IBM Business Consulting Services

Your Turn

The Global CEO Study 2004


deeper

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The Global CEO Study 2004

CEOs across the world are renewing their organizations for growth. Are you?

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Preface

By Sam Palmisano, Chairman and Chief Executive Officer

While it seems that every week brings the release of yet another business survey, precious few deal exclusively with the insights and the agenda of the CEO. This study does. It is the product of responses from 456 CEOs the world over, representing every major industry sector. More than 380 of these chief executives made time for in-depth, one-on-one conversations – most of them conducted by IBM consultants. The result is a compelling view of the leadership agenda for institutions emerging from this recent period of economic and geopolitical uncertainty.

I won’t detail the findings in this brief preface. I will say what started out as a piece of work designed to understand the diversity of leadership issues, ambitions, and concerns, instead yielded a surprising convergence of views. Not only is top-line revenue growth back on the agenda, it is accompanied by an honest assessment of the organizational, management, talent and infrastructure barriers that must be overcome for enterprises to thrive in an environment that these leaders believe will be far less predictable than anything that has come before it.

I would like to take this opportunity to thank each of these CEOs for their time, and for the insights that are stimulating new thinking inside IBM about how we can better help our clients innovate and grow. My colleagues and I look forward to continuing this conversation – and this journey – with you.

Executive Summary

The Global CEO Study 2004 was conducted among 456 CEOs worldwide. It provides a comprehensive assessment of the CEO's agenda for the next two to three year planning horizon.
The study reveals a remarkable convergence of views around the major issues, both across geographies and across industries. In particular, it reveals a changed mood among CEOs around the world: they are focusing firmly on revenue growth again; they are recognizing the significance of organizational agility and responsiveness; and they are seeking urgent action to address critical people issues.
Indeed, the collective voice that emerges signals something of a turning point for CEOs and the organizations that they lead – how they will manage their organizations going forward and how they will shape tomorrow's agenda. This study is called Your Turn to reflect this individual and collective shift.
It is "your turn" in another sense: in that the challenge is now over to you, and indeed to all CEOs, to tackle head-on the key themes in this study. It is also "your turn" to move ahead of your competitors and to deliver on the new agenda identified by this study.
The key findings follow three basic themes. These are:

1. Welcome back to the top line
CEOs overwhelmingly believe that revenue growth is their number one priority over the next several years: four out of five CEOs now believe that revenue growth is the most important path to boosting financial performance. At the same time, most CEOs also believe that they must maintain their ongoing emphasis on cost containment; it remains a close runner-up to revenue growth as a means of boosting financial performance. As the pendulum swings back toward growth, the mix of new and old options, challenges and opportunities involved in delivering differentiated products and services is rewriting the CEO's agenda.

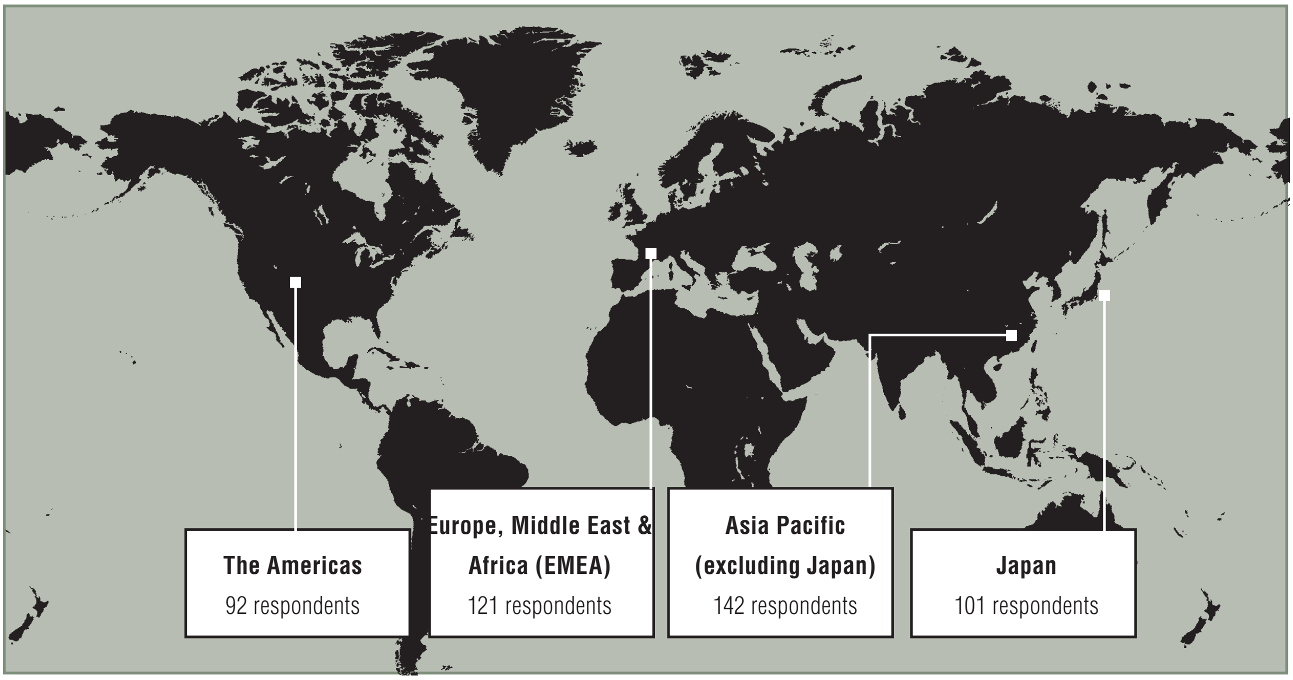
2. Responsiveness: the new key competence
CEOs acknowledge that they need an ability to recognize, analyze and respond more effectively to continuously changing market conditions and risks. Agility has been made a high priority across the organization. Yet very few CEOs rated their organization's ability to respond to these changing conditions and external forces as being very good. Reinstituting a "customer responsive" organization is high on their growth agenda. They also recognize the need to establish effective, realtime response capabilities. And they are clearly aware of the power of IT and the weaknesses that result from lagging behind.

3. The challenge lies within
The other significant challenge for CEOs surrounds the issues of people and change. CEOs recognize that growth and differentiation will happen through greater focus and attention on people, yet deficiencies in skills

(both inside organizations and in the wider labor force) seriously threaten the growth agenda. Reeducation and retention is an urgent cry; and managerial leadership is a growing need. CEOs are keen to transform their organizations but have reached a difficult crossroads – where there is a strong desire but a limited capability.

This study provides data findings and quotes extensively from the hundreds of interviews conducted with CEOs in many different countries and industries. But it is more than "a report back" on the answers. It is the opening of an important dialogue. The Global CEO Study 2004 raises some challenging questions and issues for CEOs. It does not attempt to solve particular business problems; rather, it provides a framework and a context in which future strategies can be considered. And to take these lessons forward is, indeed, "your turn."

Methodology



The findings of this report are based upon a worldwide survey of 456 CEOs conducted by IBM Business Consulting Services. The majority of the interviews were conducted in person by Partners from our Strategy & Change practice. We partnered with The Economist Intelligence Unit and Nikkei Research Inc. for the remainder of the study.

Analysis and insight into the findings was provided by Strategy & Change Partners in collaboration with IBM's Institute for Business Value, who also provided invaluable input in the design, compilation, analysis and presentation of the results.

The intent of this major research program was to understand current strategic issues, ambitions and concerns affecting the world's CEOs and, in doing so, to provide unique insights at a critical point in time for many organizations.

The format of the interviews and the number completed allowed for substantial qualitative as well as quantitative analysis, adding to the degree of specificity that we are able to share regarding the findings. A detailed breakdown of the types of enterprises interviewed can be found in pages 59 and 60 of this report.

The aim of this report is to place the findings of this study into an overall context and provide a perspective on the strategic priorities for CEOs over the coming three years. Wherever possible, the report endeavors to share the voice of our participants directly. Since this study is, by definition, a point-in-time view, the intention is to build an ongoing dialogue. A set of questions at the end of each section continues the challenge for CEOs about how to work individually and together toward their objectives as leaders.

Acknowledgement

The Global CEO Study 2004 is the result of nine months of collaborative effort. IBM Business Consulting Services would like to thank all those who contributed.

- Above all, the 456 CEOs across all industries and geographical areas for giving generously of their time and contributing their valuable insights.

- The IBM Strategy and Change practice and their leaders Eric Pelander, Grace Chopard and Matthias Hartmann for overall leadership and guidance.

- The Strategy & Change Leaders in all regions for leading the effort in their markets.

- IBM Business Consulting Services Partners for conducting the CEO interviews.

- The Global CEO Study Core Team for their continued drive and commitment to this project. Partners: Matt English (global), Edward Giesen and Michael Valocchi. Project Management: Udo Schmidt (global), Denise Arnette, Kerry Humphreys and Kate Lobban. Marketing: Abigail Tierney (global), Lauren Kronthal and Angela Suttie. Quantitative Analysis: Steve Ballou and Cheryl Karn.

- The Institute for Business Value and their leaders Randall Hancock, Jennifer Crites and Peter Korsten for their methodological guidance and subject matter expertise.

- The Economist Intelligence Unit for their valuable methodological guidance and for conducting 150 of the CEO interviews.

- Nikkei Research Inc. for the work they completed for IBM's in Japan.

- IBM Business Consulting Services General Management and marketing leadership.

- The innumerable colleagues in many organizational units in all regions of the world for their contribution and support.

Produced for IBM by **Caspian Publishing Ltd**, Millbank Tower, London SW1P 4QP, Tel: +44 (0)20 7828 0706, www.caspianpublishing.co.uk, e-mail: mgmt@caspianpublishing.co.uk

Photography by: **Will Webster**

Print and Repro by: Borcombe Printers Plc

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CEOs put growth back on the top of their agenda.

CEOs overwhelmingly believe that revenue growth is their number one priority over the next several years: four out of five CEOs now believe that revenue growth is the most important path to boosting financial performance. At the same time, most CEOs also believe that they must maintain their ongoing emphasis on cost containment; it remains a close runner-up to revenue growth as a means of boosting financial performance. As the pendulum swings back toward growth, the mix of new and old options, challenges and opportunities involved in delivering differentiated products and services is rewriting the CEO’s agenda.

Welcome back to the top line

Remember revenue growth? Well, it's back on the CEO's agenda. Not the chest-beating, full wind in the sails, our-ambition-is-limitless kind of growth, to be sure. It's a more restrained growth agenda, but it's there all the same.

Out of the hundreds of interviews and discussions that we have held with CEOs over the past months, perhaps one fact stands out: four out of five now believe that revenue growth is the way to boost financial performance over the coming three years.

Yet, while revenue growth was the clear winner, cost containment remains a close runner-up, and CEOs continue to manage risk carefully (as shown by Figure 1, on facing page). Today's CEO faces a dual challenge: to lead their organizations back onto the growth path while at the same time maintaining a tight control over costs.

As one CEO summarized: "Revenue growth is the key. Our company, like most players in our sector, is beyond the cost-cutting stage. That has been the trend of the past two years. Now it is about growing the top line while keeping the bottom line in check. In other words, we are seeking managed growth with an eye on costs."

The backdrop for this return to a growth agenda remains global competition, changing market needs, and continued economic uncertainty. These continue to be the key market factors facing CEOs. Yet now, with markets starting to turn upward, it's time to rethink strategies. The desire for growth is reflected consistently across the world and across all kinds of industries. Cautiously confident, CEOs are taking hold of the growth levers and recalibrating their organizations to look upward and outward – while never forgetting to keep a sharp eye on cost reduction.

As the pendulum swings back toward growth, CEOs believe success lies in developing and delivering new and differentiated products and services.

Global competition, continued uncertainty, and changing market needs are creating a complex and challenging marketplace

As they head out on the growth path, CEOs are confronting a myriad of challenges. Changing market dynamics and continued economic uncertainty are two of the most prominent. At the center of the storm, however, is global competition.

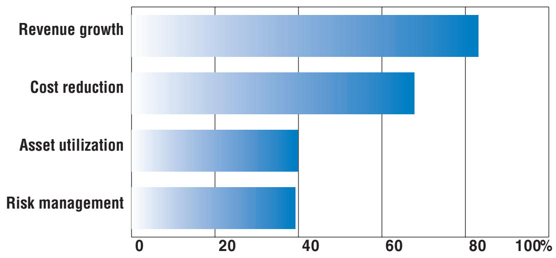
When we asked CEOs which external forces were most important, the majority – 84 percent– highlighted market forces (see Figure 2, on facing page). A number of other forces, including people skills, the economy, globalization, regulation and technology, were also selected as important by many, albeit fewer, CEOs. Surprisingly, most CEOs don't believe that geo-political issues, the environment or socio-economic factors are having a significant impact on their business.

Then, when we proceeded to ask them precisely which market factors they felt would have the greatest impact upon their business over the next three years, over 70 percent stated "increased competition" and just under 50 percent said "changing market dynamics." (Figures 3 and 4, displayed overleaf). Factors such as decreasing customer loyalty and customer intimacy were rated very low.

In our discussions, CEOs were unambiguous: competition has reached a new level of intensity. Perhaps it is this sheer intensity that explains their very emphatic focus upon it. One CEO described it as "the Wal-Martization of the world." "Our biggest issue is competition," said another.

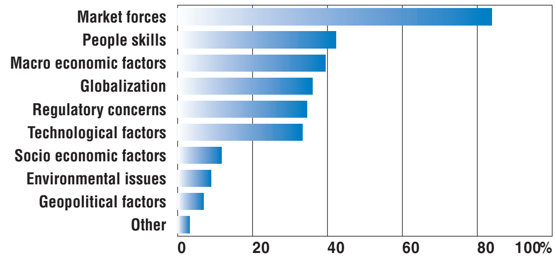
"Strong overseas competitors have entered the market and

Figure 1 – Which of the following will be your key focus for strengthening your organization's financial performance over the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

Figure 2 – Which three external forces will have the greatest impact on your organization over the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

the competition among local players has also increased," said one CEO in China. "In overseas markets, mega-competitors are emerging," noted one pharmaceuticals CEO in Asia. "Many of our business units face competition from new players from emerging markets; our margins are being eroded," stated one CEO in Europe.

Time and again in our interviews, the challenge of the "low-cost producer" or "low-cost model" was cited. "Our strategic landscape is written around price reduction," observed one airline CEO in Asia. "The intrinsic cost structures of hub-and-spoke have been tested almost to destruction," agreed an airline chief in the United States.

Revenue growth is back as the top focus of global CEOs

Eighty-three percent of the CEOs we spoke with ranked revenue growth as the key focus for strengthening their companies' financial performance over the next three years. Many CEOs feel that it is now time to shift the emphasis away from cost cutting to focus on revenue growth.

"Costs are almost totally controlled, so we should focus on revenue growth," said one. "We are over the crisis and are now in a new cycle – the cycle of growing the business," said another.

This attitude was voiced repeatedly. "The other issues, such as cost cutting and asset utilization, are all 'last year's' responses," said one. "Growing the business is the program for 2004. The massive restructuring that took place last year has ensured that costs are under control and that our assets are working efficiently – just growing the business remains."

"We have achieved better operational controls and more individual accountability," said one CEO. "Sixty percent of our cost savings are coming through this commitment. We have redirected professionals to become front-line salespeople and we will hit 80 percent of our stride. If the market stays the same, our projections hold."

Even with this renewed focus on growth, cost containment remains a permanent concern

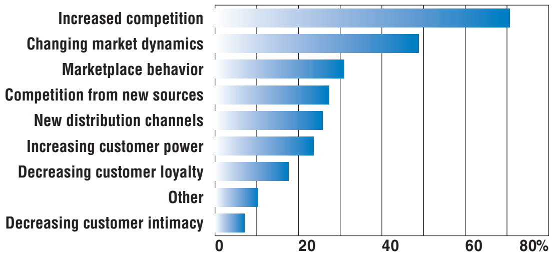
While growing the business has returned to the number one position for most CEOs, there continues to be widespread emphasis on cost containment, asset utilization and risk management. In fact, about two-thirds of the CEOs we talked with felt that cost reduction would remain a major focus area for the next several years, making it a not-too-distant second place to revenue growth. The complexity of achieving growth objectives while at the same time reducing costs will be a central challenge for all CEOs.

Indeed, some CEOs described the balancing act they were managing – both to promote growth and keep costs in line. As one CEO in Europe observed: "I preach revenue growth to the management team; to the broad organization I preach cost-cutting."

Although cost reduction remains an important second element for all CEOs; cost reduction programs remain more of a focus for European and Japanese CEOs than their American or other Asian counterparts (as shown in the Study Findings, p.41). Cost-cutting efforts have focused upon operational improvements and infrastructure costs – and this will continue to be the case. Consistent with the focus on top line

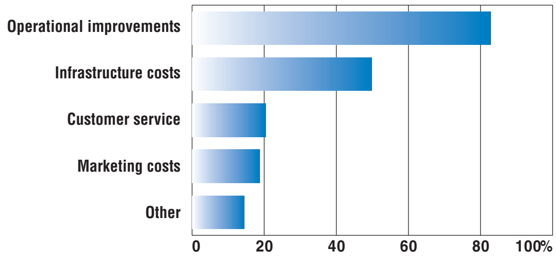
"There's always a new issue. It was 9/11. Then it was SARS. Instability has increased over the last year."

Figure 3 – Which of the following market factors will have the greatest impact on your organization in the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

Figure 4 – Which of the following areas offer your organization the greatest opportunity for cost reduction in the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

growth, only one in five CEOs identified customer service or marketing costs as offering the greatest opportunities for cost reduction (note Figure 4, above).

Our interviews bore out the extent of cost cutting that has occurred over the past years. CEOs described how they have sought out cost improvements upstream and downstream. Each step in a process has been scrutinized; inventories slashed; product groups streamlined. The practice of "cutting off the tail" has resulted in companies working with fewer, larger distribution partners. Redundancy programs have been implemented. Supplier networks have been consolidated. Processes have been outsourced and automated to achieve higher degrees of operational excellence. Shared services have enabled back office costs to be reduced. Payment collection has become a military discipline.

CEOs appear to be paying more attention to structural innovation with respect to internal cost structures by creating internal shared services (e.g. in the areas of finance, HR or IT). This is an option preferred by more than 50 percent of the CEOs interviewed (see Study Findings, p. 47). They also want to reduce fixed labor costs by using more external contractors; change performance measures and decision-making by such means as incorporating cost of capital; and seek ways of improving working capital efficiency.

In addition, CEOs are watchful on areas such as asset utilization and risk management: four out of ten CEOs cited these two issues as key to their financial performance over the coming years. "We have to achieve growth in revenues while also controlling the risks," said one CEO. We would anticipate that, as CEOs begin examining their balanced growth agenda, asset productivity and the impact on a company's cost of capital – due to the perceived risk associated with these strategies – will become increasingly important measures of performance.

