture	3	3	Create a more innovative culture
Create new business models because of disruptive technologies	4	4	Develop "Next Gen" leaders
Cost reduction	5	5	Cost reduction
Data analytics/data collaboration	6	6	Better alignment of compensation and incentives with business strategy
Manage mergers and acquisitions	7	7	Volatility in cash flow
Build a more inclusive culture	8	8	Data analytics/data collaboration
Volatility in cash flow	9	9	A more effective performance measurement system for employees
Better alignment of compensation and incentives with business strategy	10	10	Wage inflation
Workforce diversity	11	11	Redistribute work between humans and machines
A more effective performance measurement system for employees	12	12	Manage mergers and acquisitions
Wage inflation	13	13	Implement equal pay for equal work
Redistribute work between humans and machines	14	14	Data privacy
Data privacy	15	15	Labor regulations
Other	16	16	Build a more inclusive culture
Implement equal pay for equal work	17	17	Other
Labor regulations	18	18	Workforce diversity
Provide healthcare benefits for employees	19	19	Provide healthcare benefits for employees

N = 436 N = 304

Source: The Conference Board *C-Suite Challenge 2020*

Table 6

Talent shortages are acutely felt across all industry sectors. Manufacturing CEOs are focusing on leadership development

Rank the TOP THREE hot button issues in relation to your organization that you believe will require your greatest attention in 2020.

	CEOs		
INTERNAL HOT-BUTTON ISSUES	Manufacturing	Financial Services	Nonfinancial Services
Develop "Next Gen" leaders	1	T-7	4
Attraction and retention of top talent	2	1	1
Create new business models because of disruptive technologies	3	4	3
Create a more innovative culture	4	2	2
Cost reduction	5	3	5
Manage mergers and acquisitions	6	6	13
Data analytics/data collaboration	7	5	6
Volatility in cash flow	8	T-7	7
Build a more inclusive culture	9	T-12	11
A more effective performance measurement system for employees	T-10	T-12	10
Better alignment of compensation and incentives with business strategy	T-10	9	T-8
Implement equal pay for equal work	12	T-10	T-8
Workforce diversity	13	T-12	T-14
Redistribute work between humans and machines	T-14	T-10	12
Wage inflation	T-14	T-12	T-14
Labor regulations	16	18	18
Other	17	T-12	17
Provide healthcare benefits for employees	18	19	19
Data privacy	19	T-12	16
	N=238	N=53	N=287

Note: T indicates tied ranking

Source: The Conference Board C-Suite Challenge 2020

Creating new business models

Business model transformation and going to market in a paradigm-busting way can be both exhilarating and intimidating for most organizations. The business model transformation journey requires moving beyond incremental change in *how* you sell things to a disruptive questioning and redefining of *what* it is that you make and *what* it is that you actually sell. It requires asking some hard questions about an organization's basic operating assumptions, available talent and skills, and organizational culture. "Disrupt your business before others do" has become a mantra for business model transformation in the digital era. And disruption has many different faces, ranging from cyber-risk to new market entrants or communication challenges from social media. The awareness and preparation for risk and disruption needs to be organization wide.

In this year's C-Suite Challenge survey, CEOs globally and C-suite executives cite *create new business models because of disruptive technologies* as their second most-critical internal hot-button issue. There is more urgency among emerging-market CEOs than those in more mature economies, which should raise a warning flag about complacency considering the current speed of disruption.

The truth is that companies today do not have the luxury of decades-long lead time to adapt to the digital revolution. According to the Boston Consulting Group, the average business model lifespan has fallen from about 15 years to less than five in the past 50 years, making business model innovation a required capability for growing and defending market share.[13] In some industry sectors, the rate of change is even faster.

There are high-level strategic risks around market and business model vulnerability, as well as operational efficiency. Yet many businesses and governments appear frozen in time, still clinging to woefully outdated assumptions that inhibit their ability to innovate and remain relevant in the digital age.

The impact of business model transformation on an organization goes well beyond the external relationship with customers and how a business goes to market. Organizations must quickly pivot in response to new risks and opportunities requiring changes in organizational culture, structure, leadership, and a continuous evolution of talent and upskilling.