New and differentiated products and services, and new markets are key to future success

In this highly competitive landscape, just where will new growth come from? We asked CEOs to identify the areas with the greatest opportunity for revenue growth: nearly two-thirds said that it was from introducing new and differentiated products and services (refer to Figure 5, facing page) They are betting that new products and services and new markets (and, to a lesser extent, greater customer intimacy) are going to be the key drivers. Few see other options, such as new channels or diversification, as the primary path to growth.

"The only way to growth and profitability are new markets and new products," argued one CEO.

Product and service differentiation may only provide a short-term advantage in the intensity of today's competitive world, but every CEO has a distinct approach to making it happen.

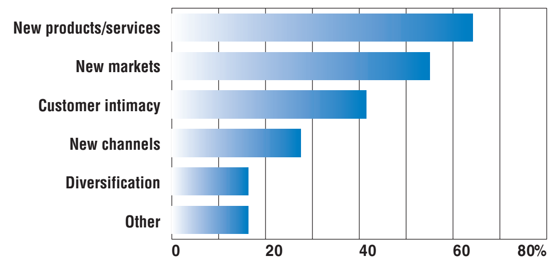
Our interviews revealed innovation teams being put in place to challenge existing products and processes; others making innovation targets explicit

■ ■ ■

"Economic uncertainty is a given. It will always be there. Our greatest challenge is to incorporate technological innovation and IT. We have not yet absorbed what we must from these."

■ ■ ■

Figure 5 – Which of the following areas offer your organization the greatest opportunity for revenue growth in the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

in their values and vision statements. Some stipulated that a certain percentage of annual sales must come from products launched within a rolling three-year period. Others mentioned that they have realigned sales teams around customers.

When they discussed how product differentiation was going to be best achieved, CEOs cited a variety of approaches: the expansion of solution and after-sales support; the improvement of cost position; changing the product development process; the expansion of the portfolio via acquisition or partnership. Customization was singled out by more than 50 percent of CEOs. But the principal means identified by CEOs was the improvement of product and service quality as a competitive differentiator – almost 70 percent are focusing on this (demonstrated in Study Findings, p.44).

When we asked CEOs to identify the actions that their organizations needed to take in order to achieve their new product development goals, they focused on two particular aspects: cycle time and increasing the voice of the customer by involving them more in the product design processes. They believe this speed and customer intimacy can only be achieved if they improve their organizations' responsiveness and agility – a point that is discussed in the next chapter.

CEOs fear that their organizations will, in the words of one of them, get "slow and ripe" if they do not grow faster than their competitors. Looking at new and differentiated products and services is the first step in this process.

New opportunities, caused by new technology and new applications of technology, were also mentioned as a way to grow. Innovation has not stood still during the past few years; it has brought about new products with higher cost/performance ratios. The capability of communicating these new products to a more targeted or a larger market has also increased.

What makes the innovation agenda even more challenging is that it is now taking place within a global ecosystem. It has multiple points of intersection among business, government and academia, and in industries ranging from biotechnology to transportation, energy, telecommunications and IT and the public sector. That's why there will not be a single Next Big Thing. Millions of opportunities will be created by the forces of innovation: the question is where and what those opportunities will be.[1]

Leaders are clear about the need to accelerate radically new product and service innovation. "In order to grow and differentiate the business, the only way is for us to develop new products and services and in spaces that we have never dealt in before. The challenge is also how we execute this," observed one CEO.

Others recognized that the dynamics of their sector made constant innovation an imperative. "We care most about applying new technology to develop new products and services," said one. "The main characteristic of our industry is fast change, so it depends upon who can develop new products and services quickly. If that cannot be ensured, then it is impossible to survive in this industry."

One biotech CEO saw that stepping up R&D investment was the only way to "even further differentiate products." Indeed, the same CEO looked to "create a culture of obsolescing ourselves with our products."

The other area of opportunity lies in new markets: 55 percent of CEOs saw entering new markets as the way forward.

[1] *This paragraph sourced from: "How the US can keep its innovation edge" Sam Palmisano, Business Week , November 17, 2003*

"You must look at new markets to drive better margins and maintain a competitive edge," said one. "We are looking for new and unique, never-thought-of channels to unserviced markets," claimed one CEO. "These are now the bigger sources of our revenues." "We are in attack mode," stated one, "going into as many new markets as we can." Asia – and China in particular – is the land of opportunity (See Viewpoints on facing page). "It forces us to have a new perspective to exploit the upside potential," noted one CEO.

Growth: your turn

1. Which competitive and market forces pose the greatest risk – or opportunity – for your organization?

2. From what countries and industries might significant new competition emerge? What steps are you taking to become – or deal with – the low-cost producer in your industry?

3. How will you balance investments in growth initiatives versus the need to contain costs and reduce risks?

4. What actions are you taking to accelerate and improve your new product development process?

5. What steps are you taking to differentiate your products and services as compared to those of your competitors?

Viewpoints

China:the opportunity and the challenge

A huge opportunity and a certain challenge – China is firmly on the top of the agenda of most global leaders. From the hundreds of interviews conducted for this study, it's clear that CEOs worldwide are feeling the impact that China is now having upon all multinationals regardless of whether they have a trading presence in the country.

It is also clear from their comments that they believe that the opportunity and the challenge posed by China justifies their effort and focus.

China's impact, both on supply and demand, is huge. As a supplier, it has the ability to dramatically affect global markets. On the demand side, it has enormous potential for all industries. "The growth opportunity provided through entering mainland China is paramount for the CEO's agenda," stated one CEO. "China will be the big center for our investment and focus in the coming years," said another. "Our ability to expand in a large part is a result of how fast China is able to grow," commented one financial services CEO, "as personal wealth increases, so does demand for our products and services."

China's record of economic growth has been the stuff of which economists usually only dream. Its annual real GDP has grown on average by approximately nine percent per annum. Foreign direct investment has flooded into the country; it now attracts more direct investment than the US. The long-term outlook promises more of the same, particularly as demand from its home market continues to expand in sectors such as mobile telephones, computers and automobiles. The world's largest retailers such as Wal-Mart and Carrefour have entered the market. Some CEOs noted the growing influence of "developed-world consumer habits." China, thought one, "is moving to 'western' consumer habits from 'Chinese' ones: toward urbanization and greater car ownership." Still, it is hardly surprising that a number of CEOs talked about the need to adapt products to local requirements.

Many entrants into China are attracted by the opportunity to develop new products and new channels of distribution in what is still a relatively unsophisticated marketplace.

This influx of investment and overseas firms has galvanized domestic players. Take the air conditioner industry, which has been on a growth clip for the past decade. There are now more than 400 air conditioner factories in China – their output is more than 60 percent of total global production.

China is now firmly established as the key manufacturing base for many multinationals. For many CEOs, China is already the center of the world's manufacturing industries. "We develop new production methods and implement them at home and in China," said one CEO from Europe. One word of caution came from a Chinese CEO: "many Chinese enterprises expand their fixed assets aimlessly," he said. "In fact, investing all capital into fixed assets will reduce the flexibility of our company."

And China's impact is not just being felt in terms of factory output. Airline executives are looking hard at the potential for MRO (maintenance, repair and overhaul) of their fleets in China as another way to reduce their cost base.

Despite the many obvious attractions, there are several issues that concern CEOs.

The human resource issue is one of the top items on this agenda. It is just as much a problem for China's corporate leaders as it is for those that seek to develop their business in the country. "Throughout the country, there is a shortage of talents, senior electricians, technicians and engineers," said one Chinese CEO. The pace of growth in China merely compounds the skills shortage.

"The rapid change in product

requirements and the evolving business climate makes it very difficult to recruit in China," said one CEO.

Alongside the domestic skills agenda runs the complaint about the high costs and constraints of utilizing expatriate managers. Shifting production into China, investing in training and using expatriates to lead that training, is costly. "We have too many managers in Germany, and not enough in Asia, and China in particular," said one CEO from Europe. "Our business is large and expanding," noted another. "We need strong people to manage such a large business. We have some trouble with this in China."

Restrictions upon the employment of expatriate labor are regarded as problematic, particularly when experienced managers are needed in the early stages of building an enterprise.

"In international operations, we see the bottleneck in development of our staff," said one CEO from Europe. "We suffer from a high turnover of mid-level and senior executives, especially in China. This is a major problem in China: how to recruit, train and retain quality staff there."

A CEO in the United States agreed: "there is a problem with the lack of qualified people in different areas in China, so there is a risk in finding and retaining them."

"In China," said another CEO in the US, "we need employees at the management level that we can retain. We invest heavily in people to train them but we have no guarantee that the individuals will not leave the company after two years. We need to find a way to keep them."

In addition to recruitment and retention, change management is another key issue .

"There's change management Western-style and there's change management Chinese-style," said one Chinese CEO. "Change management is difficult anywhere, but in China, where East meets West, it is even more complicated. In China, we need a hybrid change model that reflects the hybrid culture in which we work."

"The Western model moves fast but in China we need to spend more time building consensus," said one CEO from Europe. "Change is the most difficult thing, especially in China," concurred another.

And when, as is the case for many companies that have focused on China, the growth in the number of offices may have to expand still further, the management challenges will grow even greater.

The regulatory environment is another concern, although this is recognized more as an Asia-wide issue. CEOs consider the regulations regarding the ownership of foreign subsidiaries and on investment as limitations to their Asian businesses.

Some CEOs were still cautious about the Chinese consumer. In some cases, this was about their sentiment toward foreign brands – "now the reception is very positive but there is a risk this could change." In others it was simply about the difficulty of getting to know them. "There is a lot left to be learned about Chinese customers," confessed one CEO.

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CEOs focus their efforts on making their organizations more responsive.

CEOs acknowledge that they need an ability to recognize, analyze and respond more effectively to continuously changing market conditions and risks. Agility has been made a high priority across the organization. Yet very few CEOs rated their organization's ability to respond to these changing conditions and external forces as being very good. Reinstituting a "customer responsive" organization is high on their growth agenda. They also recognize the need to establish effective, realtime response capabilities. And they are clearly aware of the power of IT and the weaknesses that result from lagging behind.

Responsiveness: the new key competence

So growth is back on the agenda – but it won't just happen by itself. CEOs all over the world have identified organizational responsiveness, agility and flexibility as necessary competencies. Developing the ability of the organization to not just sense, but to anticipate and respond to the changing marketplace and subsequent customer requirements is one of the great challenges for today's CEO.

CEOs are now focusing on how their organizations read, listen and react to dynamically changing external and internal conditions. As one CEO put it, "we have to implement a competitive intelligence capability so that the organization can react quickly." And yet this is a capability about which they are relatively pessimistic. The spirit of the CEO is willing; the flesh of the organization is weak.

CEOs realize they need an ability to anticipate and respond more effectively to continuously changing market conditions and risks.

When we asked CEOs to rate their organization's ability to respond to continuously changing business conditions, only 13 percent believed that their organization could be rated as "very responsive." Similarly, when they were asked to rate their company's ability to respond to the three external forces that they thought would have the greatest impact upon their business, CEOs were even more negative: just over ten percent rated their organization as highly responsive in this regard (as shown by Figures 6 and 7, on facing page).

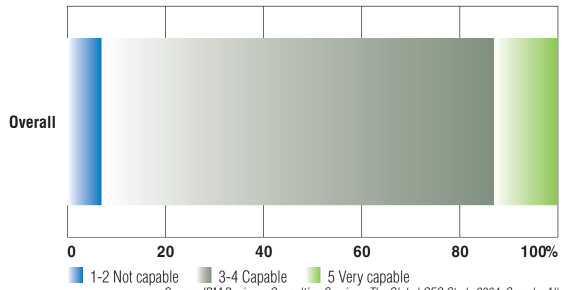
For many CEOs, the greatest challenge is how to succeed in shifting markets. Sectors that were once dominated by one customer segment have turned into the province of an entirely different group. What once were mass markets have now become acutely segmented. Fierce competition takes place in fields where there was previously little. CEOs see how each new wave of technological innovation changes the aggregate patterns of behavior of the marketplace. For many CEOs, it seems as though integration and segmentation are happening at the same time: on the one hand, the world market is becoming more integrated, on the other, the consumer needs are becoming more segmented and so are the sales channels that are required to reach them. How to deal effectively with such fundamental market changes will be critical to many a company's survival.

"We try pretty hard to identify external forces, and we do a fairly good job there," thought one CEO. "But then," he added, "we are fairly slow about coming to decisions about what to do and we need to improve our implementation."

Others were equally frank. "We must change our characteristic of not responding sufficiently to market changes because we are complacent with our past successes," said one. "We need to make a big service improvement globally and change from our autocratic systems to one that gives us more market and customer understanding," added another.

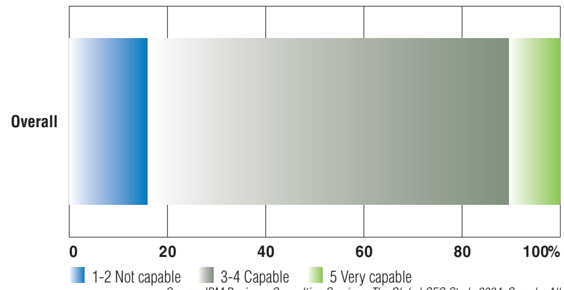
Even more pointedly, one CEO in Europe replied: "We have a history of not being flexible. We have 4,000

Figure 6 – How would you rate your organization's ability to respond to continuously changing business conditions?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

Figure 7 – How would you rate your organization's ability to respond to the external forces impacting your business?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

employees worldwide and we need to be reorganized to be more responsive."

While many CEOs scored their responsiveness to market changes as moderate at best, there was a shared belief that in some aspects there had been some improvement over the past year. In our study, we asked CEOs how far they had progressed in achieving their principal goals for the organization. Among those who had cited "rapid response" as a high or very high priority, just over one quarter of the CEOs said they were not far or were just starting (refer to Study Findings, pp.43 & 54). Less than six percent believed that they had arrived at their goal.

"Had you asked me a year ago, I would have rated our ability to respond as being very low," acknowledged one CEO. "We have focused our efforts on how we can move more quickly and we are much closer to our cost base now, so we know which levers to pull."

■■■

"We have focused our efforts on how we can move more quickly and we are closer to our cost base now, so we know which levers to pull."

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Responsiveness is as much about reacting to a threat as it is about recognizing an opportunity. When we asked which three macro economic factors will have the greatest impact on their business, CEOs highlighted uncertain economic recovery and economic volatility as well as market factors (see Study Findings, p. 37).

Consumer nervousness – about the economic climate, employment prospects, job security and the level of interest rates – is one of the major risk factors for CEOs. "They just don't know what is around the corner," sighed one CEO. At a corporate level, the same is true. "Client commitment horizons have become shorter over time," observed one CEO. "They are reacting to only 'hard-demand' forecasting and not planning for the long-term. They are extremely risk-averse and do not want to make long-term commitments to projects."

Another element of risk is an outcome of today's hyper-competitive era. "The concept of partnership is not in place," said one CEO, "partners that should be aligned are competing." Others just saw this as an inevitable new problem. "International competition is expected to increase further; building loyal and committed distribution and marketing channels will be increasingly difficult," said one. From security and terrorism to currency fluctuations and product warranties, from pension obligations to the threat of class action and legal liability, CEOs have hundreds of threats to which their organization has to respond. But how? And by how much? Across the world, new risk units have been established. "You can't gloss over it," said one CEO in Asia, "as it's taken on a different and more important priority." Another put it this way: "unless nimble and sophisticated risk management systems are in place, the firm will be unable to benefit from revenue growth."

Even those companies that have had a historically strong record in risk management admitted that life was getting harder. "We used to work through risk issues in series," said one pharmaceutical industry leader, "but everything seems to be happening or be required at once. There is exceptional pressure and complexity as a result." Another CEO in Europe observed that "there is a hell of a paradox. We try to model risk scenarios but end up increasing the complexity of the business to the point where it is almost unmanageable."

CEOs place reinstituting a "customer responsive" organization high on their growth agenda

The cycle of continuous reinvention and increasing specificity required to drive top line growth is fueled strongly by customer pull. Therefore, CEOs are focusing on issues such as cycle time and increasing "the voice of the customer" (as evidenced by Study Findings, p.46). This will reinforce the CEOs' desire to ensure that new products and services are customized to specific customer needs. Four out of ten CEOs believe that customer intimacy will provide the greatest opportunity for revenue growth (see Study Findings, p.42). So CEOs are on the hunt for vehicles to capture customer needs and preferences, as well as building the capabilities that will capture and use customer information for swift decisions (see Study Findings, p.45).

"If you are not one of the major players, you have to take a position that is contrary to the global trend," commented one CEO. "We have to ask ourselves: how can we be different? We have to find out what we can be best in the world at. In our case, that is understanding what customers need. We can be best at that." In other words, service is a sustainable differentiator.

"We have to ask ourselves: how can we be different? We have to find out what we can be best in the world at."

In our conversations with many CEOs, they described just how difficult such initiatives have now become in today's hyper-competitive environment. Reinvigorating the culture, aggregate patterns of behavior and capabilities of a customer-responsive organization is a challenge enough; the backdrop against which this has to be achieved makes the CEO's task doubly daunting.

Then there is the issue of customer loyalty. Much prized, it is an asset that is losing its luster. It is a truth, universally acknowledged, that customers are no longer as loyal. Knowledge of what your customers want is a condition for not losing them to competitors – simple dashboards and rules of thumb are gone by the wayside with buying behaviors that are short-lived, dynamic and particular. "Globally, customers are exhibiting greater tendencies to shift preferences and loyalty. For a fast-moving consumer goods business, this is inevitable but it is a difficult challenge to surmount," said one CEO. "Historically, it was easy for the business to forecast on a Tuesday what the week's sales will be," acknowledged one retail CEO. "Today it is much harder to predict because simple things can influence consumers' decisions."

While there were variations in how CEOs assessed their relative strengths and weaknesses, the essential message stayed clear: we have to be quicker and must anticipate and respond almost intuitively to changing customer needs.

"We must add a sense of urgency to our core values," said one. An organization that is truly customer-facing has to provide a fast, high-quality response to their needs.

"We need to improve our knowledge of our customers," acknowledged another. "We must improve our listening to our customers – by really hearing what they are telling us – and then having the ability to respond rapidly," said another.

CEOs also acknowledge that customers want more. "A product that used to score nine out of ten with its customers now merely gets a six," was how one CEO described it. In an era of heightened customer awareness, customers are not satisfied. Speed and flawless execution are now the expectations of the everyday. What is more, they are tired with outbound mass marketing; consumer wishes are shifting to permission-based "pull" marketing. This explains why nearly 70 percent of CEOs regard the improvement of product and service quality as the prime competitive differentiator – differentiation is the issue; quality is the way to getting it (see Study Findings, p.44).

This concentration on reinvigorating the customer-responsive organization can partly be explained by a sense of near-helplessness described by CEOs regarding their ability to keep up with the speed at which customer habits change. "Given the rate at which the market is evolving, it is almost impossible to carry out long-term planning," said one CEO. "It is critical to be able to plan on a rolling basis, rapidly and continuously."

CEOs recognize a need for the establishment of effective realtime response capabilities

Agility. Flexibility. Speed. These are the mantras in the customer-driven culture. Around the world, CEOs are grappling with the dilemma as to how their organization can best respond to the riptides of these customer and consumer dynamics. We live in a realtime world and CEOs

■ ■ ■

"We used to derive a great deal of our value because we had offices around the world and in places – especially developing countries – where our suppliers and customers did not want to be. We provided overseas skills and managed the risk. Now, with a more integrated global economy, much of that value is negated."

■ ■ ■

"There is no doubt that, if our reaction speed falls behind, we will be eliminated very fast."

■ ■ ■

"We still have to get to world class. There are areas of improvement required in all our customer touch points to give world class experience. We need to align HR to our business strategy."

■ ■ ■

"The pace of technological change is so fast and there are many red herrings."

■ ■ ■

"We must improve our listening to our customers – by really hearing what they are telling us – and then having the ability to respond rapidly."

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have realized that they need to shift their expectations. Decisions that could take weeks now require action in days. Many CEOs regard speed – the first mover advantage – as the prime weapon of competitiveness. “We have to maintain our actual rapid response,” one said. “The word ‘rapid’ is the key; we have to be the first in the market.” When we asked CEOs to name their priorities for the coming years, “rapid response” was one of the top four (refer to Study Findings, p.43).

Others were more circumspect. “We should focus on creating differentiation,” replied one. “Sometimes, being second into the market is an advantage.”

Other CEOs are focusing their effort on the quality, rather than the speed of the response. “Responding too rapidly would be a mistake,” argued one. “We need to make sure people stay up with new technology. This means slowing the use of technology to match the rate it can be adopted at. A rapid response is not important, a good response is.”

Companies also adapt by developing regional products. One, for example, is well-known for business services on one continent but for its water purifiers on another. “Our global portfolio is constantly changing due to market factors,” said one service industry chief in the United States, “so we offer very different products and services in geographies around the globe.”

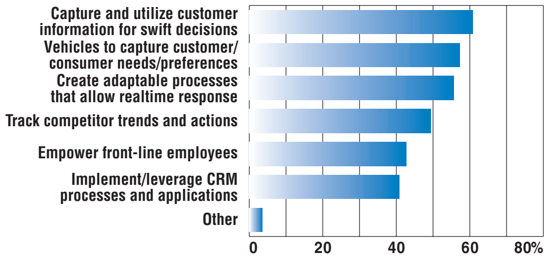
Companies in mature sectors are rapidly moving their focus onto what were once niche subsets of their markets. One CEO in the package delivery service talked about the growth sectors of mail order, B2B and small packages, but also about the good business in the shipping of parts – such as auto parts – and also old items – such as personal computers – for recycling. CEOs know that their organizations have to develop flexible and distinct channels to address different segments of their market.

As much as anything, agility is a corporate mindset. Companies that view themselves as “paradigm shifters” will put a fair bit of emphasis on the external environment. Those that focus relentlessly on the customer imbue themselves with knowledge of the marketplace and can respond accordingly.

“We have a strong, unbelievable customer reputation,” claimed one CEO, “which, in turn, gives us time to respond.” “We have recognized what is happening in our industry,” said another, and “we have communicated it to our people. The IQ of our company has increased over the past 12 to 24 months, improving our capability to respond realtime. And we are investing more heavily in what’s coming up next. As a result, we have had early successes.”

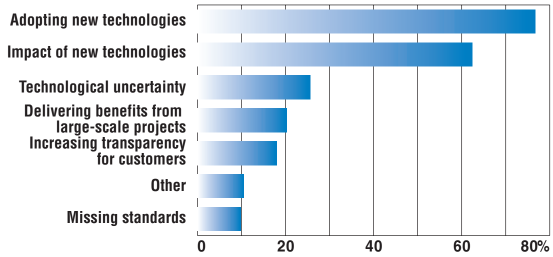
“These [external] forces are thought about daily,” replied another. “It is not a surprise when these issues come up. As an organization, we are mentally prepared to handle them.” “We have the burning ambition to be number one,” said one CEO. “We have gained critical mass and our competition are now mirroring the business model that we have prescribed. Our people are driven, self-propelled. These are just a few factors that give us the ability to

Figure 8 – What actions will you take to achieve goals related to rapid response?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: Those who rated the importance of rapid response as high or very high

Figure 9 – Which of the following technology factors will have the greatest impact on your business in the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: Those indicating technology factors as a top external force

respond properly to any external threat."

In the end, nearly 60 percent of the CEOs said that they wanted to create more adaptable processes, in order to enable them to have real-time response capabilities in place (as per Figure 8, above).

CEOs have a clear awareness of the potential of technology and changing business models to improve responsiveness

The renewed effort to capture and make sense of all the available data, especially that which surrounds the customer – to gain the insights required to offer new products and services that are customized to specific customer needs – demonstrates that rapid access to information is becoming critical. The contents of customer complaints have to be analyzed; customer satisfaction measurements take priority over internal ones. Repeat customers are being tracked relentlessly. "We are using information technology to move ahead of competitors in our market," said one CEO. "We are now obtaining more than 70 percent of our business across the Web. This means that we are less influenced by competitors' tactical moves."

Technology represents both an enabler and a transformer. The effects can be profound, and the management confounding.

"We have segmented customers via differentiated products," said another. "But we need always to have the data to manage the future requirements of our industry and customers."

"Technology has led to basically a commodity market for our base products," stated one CEO. "Any one of our competitors anywhere can see bids and tenders and compete. Essentially, the ease of communication has lessened our value and led to potential disintermediation. As a company, we must become more information and analysis capable in order to compete in this environment. We must expand on our current systems base to obtain true information and insight."

The need to harmonize, consolidate and rationalize disparate technology infrastructures – often the heritage of not-fully-absorbed acquisitions – is now a question not limited to the CIO's office. For nearly 80 percent of CEOs, the quick and full adoption of new technologies is essential. "It is important to identify which technologies are the ones that make a real difference to focus on and to invest fully in them," said one CEO.

More than 60 percent of CEOs are also very watchful of the disruptive power of new technologies (as in Figure 9, above). "One of my two major brand categories employs a very mature technology that is vulnerable to technological change," admitted one manufacturing chief. "Technology changes occur every four months in one of our key intellectual property areas," stated another. "We are constantly looking to manage disruptive technologies as we have to manage these right from the start," said one media industry CEO.

In addition, that means that CEOs are becoming ever more demanding of their IT function. “We are not satisfied with the progress of information technology over the past three years,” complained one CEO in Europe, “it has not been ambitious enough in the direction and speed of its development. It has been too conservative and needs to take a far more radical approach to changing its strategy and vision of how to contribute to the business.”

With CEOs looking upward and outward for revenue growth again but with powerful market forces – notably competition – altering the business landscape and with innovation becoming a sterner imperative, organizational and strategic change is bound to occur. In order to be able to address the next wave of growth successfully, cautious shifts in business models are also foreseen by many CEOs; this will help enable organizations to be more responsive. When we asked CEOs about the level of priority that they were placing upon a number of actions for the next three years, a high priority was given to changes in “the business model” (as per Study Findings, p.43).

In the previous chapter, we have discussed how CEOs are paying more attention to improve internal costs structures by creating internal shared services. If organizations have to spend less time and energy managing internal activities, the attention can shift to anticipating changes in the marketplace.

Business models also need to be variable to take into account different market conditions. “We adjust our business models around our ability to penetrate deeper into a chosen market,” said one CEO, “in order to meet the different kinds of competition in each of its chosen market segments.”

Responsiveness: your turn

1. How do you identify the external indicators on markets, competition and risks and how are they embedded into the fabric of the strategy and day-to-day operations of your business?

2. How do you integrate the voice of the customer into your growth strategy and how do you obtain the right (customer) information at the right time?

3. How does your organization compare against its competitors in its ability to provide realtime responsiveness? Which functional processes need to be adapted to enable realtime response capabilities?

4. What new, disruptive technologies will impact your business in the next five years and how will your organization make use of, or react to, them?

5. How would the establishment of shared services and the use of external contractors enable you to shift the attention of your organization more clearly to the market place?

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CEOs recognize that the skills of their people and their capacity for change are key factors for growth.

CEOs acknowledge that they need an ability to recognize, analyze and respond more effectively to continuously changing market conditions and risks. Agility has been made a high priority across the organization. Yet very few CEOs rated their organization’s ability to respond to these changing conditions and external forces as being very good. Reinstituting a “customer responsive” organization is high on their growth agenda. They also recognize the need to establish effective, realtime response capabilities. And they are clearly aware of the power of IT and the weaknesses that result from lagging behind.

The challenge lies within

So CEOs are searching for ways in which all parts of their organization can be made more flexible and agile. Defining the concept of agility and responsiveness is easy compared to making it happen. This brings us directly to the third key theme in our study. Perhaps the business agenda has been confined by discussion of external factors, such as economic uncertainties and regulatory barriers (as highlighted in Viewpoints, p.31). If we ever did lose sight of what really makes businesses succeed, the CEOs we spoke to in this study have reminded us of it now – people. CEOs have set their sights on agility and responsiveness – and ultimately growth – and they recognize that it is the skills of their people, their capacity for change and leadership, that will ultimately determine the outcome. "Macro issues are sensitive but we have neglected people," acknowledged one CEO. "We must now invest in recruitment and training as priorities."

CEOs are also expressing renewed interest in transforming their businesses – and fast – but they feel ill-prepared to do so. They are at a critical juncture, and keenly aware that their people can be their most valuable asset – or their most common roadblock.

The speed and sustainability of growth and differentiation hinges on investment in people

Given the CEO growth agenda, the drive to introduce new and differentiated, better quality products and services, and build more agile organizations, CEOs' renewed interest in people-related issues is hardly surprising. But while the CEOs' people agenda starts with skill levels, it goes deeper and wider. CEOs recognize that in order to lead successful change management and business transformation programs, they need to call upon the commitment and drive of their people – as well as their talent.

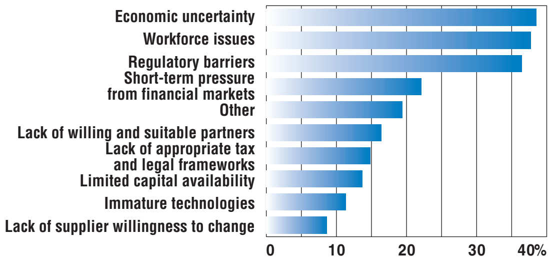
"While we will focus on new markets, so much of our revenue growth is dependent on our people and the relationships they bring," stated one CEO. "As the business ever commoditizes, people become the anchor."

The agenda for growth mirrors overall themes from the study: it's not purely about costs, but about striking the right balance between productivity and skills. Throughout our discussions, CEOs emphasized that the quality of people remains the principal asset in the struggle to differentiate their organization in a rapidly changing world, one in which the process of commoditization can appear to be an inexorable process.

Companies that have been through the fire of restructuring recognize that their way forward is through people and are now placing their focus on developing their capabilities. Companies that are shifting their business models acknowledge that it is the cultural and change issues that will determine success. "The quality and dedication of the people," said one CEO, "is the only factor that makes a real difference in finding the path to growth." And, as one advertising CEO ruefully remarked, "our business has had a bruising recession in which we realized we are a people business. Now our focus must be on HR and systems of training and development."

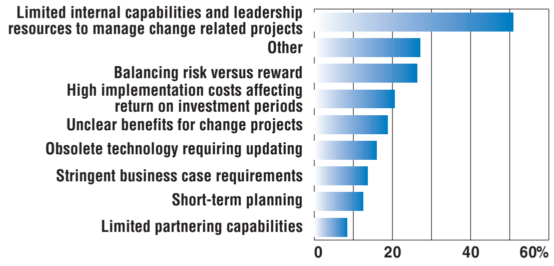
For global leaders, having the right workforce is the key to running the business. If the workforce cannot be

Figure 10 – What are the most significant external barriers to change faced by your organization?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

Figure 11 – What are the most significant internal barriers to change faced by your organization?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

responsive to their customers, then the business will die a slow death. "People," summarized one CEO, "will define the speed that the company can adapt to change."

Deficiencies in skills seriously threaten the growth agenda

If there is one insight that is shared as universally as the recognition that only people can deliver on the growth agenda, then it is that people are the principal obstacle to achieving the organization's goals. More precisely, it is the deficiency of leadership and managerial skills that encumbers organizations. It is a mark of just how crucial the issue of human capital has become that CEOs cited "workforce issues" as an external barrier to change and "limited internal capabilities and leadership resources to manage change-related projects" as a major internal barrier (see Figures 10 and 11, above).

No matter which sector – from retail to pharmaceuticals, from the public sector to financial services – the story remains the same: the skills of current staff frequently do not meet expectations or needs. CEOs believe that education – or often reeducation – and the lack of qualified candidates are the people issues that will have the greatest impact upon their businesses over the next three years. Even in a world where unemployment is rising and companies are seeking out overseas labor, demand for the highly skilled continues to outpace the capability of societies to provide it (see Fig.12, overleaf).

"Keeping the right research staff is critical," says the leader of a major pharmaceuticals company. "We are not doing enough to develop and upgrade our skills and capabilities."

"The most critical internal factor is the quality and dedication of the people. This is the only factor that makes a real difference in finding the path to growth."

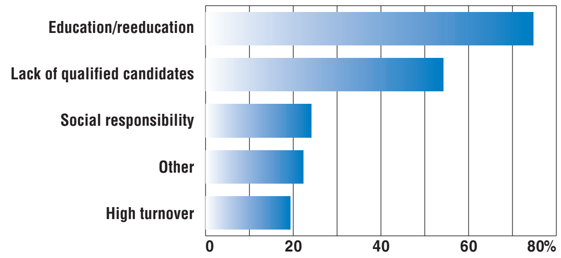
One CEO in Canada noted that his company's growth had been rapid but mainly driven by a few people. The company, he believed, now lacked the operational and execution skills to continue that growth path and to improve profitability. "Having sufficient numbers of qualified people is a significant issue," he said.

"Our style has been based on industrial relations, not human relations," confessed one public sector chief. "We are currently managing people poorly. Our workforce is aging and we are not attracting new blood. Our government business mentality is 10 years behind the private sector." A financial services CEO commented on the "noticeable shortage of specialized expertise within the company and within many markets where we compete. We need professionals who understand data and analytics for marketing and credit decision-making. Due to heightened competition, particularly during upturns in the economic cycles, we have found it difficult to retain key staff." One CEO confided: "Of my top 100 people roles, I probably have 85 who can re-skill to meet these changing needs, and I'm probably lacking 15 who I will need to find from elsewhere."

A financial services CEO in Asia noted that his company "cannot find candidates with the specific skills required to run our business – hence we must train all new recruits."

Reeducation and retention is now the urgent cry

Figure 12 – Which of the following people and skills issues will have the greatest impact on your organization in the next three years?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample:Those indicating people skills as top external force

"We need to reeducate our people," said one CEO. "Education levels are high, but we need to teach people new ways to run a business." Some are looking for technical skills, especially as technology is making products ever more complex. Others want more business skills. Still others need to develop "relationship skills" as the heads of well-established family-run enterprises hand over the reins to their successors. Many CEOs see the principal issue as how to convert and develop mono-talented individuals into multitalented ones: "We have strong researchers who aren't strong business men," said one technology CEO. "They need to do more listening to the customers."

Age-old tensions are reemerging. In a war for talent that is increasingly global, how can companies obtain a return on their training investment? "The real issue is to make sure that investment is made in people's careers," noted one CEO. "We need processes in place for succession planning and performance management." In some cases, short-term gain had led to long-term loss: "Following privatization, there was a lack of investment due to a focus on short-term results," said one CEO, "which led to a need to create a 'new' industry. We have been reinvesting but there is an eight-year time lag."

And so often CEOs see hiring and recruiting from competitors as the way forward. "We need to acquire and sustain a wide range of competencies from outside and from the competition," commented one CEO. "There are hyper-growth requirements and there is a war for talent."

"Ninety out of 100 people that we train leave us," complained one CEO in Europe. "The school system does not prepare people for work; they are unmotivated. We have to brainwash them to give good service. But I am most proud of the 10 percent who stay and become good managers with a strong work ethic."

One CEO in India stated: "the skills requirements are ever changing and the challenge is to retrain and re-skill people to extract the maximum productivity from them. While there are many job applicants in India for any post, the quality of candidates meeting this company's requirements are few."

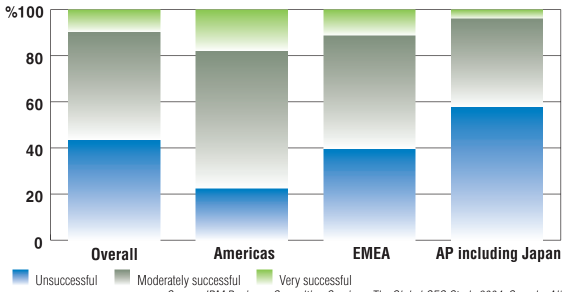
Many CEOs were worried about social attitudes and the limitations imposed by governments and unions, especially as so many societies are moving away from their basis in physical labor to one of knowledge. In a world of nanotechnology, biotechnology and software, new skills and attitudes are essential. And CEOs recognize that they must take into account a new generation of employees with new attitudes about their careers and employers.

"People face tremendous pressures now, with many putting in long hours as usual," thought one CEO. "But "Generation X" won't follow the example of the "Baby Boomers" – careers will be put on hold periodically for other interests. It is thus a significant issue to retain people, since their sense of loyalty to their employer is disappearing."

Managerial leadership is a growing need across the organization

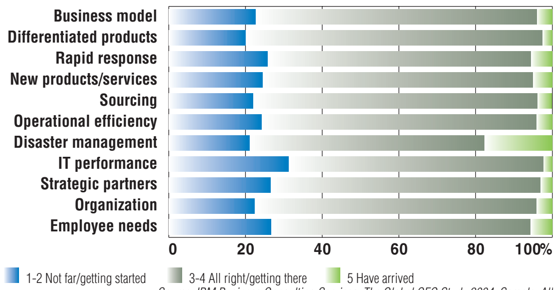
In today's complex, fast-moving business environment, CEOs recognize that organizations – in the words of one of their peers – have to move from being "leader led to leadership led."

Figure 13 – How would you rate your organization's record for managing change in the past?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

Figure 14 – How far have you progressed against your goals for each of your main initiatives?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

The responsibility for nurturing and harvesting new generations of talent is not the responsibility of corporations alone. The pool of apprentices, university graduates and those who join the workforce directly from school has to be both wide and deep. Here, CEOs believe that business is not always well-served.