One outdated business paradigm—the idea that products must be priced, not their usage—is no longer true in the New Digital Economy. Traditional businesses sell product ownership and actual usage takes place (long) after purchase. Digitization makes use of how and when a product is being used (its observable now) and pay-per-use business models become possible. Ownership is replaced with access; physical products can be replaced with a service, such as access to IBM's or Amazon's cloud computing services. BAE Systems, a UK-based defense, security, and aerospace firm, once sold jet engines; now in a pay-per-use scenario, it sells jet power as a service, charging per unit of jet power consumed.[14]

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13 Business Model Innovation, Boston Consulting Group, 2019.

14 *Beyond Technology: Building a New Organizational Culture to Succeed in an Era of Digital Transformation*, The Conference Board, Executive Summary, January 2017.

Building a Culture of Innovation

A strong culture of innovation energizes and enables a company's innovation performance. In turn, continuous innovation keeps organizations and their brands relevant and refreshed during periods of intensifying competition and frequent market disruptions and can serve as an effective recruitment and retention tool for quality talent. It's all about vision and looking forward, even if the "next big thing" means large-scale internal disruption.

In this year's C-Suite Challenge survey, CEOs globally rank *create a culture of innovation* as their third most-critical internal hot-button issue. The ranking is consistent across geographies, industry sectors, and company size.

Research by The Conference Board and Tenet Partners shows that companies with a strong culture of innovation are viewed more favorably and seen as having greater investment potential. Companies with the greatest culture-of-innovation scores also had the highest earnings per share, the biggest dividends, and higher cash-flow multiples. However, perception of a company's innovation culture is a double-edged sword: low scores for a culture of innovation go hand in hand with further erosion of other scores, like favorability and investment potential.[15]

To create an innovative culture, it is important to constantly remind employees that innovation is not limited to creating the next game-changer or building something new; it is also improving or simplifying something, a product or process, that already exists, to improve speed to market or generate significant cost savings at scale. Innovation with a capital "I" is important, but so is innovation with a small "i"—incremental improvements to internal processes and external products and services that help reinforce the culture of innovation.

Our research has shown that highly innovative companies build a strong culture by emphasizing creativity as a corporate value or principle along with inclusion; develop managers and leaders to promote idea sharing in teams; encourage and reward entrepreneurship and risk taking; have an innovation process; ensure innovation teams are not only demographically diverse, but also rich in diversity of thought; encourage external innovation networks; and adopt a user-centric design approach to innovation.[16]

While it is important to accentuate the positive organizational traits around innovation, it is also useful to look at the common mistakes companies make in formulating their innovation culture. Among those mistakes are:[17]

> **Focusing on the innovation instead of the innovator** Companies often fail to recognize that innovation is more about cultivating talent, providing resources, and transforming the culture than it is about technology solutions and outcomes themselves.

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15 James Gregory, Ronald K. Satterfield, and Brad Puckey, *Innovation Culture and Brand: Measuring Intangibles That Drive Financial Outcomes*, The Conference Board, Research Report, June 2018.

16 Mary B. Young, Charles Mitchell, Michelle Kan, *Inclusion + Innovation: Leveraging Diversity of Thought to Generate Business Growth*, The Conference Board, Research Report 1598, January 2016.

17 Joan Greco, "Innovation Practitioner Insights: Alex Goryachev of Cisco on Seven Common Mistakes Companies Make Trying to Build a Culture of Innovation," The Conference Board, blog, November 7, 2018.

Failing to make transformational innovation a company-wide program Innovation mindsets and attitudes must be continuously woven into the everyday fabric of a business—it needs to be a living, breathing part of an organization's culture that starts at the top and cascades to each and every employee.

Trying to build innovation programs on their own Company-wide transformation is not possible when an innovation program is isolated. Often, companies will categorize innovation into a specific business unit. It's important that businesses not silo their efforts. True innovation requires opening opportunities by empowering cross-functional collaboration.

Forgetting the power in diversity You need different perspectives and skill sets—and the environment to empower and enrich them—to come up with the most innovative solutions.

Not providing significant incentives to innovate The need to inspire and incentivize employees to join your innovation programs is one of the most prevalent, yet most important, challenges to innovation. To empower and encourage a diverse group of employees, organizations must establish significant recognition and rewards programs to incentivize employee participation.

Not being transparent with employees Employees need to have a connection to mission. That connection can be built through transparency—candidly communicating both the good and bad, successes and failures. Share key metrics after projects are implemented, highlight lessons learned and best practices, and keep stakeholders updated on your innovation progress.