"Our ability to realign, reshape, and improve our cost structures is limited by a lack of managerial talent in some areas at the top," said one pharmaceutical industry CEO.

"This one might be the most complicated issue after all," said one postal services CEO. "We require traditional business skills needed in process reengineering and maintaining good relationships with the unions. We have the financial muscle to expand into new markets, develop new products and make acquisitions, but our management skills to execute these are limited. There is a need for technological skills to create more integrated environments; other types of technology skills are needed to create more products, and to carry out the marketing and sales efforts related to those products."

Transformation is now at a difficult crossroads – strong desire but limited capability

For all their understanding of what needs to be done to transform their businesses, CEOs admit that they have not done particularly well so far. Grappling with change management issues will continue to test CEOs' capabilities for years to come. The majority of CEOs were not satisfied with their own company's track record in managing change (see Figure 13, above). Indeed, 43 percent ranked their organization as having been unsuccessful in the past.

Furthermore, the majority of CEOs said that they "had not arrived" when it came to making progress against the goals of their major initiatives. A significant number think that they are not far along their journey – or have not even started at all (see Figure 14, above).

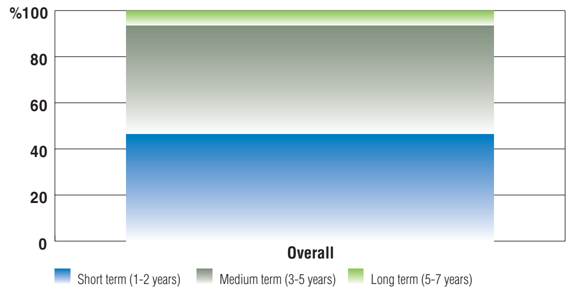
"Change fatigue" has overcome some organizations. As one CEO put it: "middle managers are usually the ones who only know partially what's going on, have no protection from the unions and can't control the change process." Other CEOs continue to push against the seemingly immovable object that is the "job for life" culture, that in some instances was seen to limit career aspirations for skilled and talented employees.

Teaching people how to take responsible levels of risk and changing corporate culture from entitlement to performance are two of the principal challenges for today's change programs. CEOs would do well to reflect on the deficiencies of preceding initiatives. "Effecting change in a crisis is easy," observed one CEO, "it's managing change outside of a crisis that is difficult."

Acquisition-led businesses face the challenge of creating a common culture, HR vision and skill sets across disparate organizations. "We have gone from being a nationally-based exporter to a global company with bases in the US, Europe and Asia," said one manufacturing CEO in Europe. The quick growth of his business had resulted in the various challenges of managing different cultures and conducts in acquisitions, and developing cross-border initiatives and global teams.

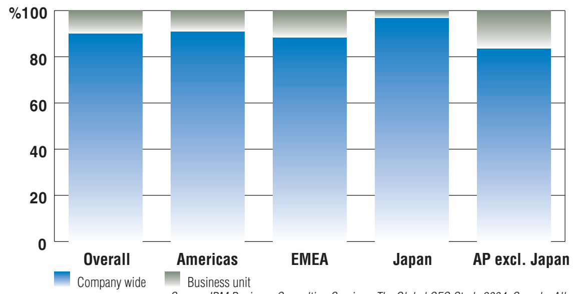
Whatever the difficulties, CEOs believe that change programs have to deliver – and fast: 93 percent of CEOs

Figure 15 – Over what time frame do you believe the goals of your change management program need to be achieved?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

Figure 16 – How broad do you expect the scope of this initiative to be?



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: All

felt that that their transformation time frame is short to medium term (refer to Figure 15, above).

Implementation was viewed by two-thirds as a step-by-step, issue-by-issue process. "We're successful with taking change step by step," said one CEO, "not too much at once." Another described his change program as "a series of adjustments, to get the company into a more mobile structure." (See Study Findings, p.57)

Throughout our discussions with global leaders, they made it clear that the implementation of strategies to make their organizations more responsive to customers and the wider business environment will not happen overnight. As a result of the continued economic uncertainty, CEOs are approaching this cautiously and in a step-by-step manner.

It should be noted, however, that nine out of ten CEOs are implementing their transformation on a company-wide level (see Figure 16, above). The CEOs' need and desire for change is urgent and profound.

People and change: your turn

1. What risks arise for your organization as a result of skill deficiencies, particularly for meeting your goals of growth and organizational responsiveness?

2. How does your organization compare against its competitors in the retention and development of its people?

3. How does your organization plan to build or acquire leadership?

4. How is your organization investing in its people capabilities to become more responsive?

5. How big is the gap between your organization's approach to transformation and what it can deliver with your people – and what is your organization doing to address this issue?

Viewpoints

The challenge of regulatory change

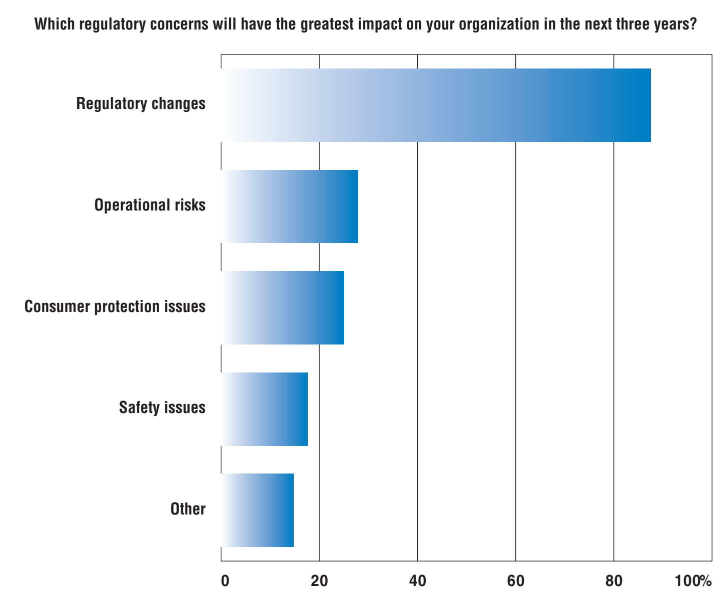
The impact and rate of regulatory change is high on the list of CEOs' concerns. The current wave of regulatory change evident in Basel II, Sarbanes-Oxley and the general rise in corporate governance following recent significant corporate failures, is taking effect on CEOs and on doing business. Legal and regulatory pressures are driving up the cost of doing business the world over. They are forcing organizations to change the way that they report, control and monitor internal processes. Few questions in this study yielded as emphatic an answer as the one we asked of those CEOs who had cited regulatory concerns as a top issue: "regulatory changes" was cited by 87.5 percent.

"Some things are beyond your control," shrugged one CEO, "such as increased bureaucracy, rules, taxes and regulations imposed by government." Another put it like this: "We are well positioned to manage what is in our control, such as customer relationships and building sales relationships. The big issues are what are not in our control, such as tariff issues and external circumstances like China." Another put it thus: "When there is competition in the market, it is possible to predict what will happen; whereas with regulatory problems, they can drop something on you without warning." Even well-established companies – ones that rated themselves as highly responsive – expressed concerns of the amount of regulatory activity.

"Uncertainty of regulatory and legal changes coupled with economic and market uncertainty is slowing decision-making and action," said one financial services chief in Europe, "with regulatory and legal change having a persistent impact for the last two years."

"We are as responsive as is possible to regulatory changes but the volume and complexity makes it impossible to comply perfectly," noted one CEO, "so we are always in catch-up mode." Even those CEOs whose political and regulatory relationships are crucial and delicate were moved to gentle criticism. A pharmaceuticals CEO acknowledged that "the vicissitudes caused by governmental and regulatory bodies" do, to some extent, complicate his company's plans.

The complexity and variety of regulatory regimes lies at the heart of the matter. The more business areas in which a company operates, or the greater number of markets it operates



Source: IBM Business Consulting Services, The Global CEO Study 2004; Sample: Those indicating regulatory concerns as a top external force in, the bigger the issue it becomes. "I did not realize the costs that were attached to regulatory and other issues when I first took on this role," admitted one CEO. Boardrooms have seen regulations enacted that have massively changed industry structures and increased costs.

"We are changing faster than our regulators, who obviously can't keep up with the pace of change," thought one CEO. "Regulators are reactive and come too late. They fight yesterday's war," said another CEO. Others believe that regulators are under external pressure to be seen to be doing something. The media was cited as one culprit, and indeed, politicians were often seen as another type of regulator.

"Regulators seem to be 'one-upping' each other with quality and monitoring issues," noted one CEO, "and all of this requires more staff and can simply create more confusion." Others commented on the growing resource requirements for dealing with new processes and regulations.

The combination of regulatory risk with a rise in class action suits, has led to an increase in operational risk for multinationals. Consumer activism from nongovernmental organizations is becoming a matter of concern," reported one CEO, "especially because there are no well-established systems to deal with this. Companies can suffer considerable damage from frivolous activism, and the system for seeking recourse does not exist."

Feelings of concern were voiced across the world. One CEO stated: "There is a whole new set of regulations in Europe and it has thrown the whole business up in the air. No one knows who is playing the field and who is not." In Asia, one CEO noted that "legal, licensing and financial regulatory constraints makes expansion and the location of facilities a long lead-time process fraught with peril." In the US, the "huge impact" of Sarbanes-Oxley was noted, along with three other issues: the risks of litigation, the weight of pension obligations, and inflexible unionized labor.

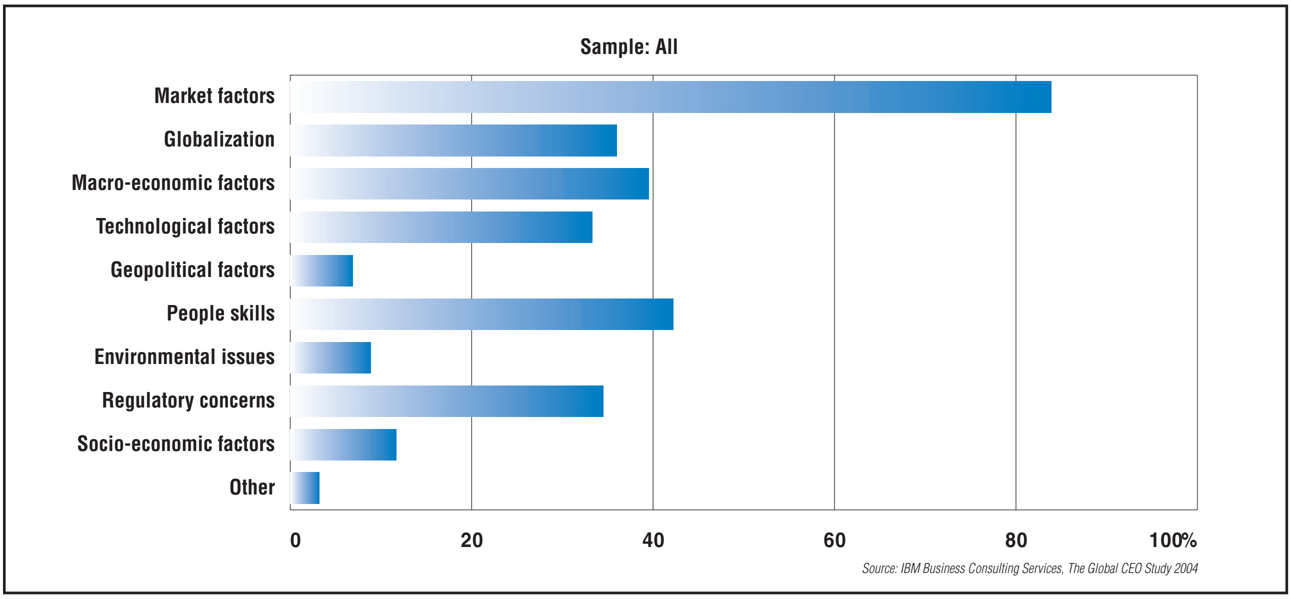
In general terms, the increased focus on corporate governance and compliance was thought to be leading to a situation which could dampen CEOs' appetite for risk.

The Global CEO Study 2004 Findings

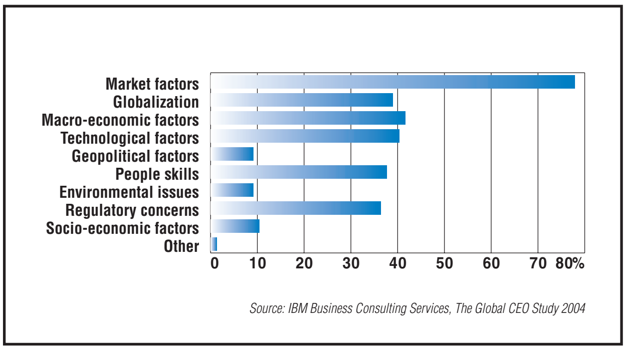
Chapter 4

Which three external forces will have the most important impact on your organization over the next three years?

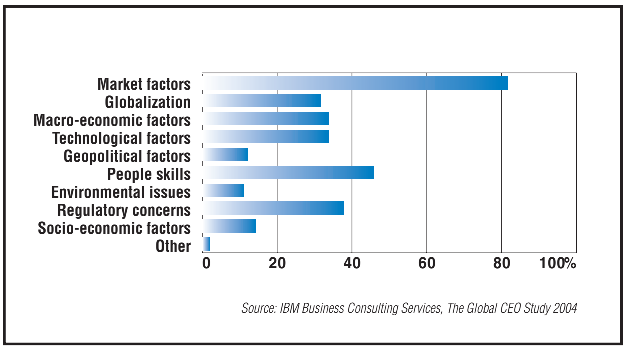
More than four out of five CEOs cited market factors as being the most important external factor. CEOs in Japan were the most adamant about this; they were also significantly less concerned about regulatory issues than any other group.



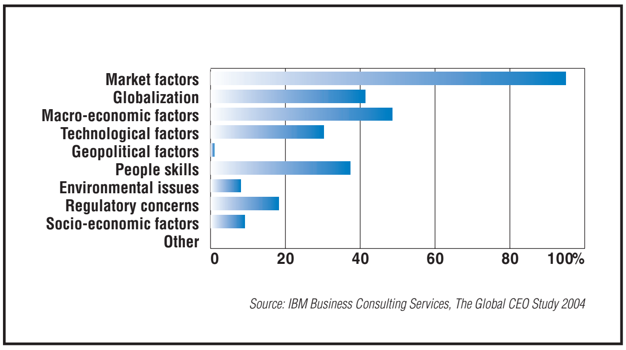
Americas



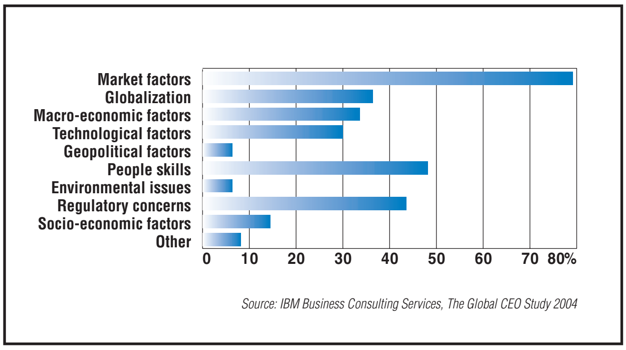
Europe, Middle East & Africa (EMEA)



Japan

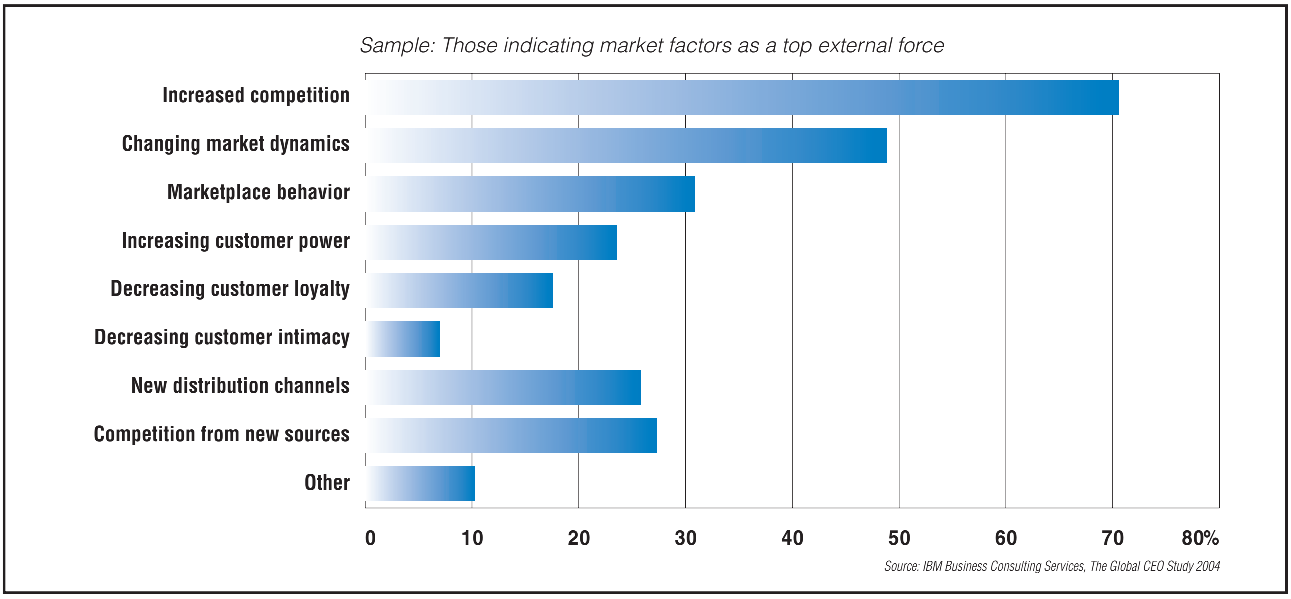


Asia Pacific (excluding Japan)

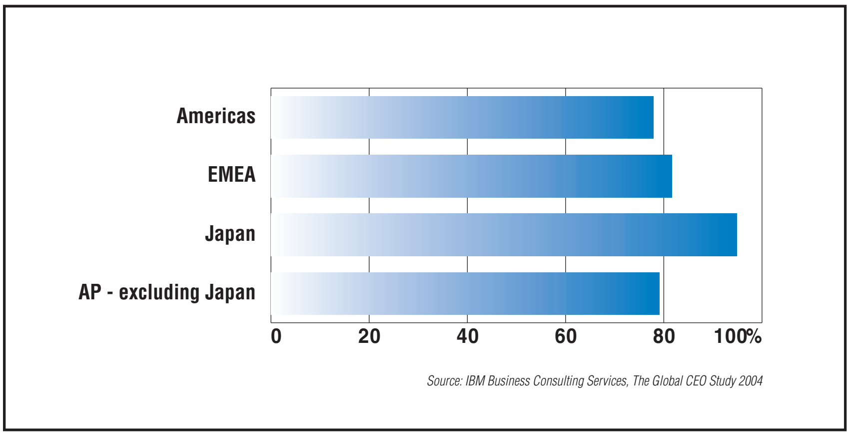


Which market factors will have the greatest impact on your organization in the next three years?

CEOs think that increased competition and changing market dynamics are more important than customer issues, such as decreasing loyalty or intimacy.

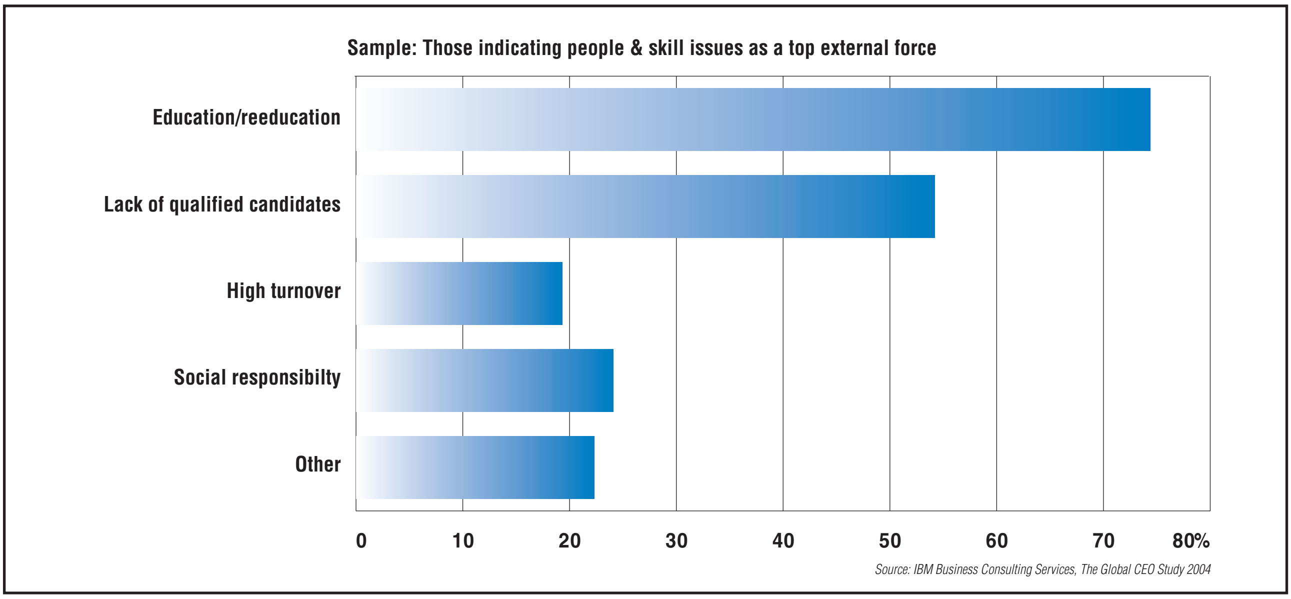


Geographical breakdown of CEOs citing market factors as a top external force

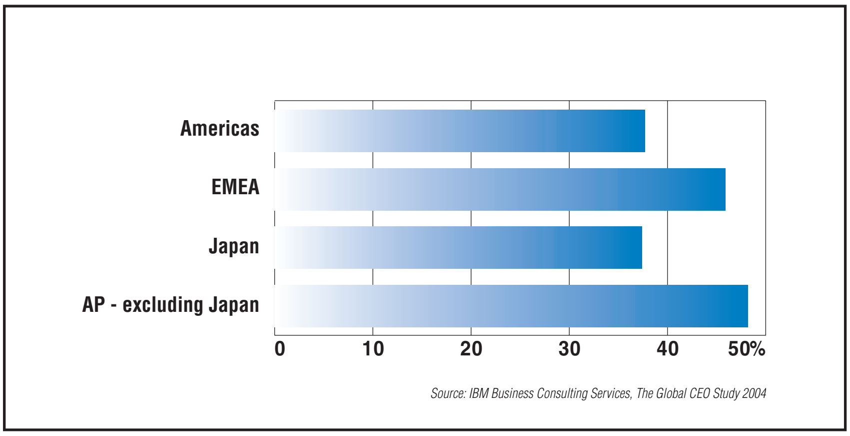


Which of the following people and skill issues will have the greatest impact on your organization in the next three years?

Three-quarters of CEOs believe that the need for education/reeducation will have the greatest impact on their organization. Over 50 percent cited the lack of qualified candidates.

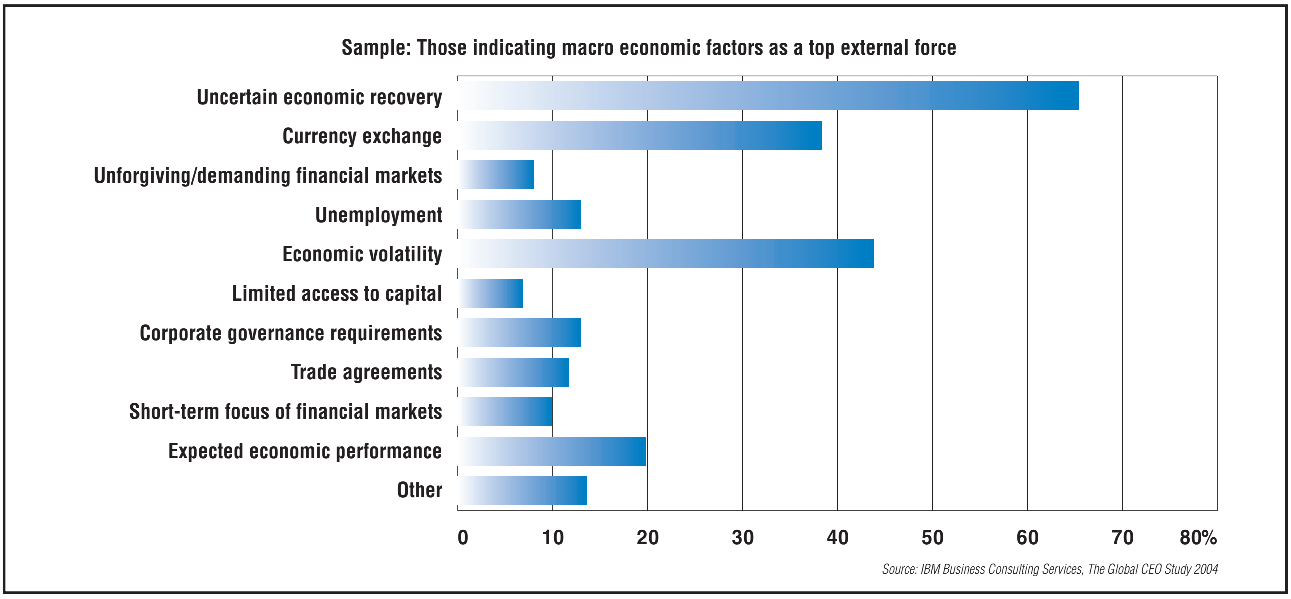


Geographical breakdown of CEOs citing people and skills as a top external force

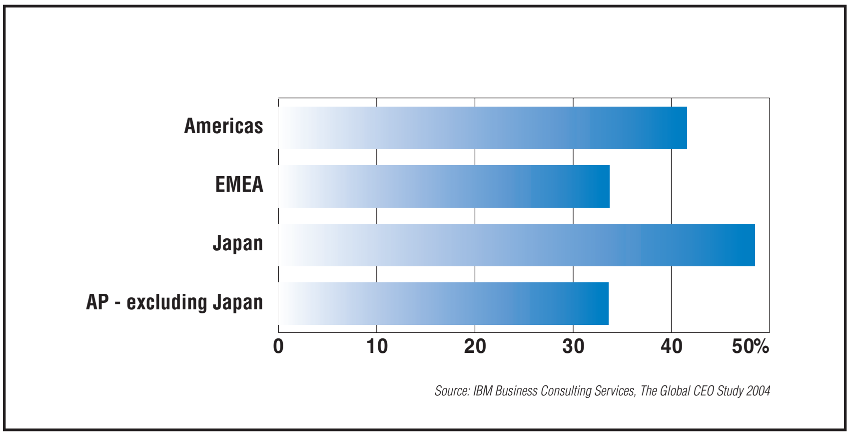


Which of the following macro economic factors will have the greatest impact on your organization in the next three years?

Of the macro economic factors, CEOs are most focused on the uncertainty of economic recovery, economic volatility and currency exchange risks. CEOs in Japan are significantly more concerned about macro economic issues.

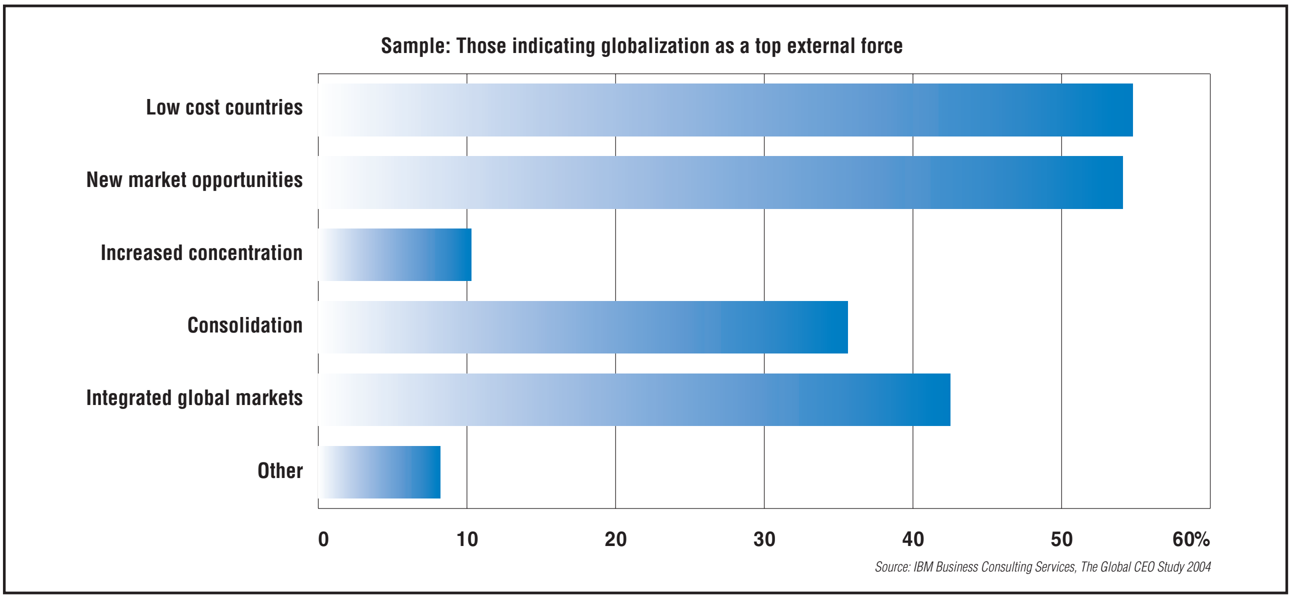


Geographical breakdown of CEOs citing macro economic factors as a top external force

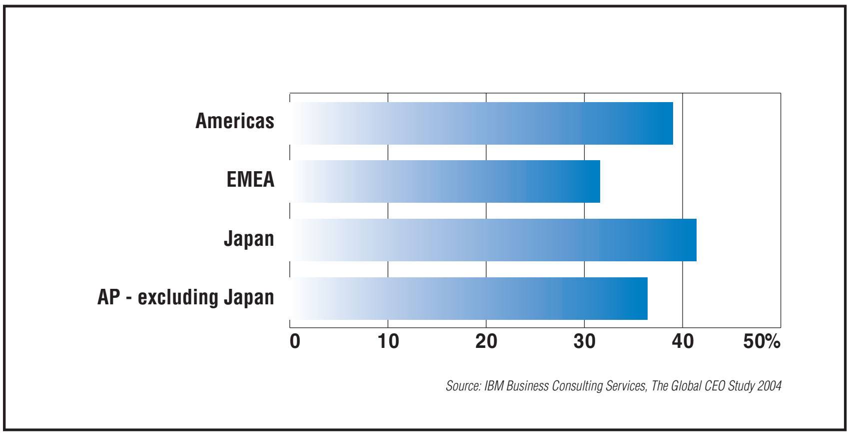


Which of the following globalization issues will have the greatest impact on your organization in the next three years?

For CEOs indicating that globalization is a top external force, over half cited low cost countries and new market opportunities as the key attributes of this.

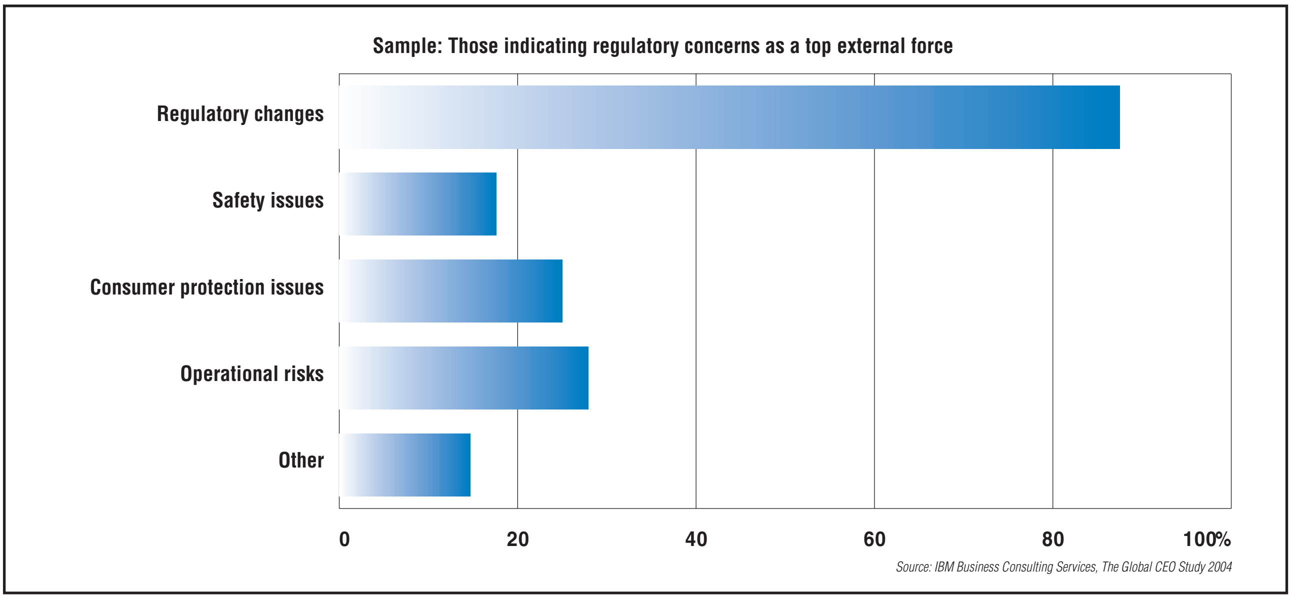


Geographical breakdown of CEOs citing globalization as a top external force

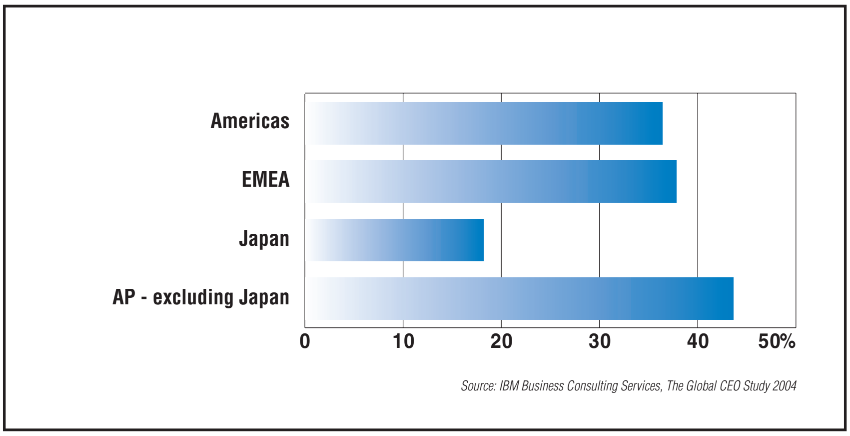


Which of the following regulatory concerns will have the greatest impact on your organization in the next three years?

In terms of regulatory concerns, by far the biggest one was regulatory changes. (see discussion on pages 31 & 32)

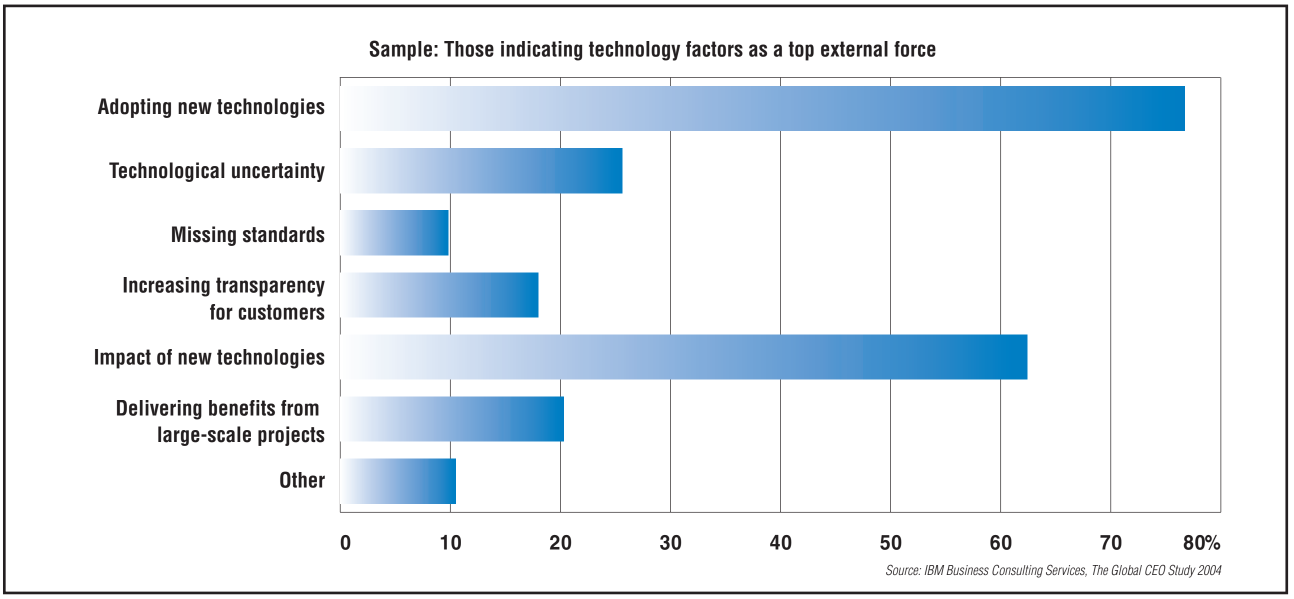


Geographical breakdown of CEOs citing regulatory concerns as a top external force

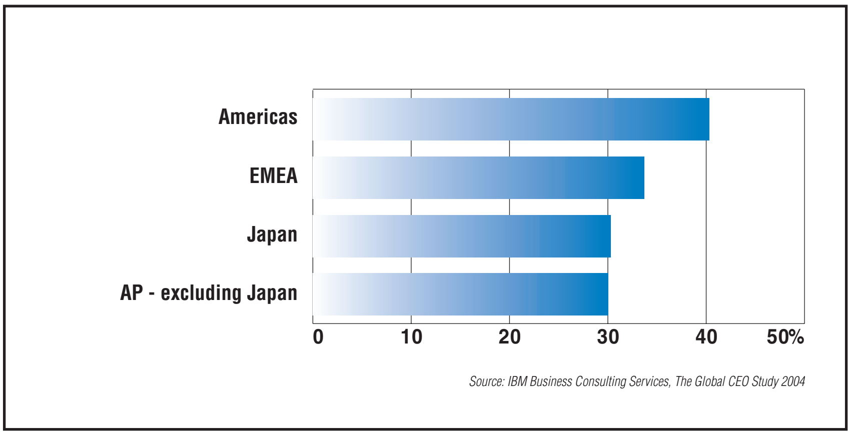


Which of the following technology factors will have the greatest impact on your organization in the next three years?