Treating innovation like a one-and-done event It needs to be continuous. You can't focus on innovation or a specific project one or two times a year and then leave it behind. Companies must instill innovation throughout the culture, consistently and constantly. It should be embedded into every aspect of your corporate strategy and culture.

ADDITIONAL INSIGHTS

Women C-suite executives show more concern about equal pay for equal work Women executives rank *implement equal pay for equal work* sixth on their internal hot-button lists. Their male counterparts have it fifteenth. While men continue to dominate at higher management levels in many organizations, this disparity in rankings is cause for concern. However, there is some encouraging news when it comes to public disclosure: According to research by The Conference Board, public disclosure related to the gender pay gap increased notably in 2019 compared to the previous year, as 22 percent of S&P Global 1200 companies now report this information, compared to only 9 percent last year. More than one-third (35 percent) of utilities report gender pay-gap details, whereas this type of disclosure is present in only 13 percent of information technology companies.[18] Governments around the world are increasingly requiring

18 Thomas Singer, *Sustainability Practices: 2019 Edition*, The Conference Board, forthcoming, January 2020.

companies to make their wage data public to encourage them to pay men and women equally. The UK government now requires firms with more than 250 employees to file annual disclosures of pay inequities. The United States does not require companies to disclose, but as gender pay equity becomes a bigger point of contention politically and socially in recent years, some US firms have volunteered pay figures.[19] In January 2019, Citigroup was the first in the United States to announce its "unadjusted" gender pay gap of 29 percent.[20]

CEOs versus HC executives While there is general alignment between CEOs and other C-suite executives when it comes to the internal stress points affecting organizations, there are interesting differences between CEOs and responding human capital (HC) executives. While the responding HC executives agree with CEOs on the importance of attracting and retaining talent, the HC executives show greater concern around building a more diverse workforce and creating the inclusive culture to support it. They also seek a more effective performance management system and expect to be more absorbed in managing mergers and acquisitions than CEOs, something that goes with the territory. One red flag: HC executives are less concerned about data analytics and data collaborations than either CEOs or the rest of the C-suite.

Red Flags

SHOULD CEOs BE MORE CONCERNED ABOUT WAGE GROWTH?

Despite concerns about tight labor markets and the attraction and retention of talent, CEOs show relatively little concern about wage growth in this year's survey. However, research by The Conference Board shows that in an environment of skill and talent shortages, there will be some additional pressure on employers to raise wages faster for existing workers. A short-term focus on minimizing labor cost could backfire—replacing an employee who quit the organization is often more expensive than retaining and retraining that employee, especially if the position is hard to fill. Companies holding back on raising compensation will increasingly experience higher labor turnover, lower success in recruiting, and lower worker engagement.[21]

The accelerations in wages and quit rates, along with slow labor productivity growth, are squeezing corporate profits in the United States. In the first quarter of 2019, total corporate profits in the United States were down 8.4 percent relative to the peak in the third quarter of 2014. Profits in Nonfinancial Services dropped by 18.6 percent during this time, and profits in Manufacturing by 47 percent. The tighter labor market for blue-collar workers is creating more of a squeeze on the employers that hire many of them. This is one of the reasons why profits in the manufacturing sector are down so dramatically.[22]

With the US economy projected to slow and labor shortages escalating, the squeeze on corporate profits is likely to become more severe in the coming years. Declining profits

19 Ibid.

20 Emma Newburger, "When firms disclose wages the pay gap narrows—but not because women get paid more," CNBC, January 31, 2019.

21 Gad Levanon, Elizabeth Crofoot, and Frank Steemers, *US Labor Shortages: Challenges and Solutions*, The Conference Board, Research Report 1713, forthcoming January 2020.

22 Ibid.

make companies more reluctant to spend, a trend that may slowdown economic growth even further and risks the sustainability of the current economic expansion. In addition, the drop in corporate profits and growing labor cost may force more industries to raise prices and lead to a higher overall inflation rate.