Adapting to, and coping with the impact of, new technologies are the greatest concerns to CEOs.

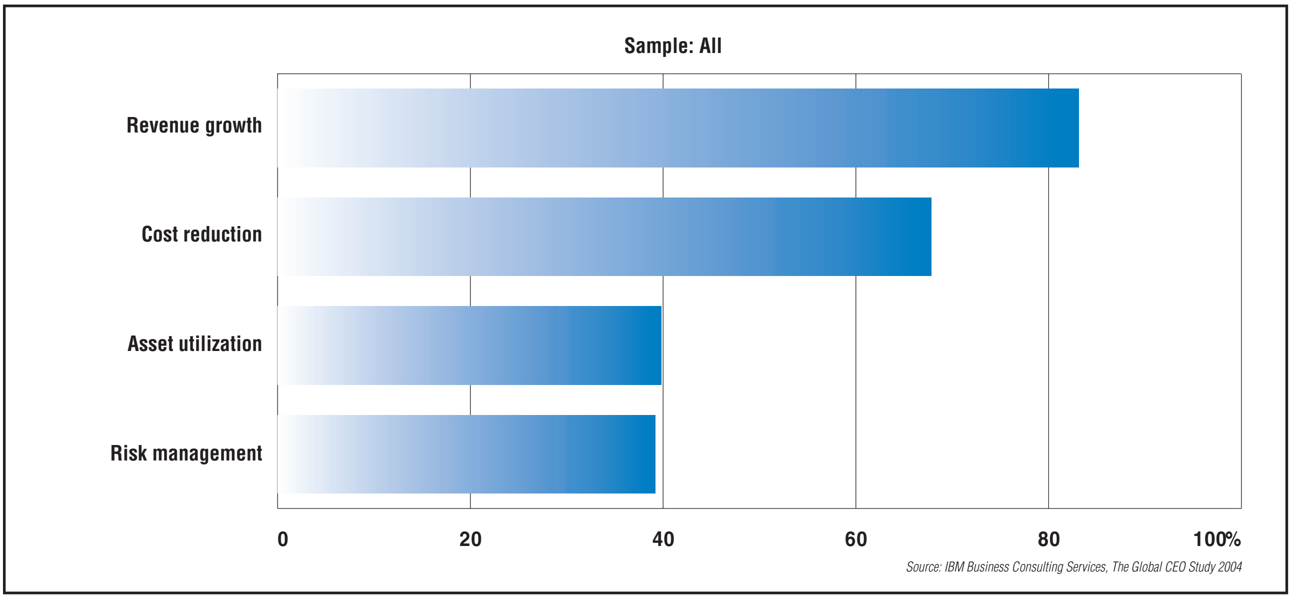


Geographical breakdown of CEOs citing technology factors as a top external force

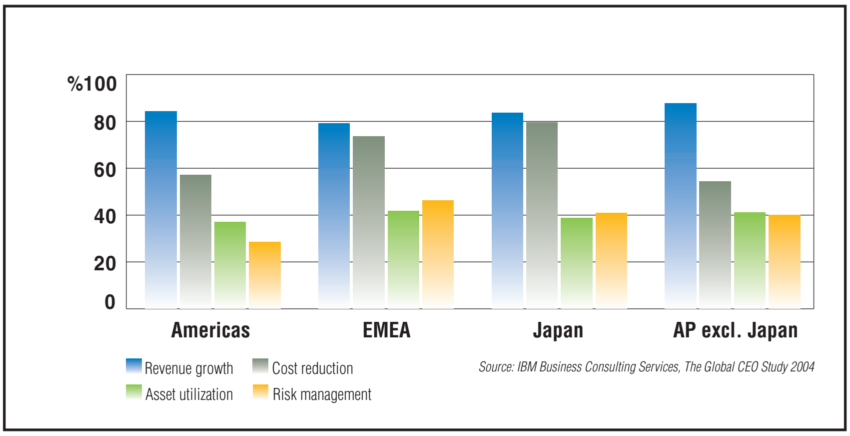


Which of the following will be your key focus for strengthening your organization's financial performance over the next three years?

Four out of five CEOs are focusing on revenue growth. Cost reduction remains an important second; the importance of cost-cutting is significantly higher in Europe and Japan.

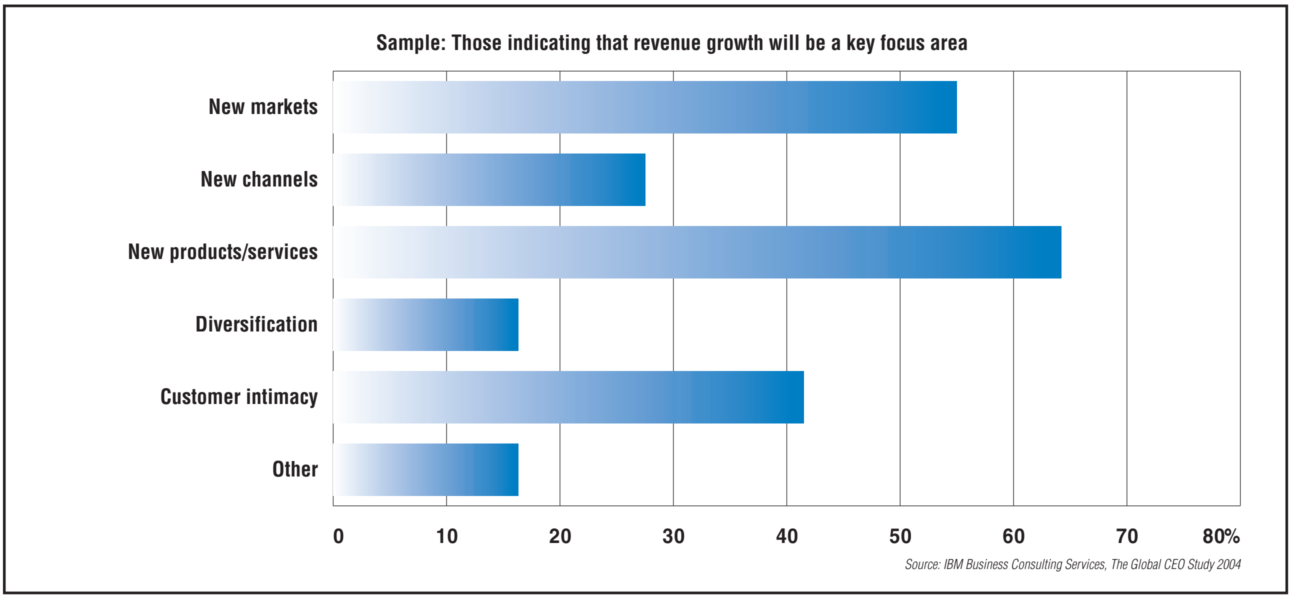


Geographical breakdown of key focus areas for CEOs



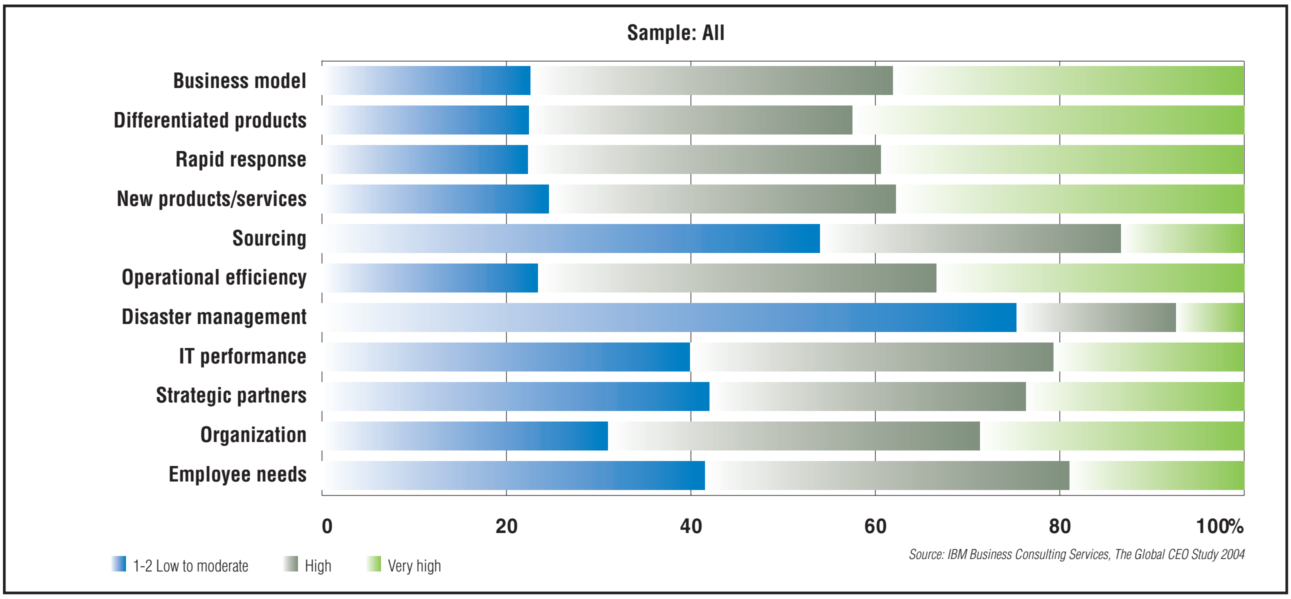
Which of the following areas offer your organization the greatest opportunity for revenue growth in the next three years?

Over 64 percent of CEOs look to new products and services to drive revenue growth; 55 percent look to new markets.

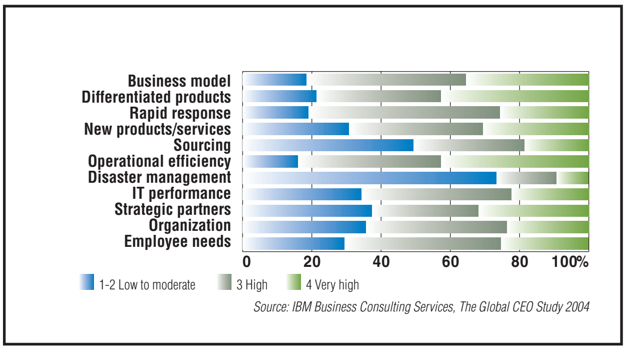


Please indicate the level of priority you are placing on each of these responses in the next three years?

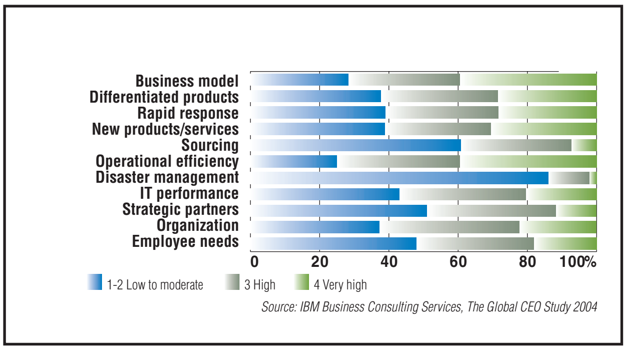
More than 75 percent place a high or very high priority on business models, rapid response, new and/or differentiated products and services. CEOs in Asia Pacific place a significantly higher degree of priority on new and differentiated products than their European counterparts.



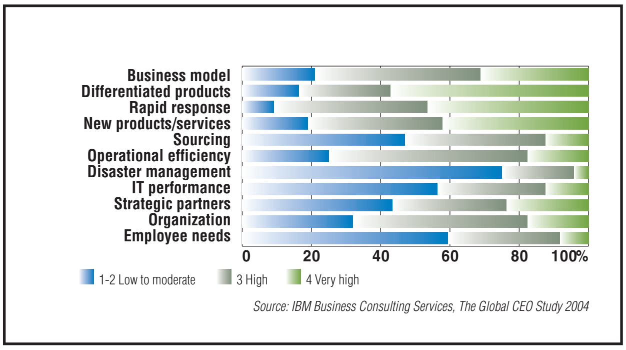
Americas



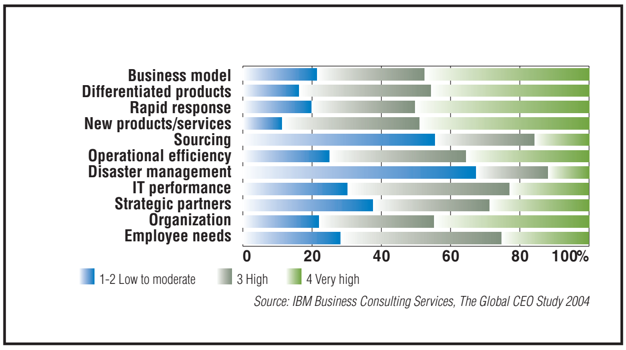
EMEA



Japan

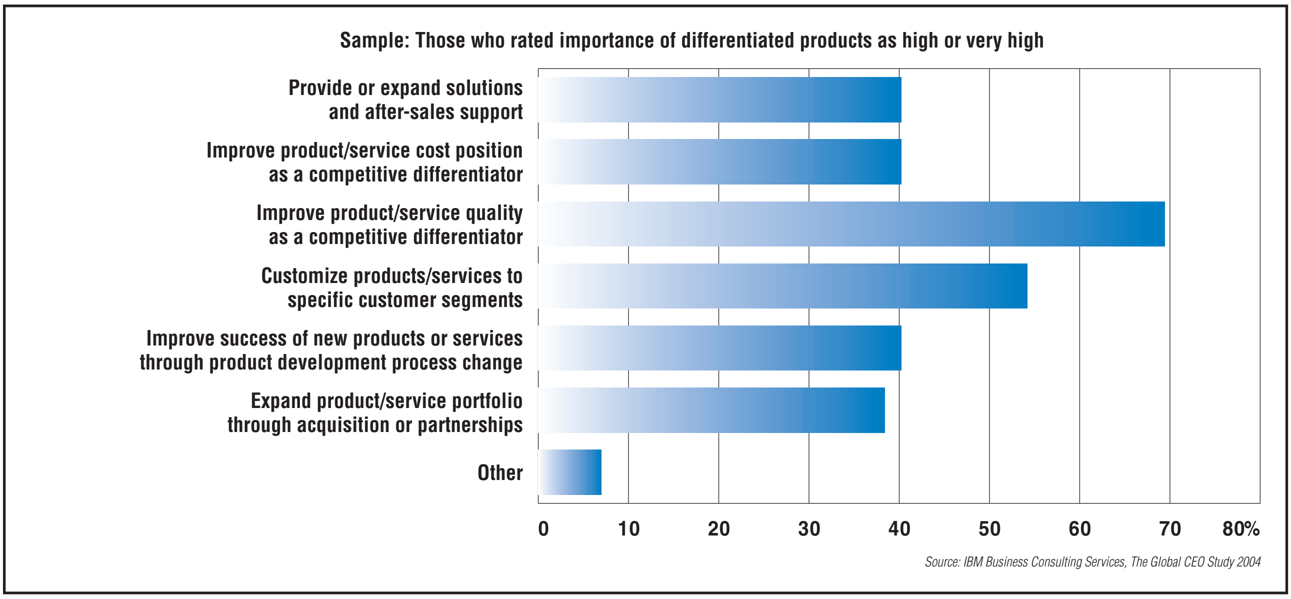


Asia Pacific (excluding Japan)

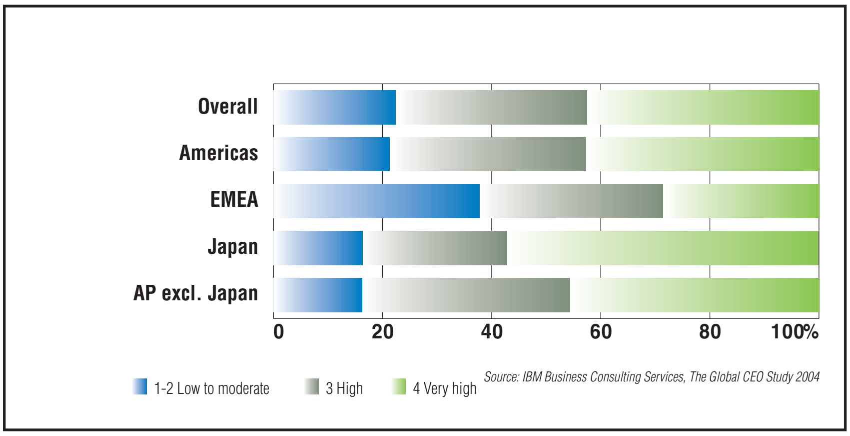


What actions will you take to achieve goals related to differentiated products?

The improvement of product and service quality is regarded by CEOs as the key competitive advantage for differentiated products.

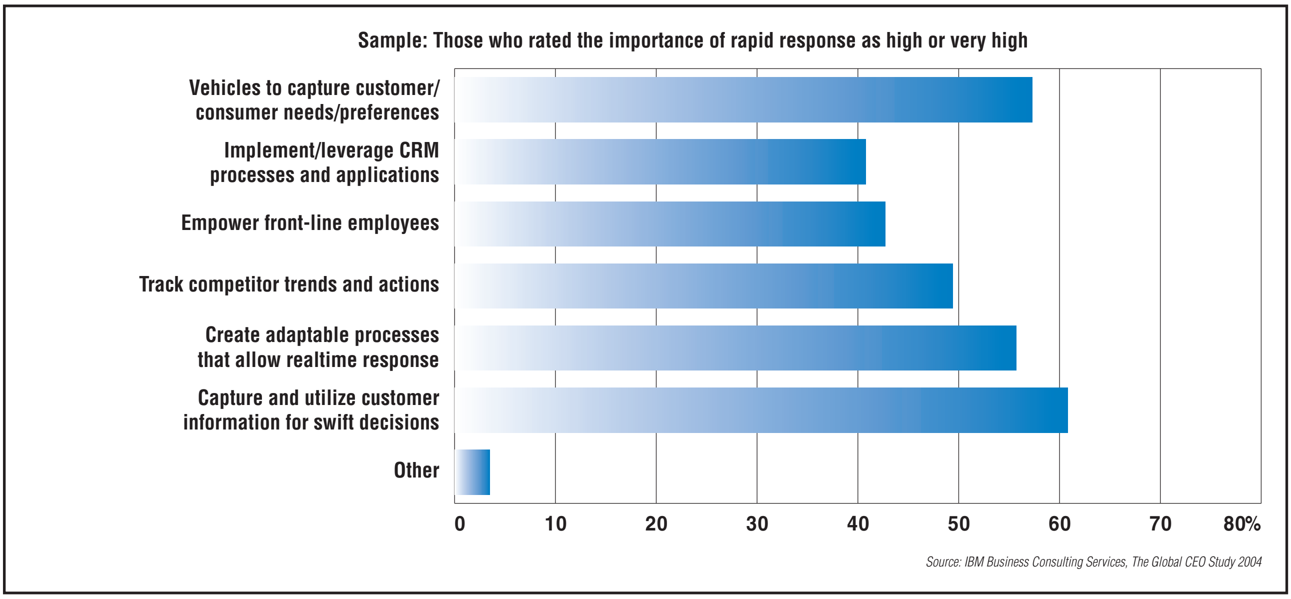


Geographical breakdown of the level of priority CEOs are placing on differentiated products over the next three years.

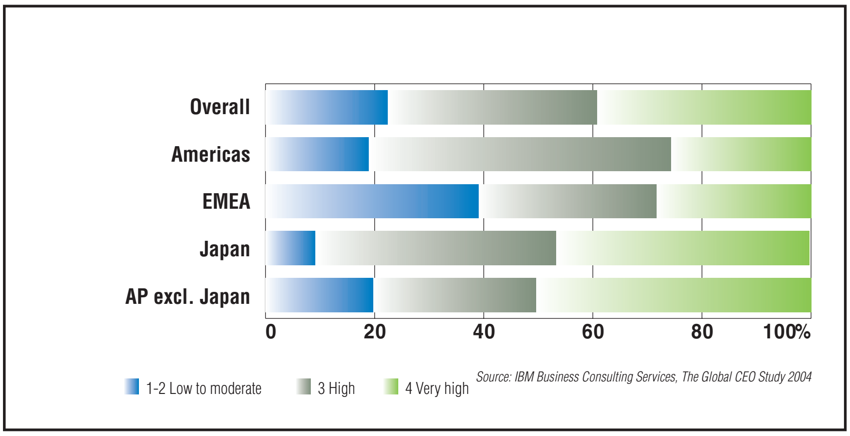


What actions will you take to achieve goals related to rapid response?

Rapid response is driven by capturing and utilizing customer information as well as creating the appropriate vehicles and processes to make this happen. CEOs in Asia Pacific place a significantly higher priority on this than CEOs in Europe.

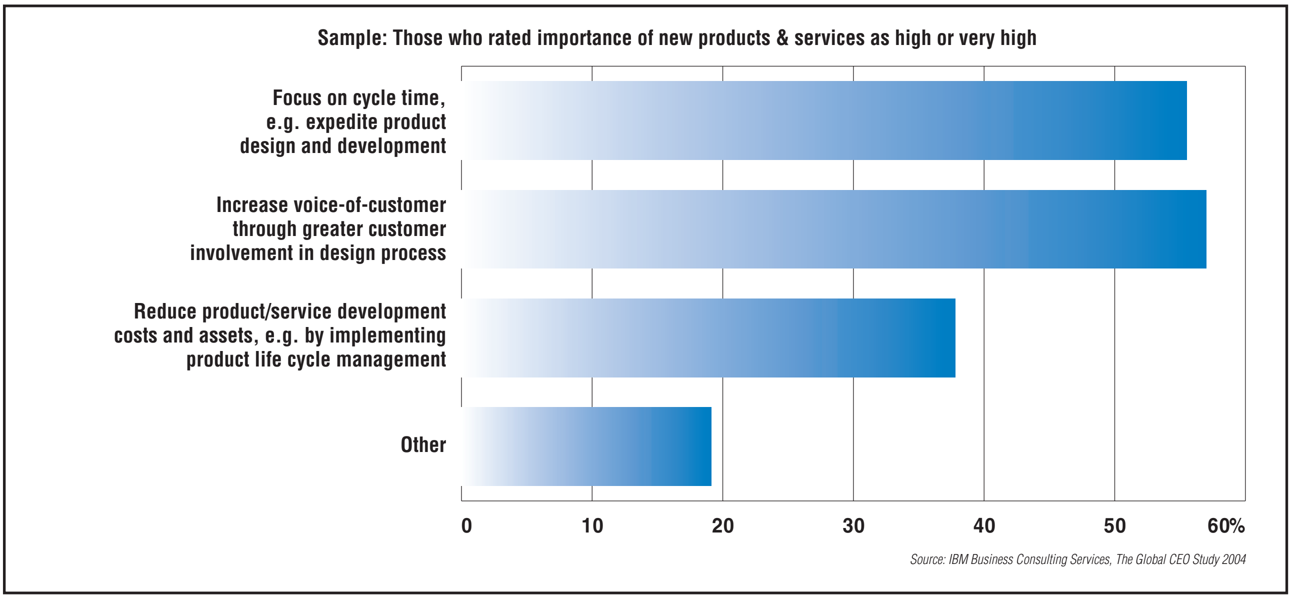


Geographical breakdown of the level of priority CEOs are placing on rapid response over the next three years.

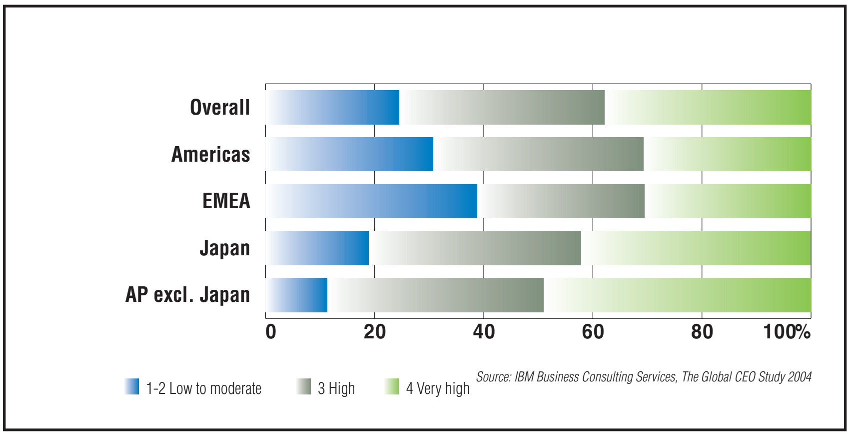


What actions will you take to achieve goals related to new products and services?

Two issues are seen as important in new product development – a focus on cycle times and increasing the voice of the customer. The customer is pulling, rather than product development departments pushing.

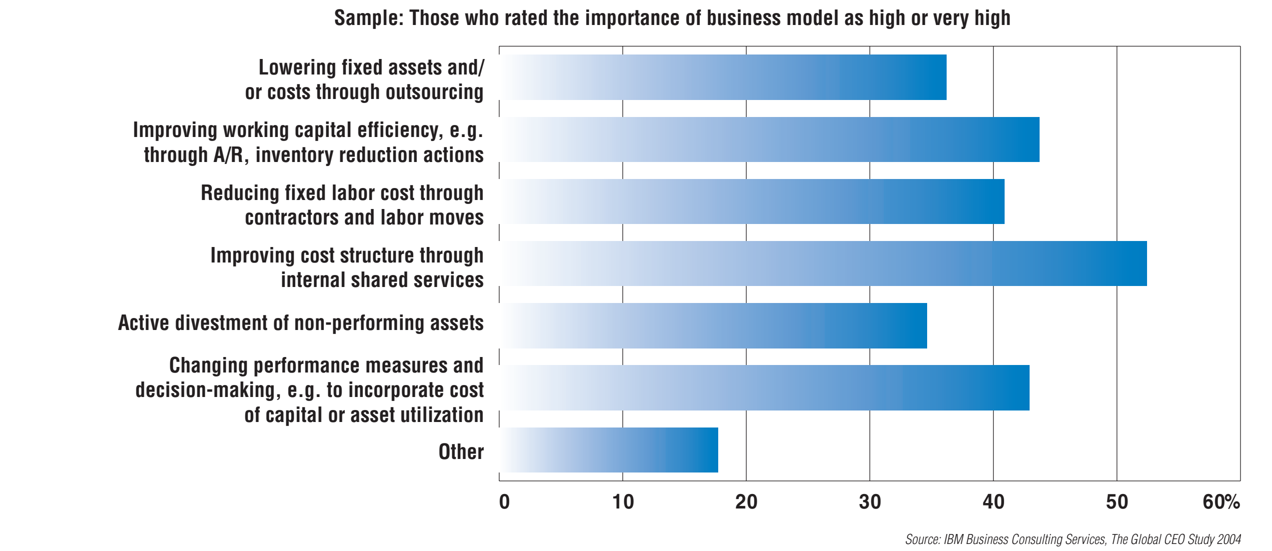


Geographical breakdown of the level of priority CEOs are placing on new products and services over the next three years.

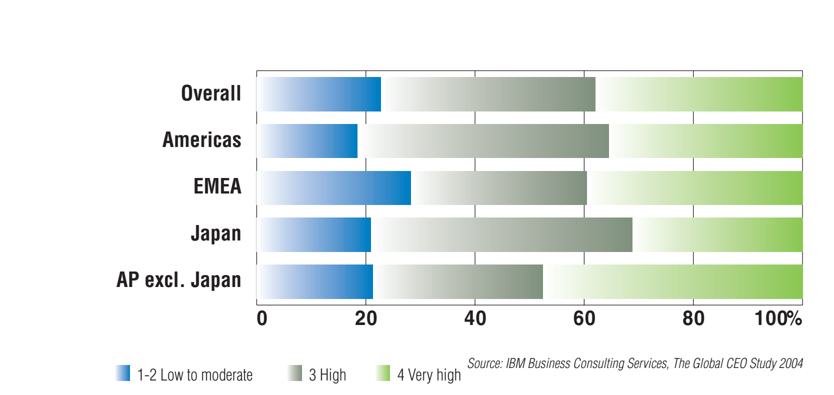


What actions will you take to achieve goals related to business model?

No one clear action stands out, although just over 52 percent are focusing on improving business model performance by internal shared services.

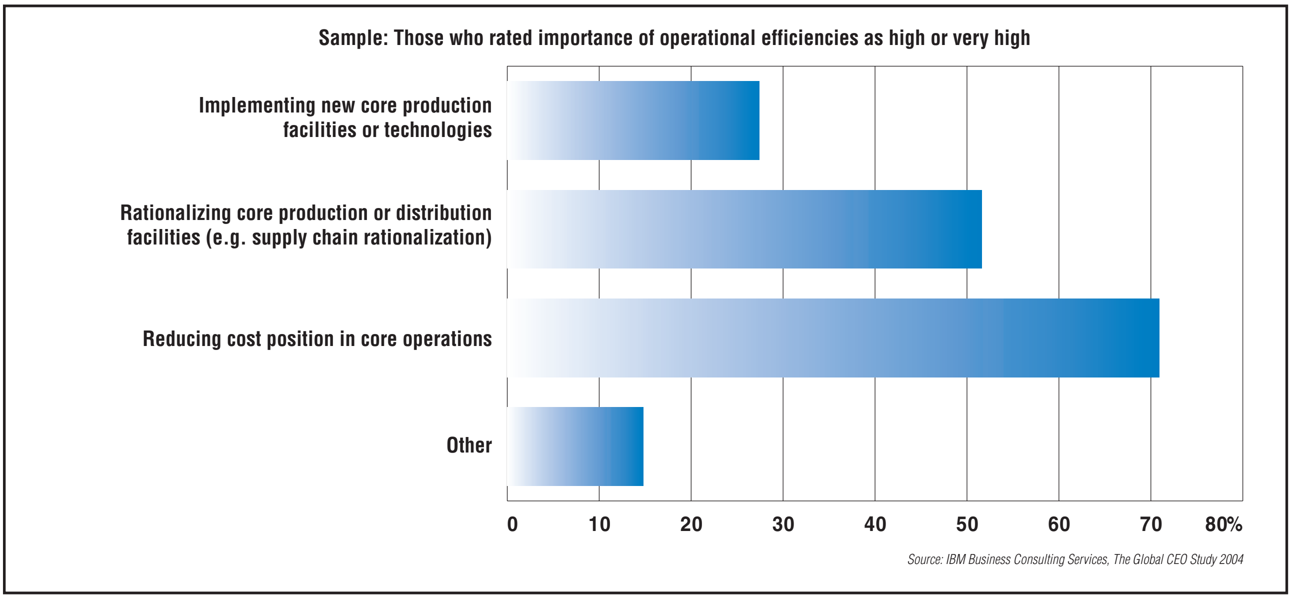


Geographical breakdown of the level of priority CEOs are placing on business model over the next three years.

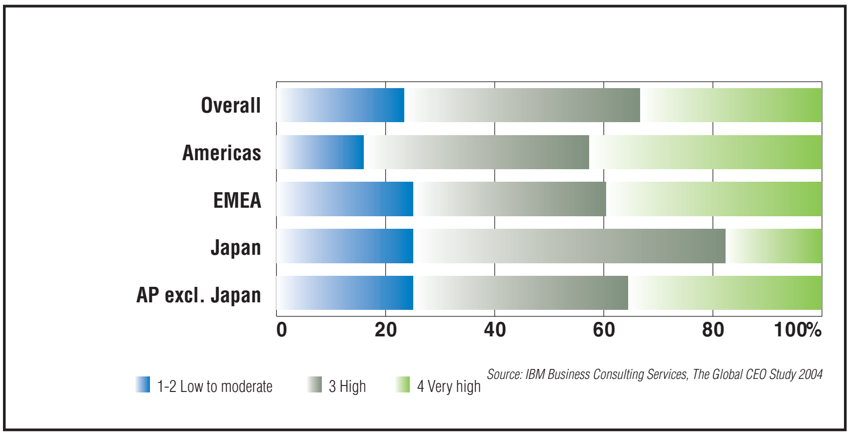


What actions will you take to achieve goals related to operational efficiencies?

Seven out of ten CEOs are looking to reduce the cost position in their core operations. Five out of ten are rationalizing their supply chains.



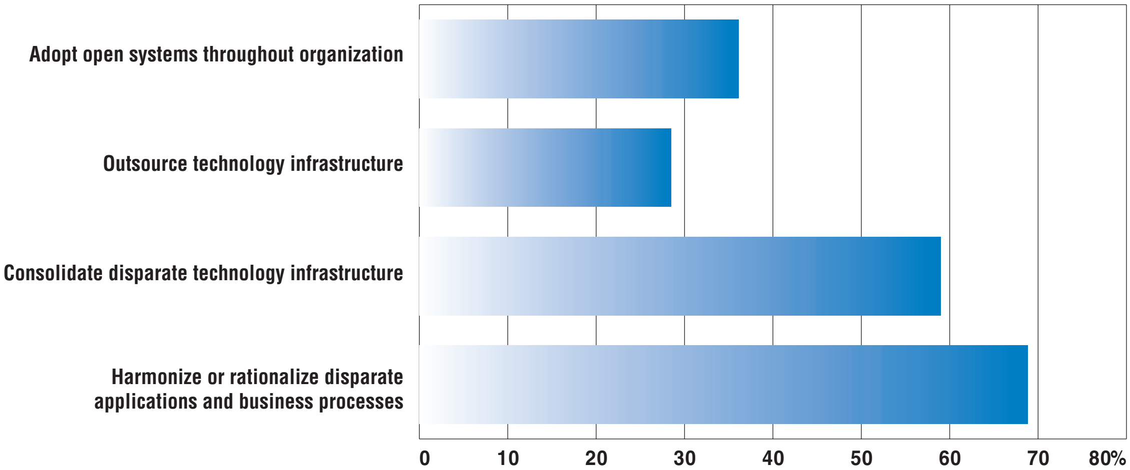
Geographical breakdown of the level of priority CEOs are placing on operational efficiencies over the next three years.



What actions will you take to achieve goals related to enhancing IT performance?

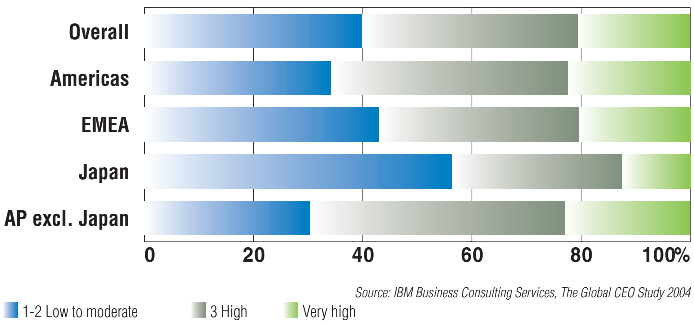
The consolidation, harmonization and rationalization of disparate applications and infrastructure are the key issues regarding technology.

Sample: Those who rated the importance of enhancing IT performance as high or very high



Source: IBM Business Consulting Services, The Global CEO Study 2004

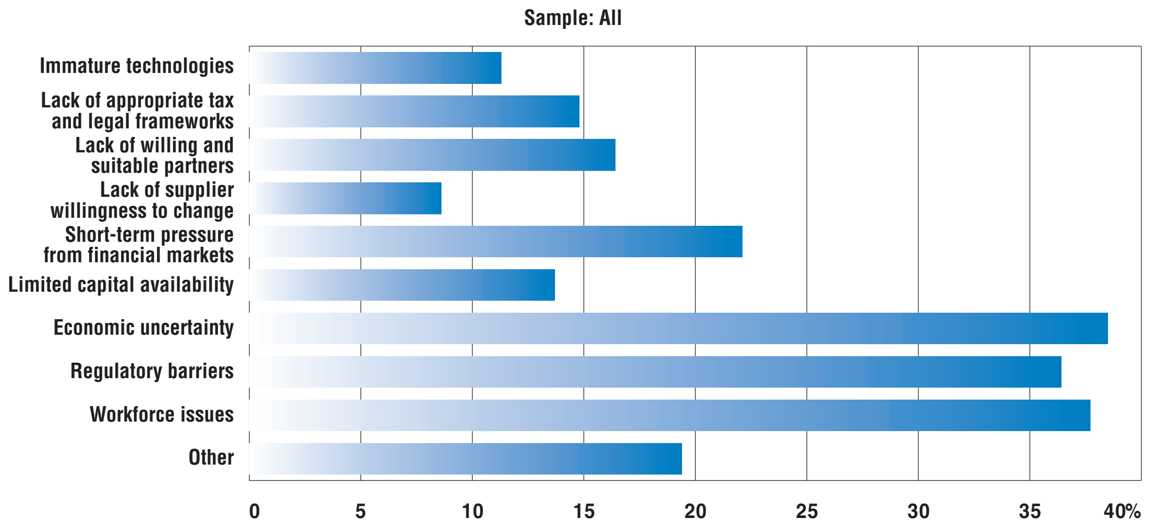
Geographical breakdown of the level of priority CEOs are placing on enhancing IT performance over the next three years.