The Conference Board *US Salary Increase Budget Survey for 2020*, released in November 2019, provides a unique explanation for why wages have been accelerating more modestly in the United States than many analysts have expected in recent years: Employers have been slow to raise salary structures in their companies. So while wages for new hires have been accelerating since 2011, salary increase budgets are holding back overall wage growth.[23]

Slow wage growth in much of Europe actually falls into the expected range once low inflation and weak productivity growth are taken into account. However, plenty of room exists for wages to increase, especially if productivity improves. Wage growth pressure might come from an unexpected source: the ageing of Europe's workforce, coupled with low entrance of younger individuals into the workforce. With each passing day, Europe's working-age population shrinks, as the amount of people retiring outweighs the number of young individuals entering.[24]

The bottom line: Companies holding back on raising compensation likely will increasingly experience higher labor turnover, lower success in recruiting, and reduced worker engagement.

WARNING FLAG AND/OR MISSED OPPORTUNITY—DATA PRIVACY

New privacy regulations are dramatically changing the atmosphere around business data and communications. What was once a mad rush to leverage consumer data is becoming a panicked effort to ensure security and maintain consumer trust.

The European Union's GDPR (General Data Protection Regulation—in effect since May 2018) and the CCPA (California Consumer Privacy Act of 2018—in a look-back period to January 1, 2019) give consumers rights regarding their personal data—and require companies to expend serious effort and resources to manage that data—or pay the price in dollars and reputation damage.[25]

While *data privacy* may only rank fifteenth globally on CEOs' list of internal hot-button issues, 80 percent of them agree that "trust in companies' responsible, ethical use of customer data will be a competitive advantage" and 45 percent admit their companies are underleveraging the personal data they have for revenue-generating purposes. More than one-fifth believe that data privacy is NOT perceived as a major issue within their organizations, and another 20 percent say they don't know if it's a major issue for their companies.

23 Gad Levanon and Frank Steemers, "A clue to the mystery of the slow wage growth in the US," The Conference Board, blog, November 2019.

24 Ilaria Maselli and Frank Steemer, "In Europe, low wage growth isn't as bad as you think," *EUObserver*, November 6, 2017.

25 Susan Stewart, "DPR and CCPA: Managing your data privacy strategy in a new era of digital regulation," The Conference Board, blog, February 26, 2019.

Besides affecting customer relationships, there is another strategic reason to be focused on data privacy issues. Two seemingly opposing forces—the growing use of HR data and countries' diverse regulations about protecting such data—may be leading companies, especially multinational ones, to forgo some of the potential strategic value of HR data they already have or could collect.

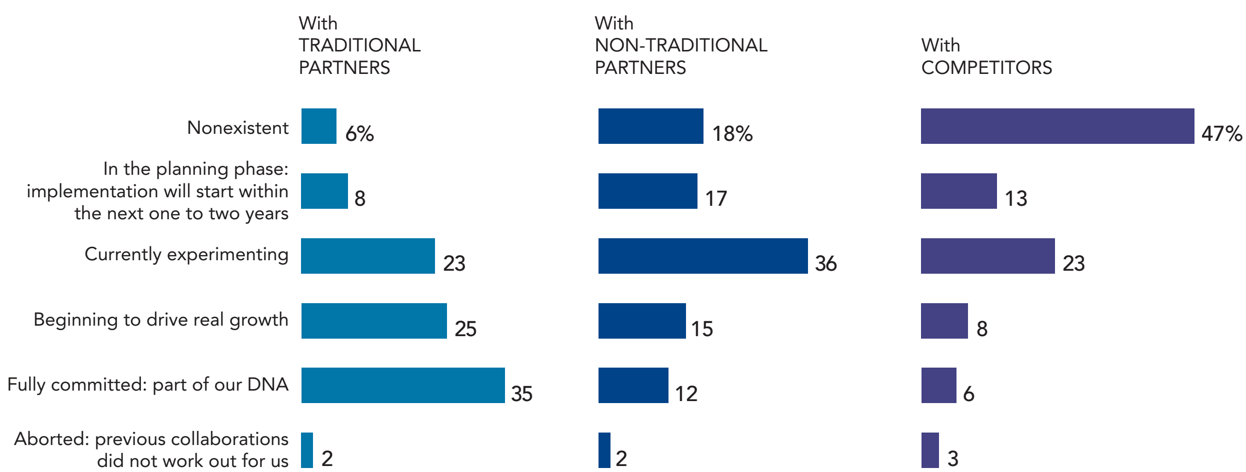
Collaborating to Compete: A Preview

As part of this year's C-Suite Challenge survey, we asked respondents to express their views on how, if, and why their organizations are venturing outside their corporate walls to form new types of partnerships. What are the hurdles? What are the organization's features that enable collaborations? The report, to be released early in 2020, finds the majority (60 percent) of responding CEOs say they are either fully committed to alliances with traditional partners, such as suppliers, vendors, and consultants, or that these relationships are generating real growth. However, when it comes to nontraditional partners, including firms in related or complementary sectors, universities, think tanks, startups, and government, the number is closer to 30 percent or half that of traditional partners. When it comes to collaborating with competitors, very few organizations can boast of real success.

A third report in the C-Suite Challenge series focuses on cybersecurity and data privacy and is slated for release in February 2020.

Balancing short-term agility with long-term vision is compelling for success

Looking out to 2025, what do you see as the top 3 hallmarks of operational efficiency for successful organizations of the future?



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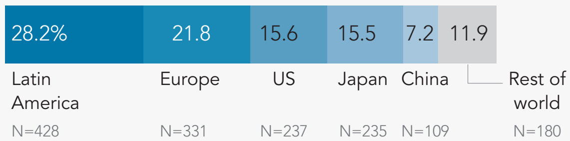
Source: The Conference Board *C-Suite Challenge 2020*

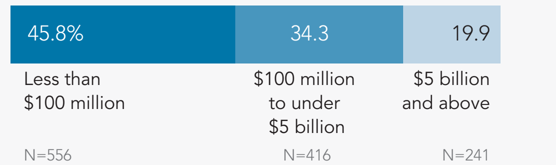
Survey Demographics

Respondents' Profile

BY REGION



BY REVENUE



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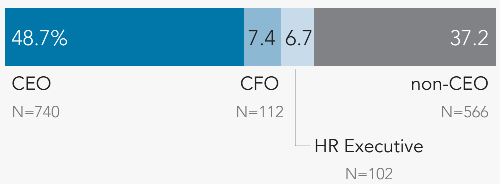
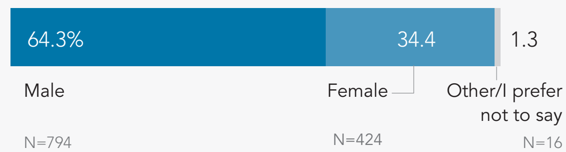


BY GENDER



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Acknowledgements

We would like to thank our partners, without whom this report would not have been possible. We are grateful to Judit Torok, Senior Research Analyst, and Panitsas Konstantinos, Research Analyst, Europe, for their invaluable assistance. We are also grateful to the core research team who contributed greatly to this project. They include: Amy Lui Abel, Vice President, Human Capital Research; Denise Dahlhoff, Senior Researcher, Consumer Research; and Ataman Ozyildirim, Senior Director Economics Research & Global Research Chair.

About the Survey

Since 1999, *The Conference Board CEO Challenge®* survey has asked CEOs, presidents, and chairmen across the globe to identify the key strategies they intend to use to meet their critical business challenges. This year, 1,520 C-suite executives, including 740 CEO respondents, participated. This year, the questionnaire covered issues surrounding external collaboration and their views on cybersecurity and data privacy. In addition, we presented our respondents with two lists of "hot-button issues," one related to what in the external environment keeps them awake at night, the other related to the organization. Their responses highlight the unique pressure points they see within their own organization, as well as their regional economic microclimates.

The anonymous survey was carried out between September and October 2019. To provide a representative view from respondents from around the world, we weighted the responses in aggregates (such as global and major regions) by the square root of the respondent's country share in global output (GDP) divided by the respondent's share in the total number of responses from his/her country. "Top 3" rankings are not weighted, but are based on a straight count of how often each option is selected.

While CEO and C-suite priorities certainly vary on a company-to-company basis, we believe this report can serve as a discussion starter and idea prompter within organizations to ensure that the enterprise understands the challenges it faces, the strategic goals it needs to set to meet those challenges, and the strategies and tactics required to be competitive in a global marketplace. The project, coordinated by The Conference Board, was made possible thanks to collaboration with 14 institutes around the world that invited their members and contacts to fill in the questionnaire to improve the coverage globally.

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R-1714-19
ISBN: 978-0-8237-1407-0