Source: IBM Business Consulting Services, The Global CEO Study 2004

What are the most significant external barriers to change faced by your organization?

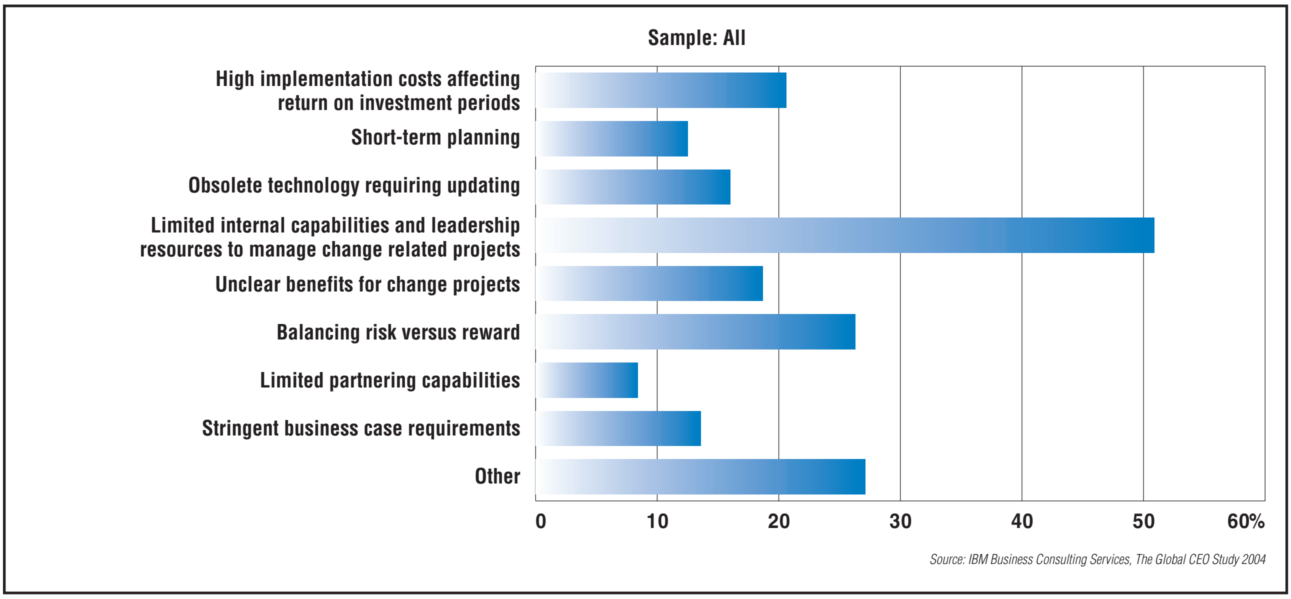
People and skills are not just seen as an internal barrier to change but an important external barrier. Other important external barriers are economic uncertainty and regulatory barriers.



Source: IBM Business Consulting Services, The Global CEO Study 2004

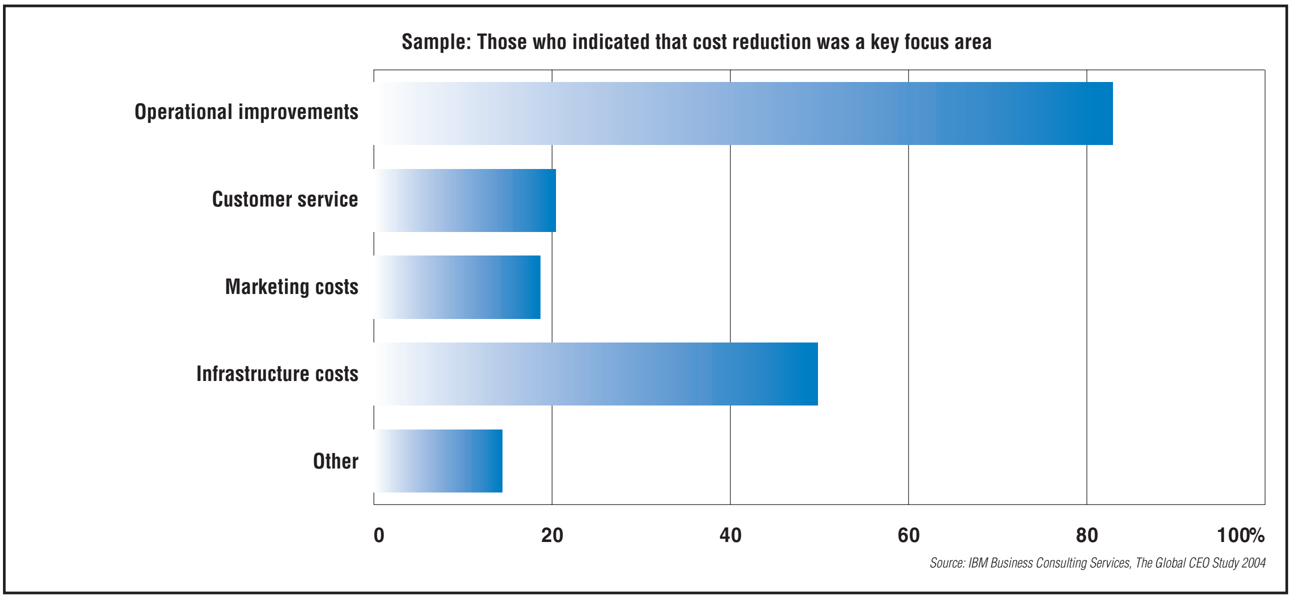
What are the most significant internal barriers to change faced by your organization?

Limited internal capabilities and leadership resources to manage change are seen as a major internal barrier to overcome.



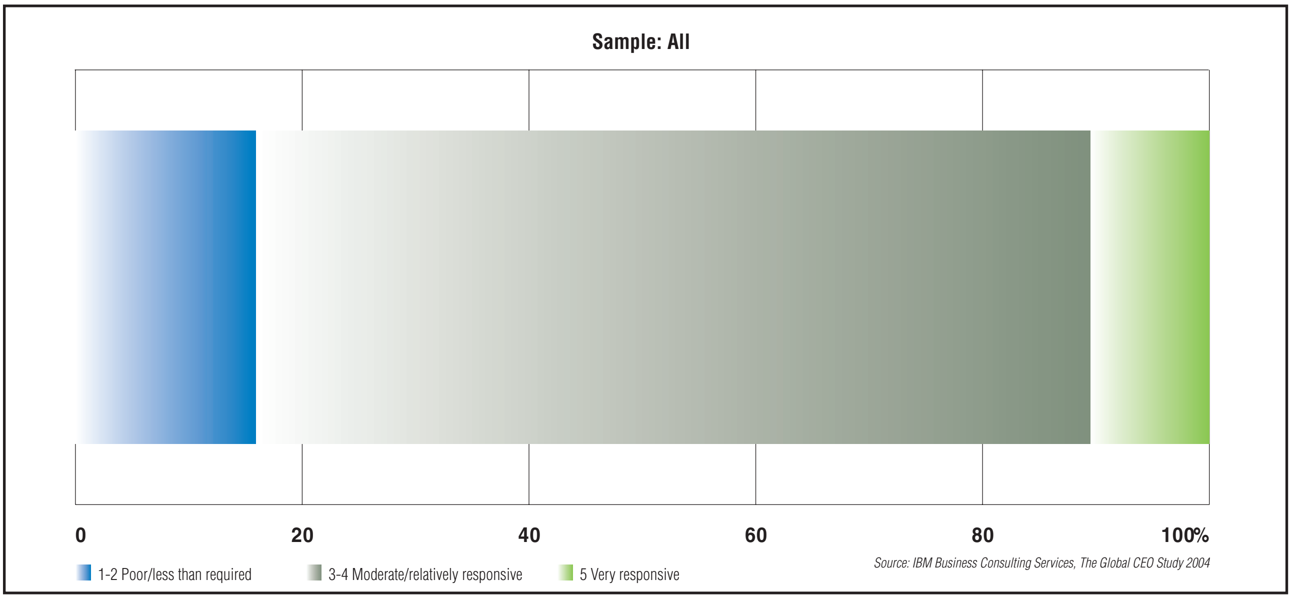
Which of the following areas offer your organization the greatest opportunity for cost reduction in the next three years?

CEOs' cost-cutting efforts are focused on operational improvements (83 percent) and infrastructure costs (50 percent). Only about one-fifth of CEOs see customer service or marketing as offering the greatest scope for cost reduction.

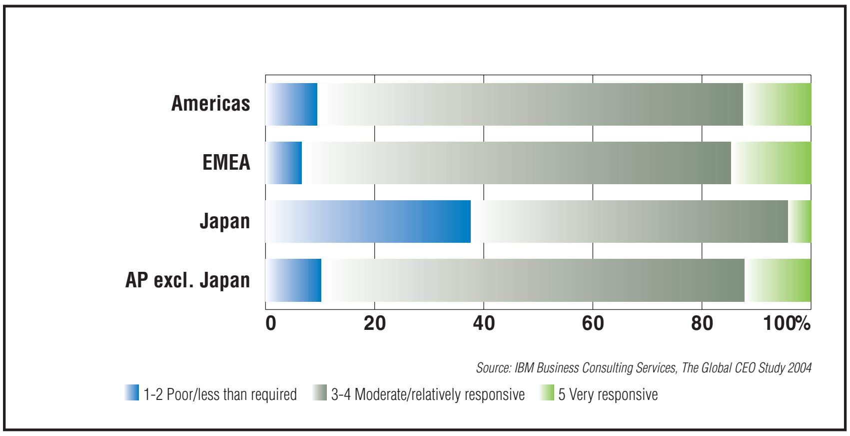


Overall how would you rate your organization's ability to respond to the three external forces you said would have the greatest impact on your business?

Only one in ten CEOs believe that their organization has the ability to be very responsive to their most critical external forces.

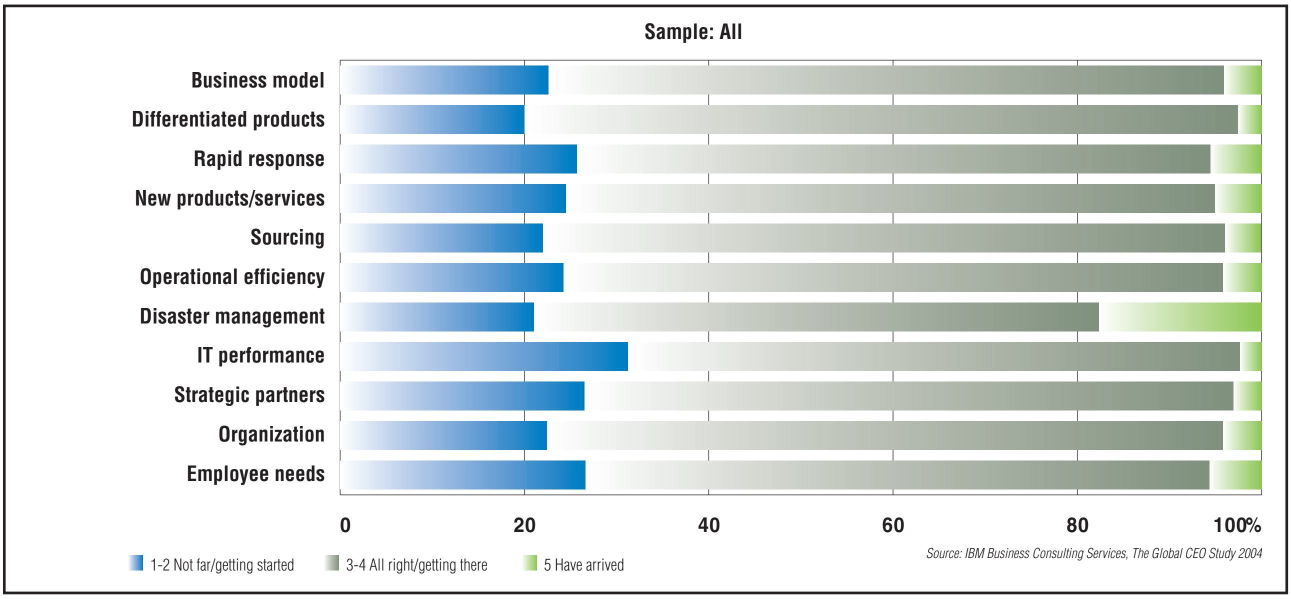


Geographical breakdown of the level of how CEOs rate their organization's ability to respond.

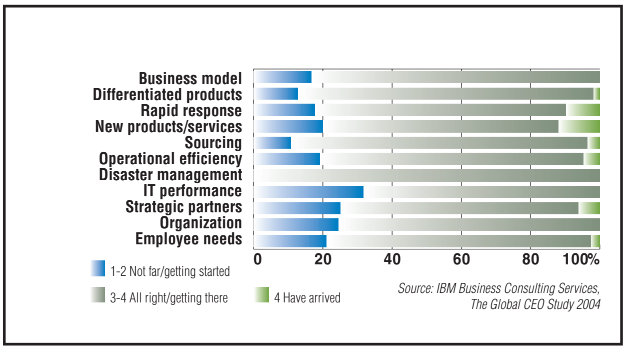


How far have you progressed against your goals for each of your main initiatives?

The majority of CEOs state that they have not arrived when it comes to making progress against the goals of their major initiatives. A significant number think that they are not far – or have not even started – at all.



Americas



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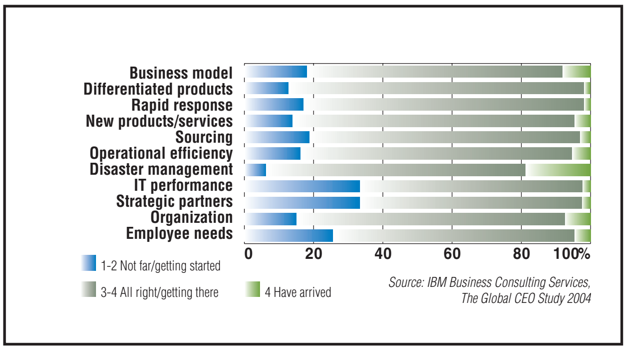
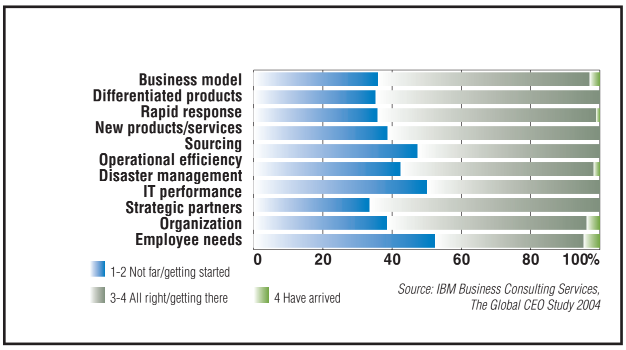
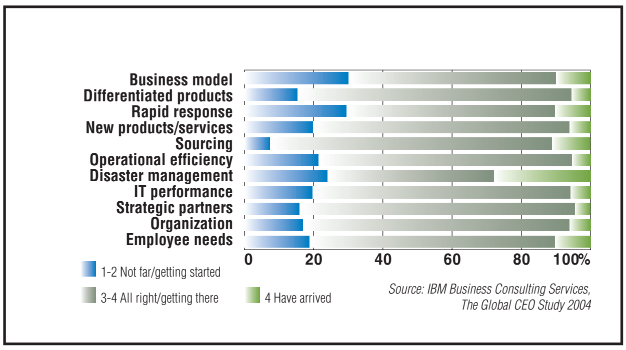


Japan

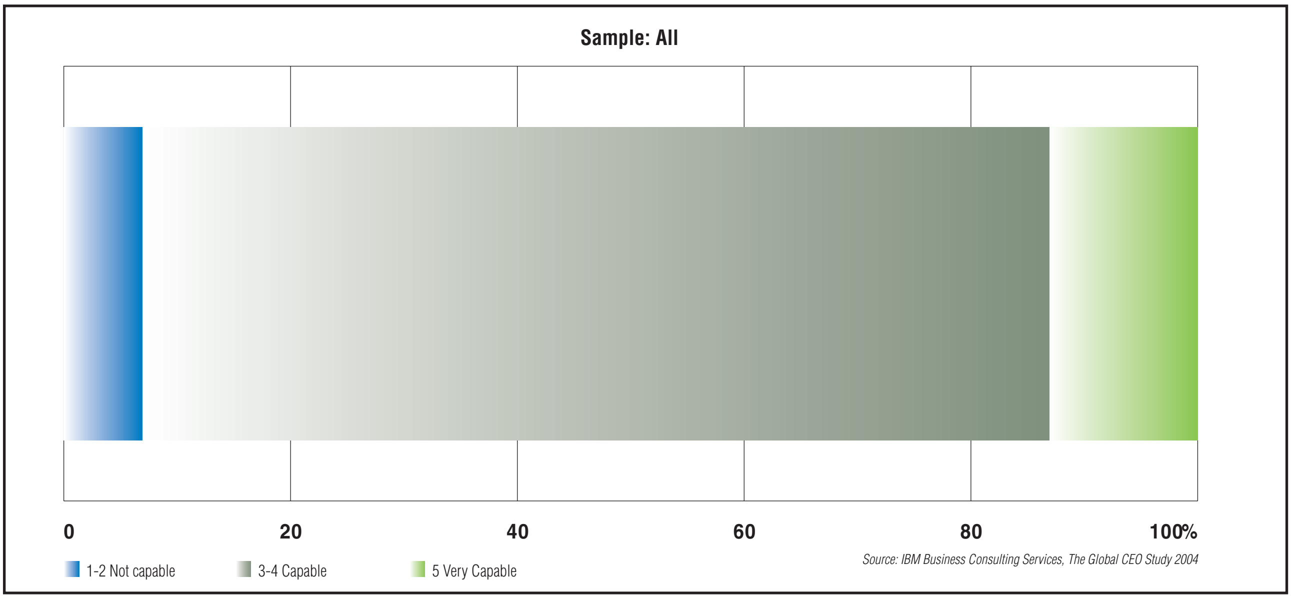


Asia Pacific (excluding Japan)

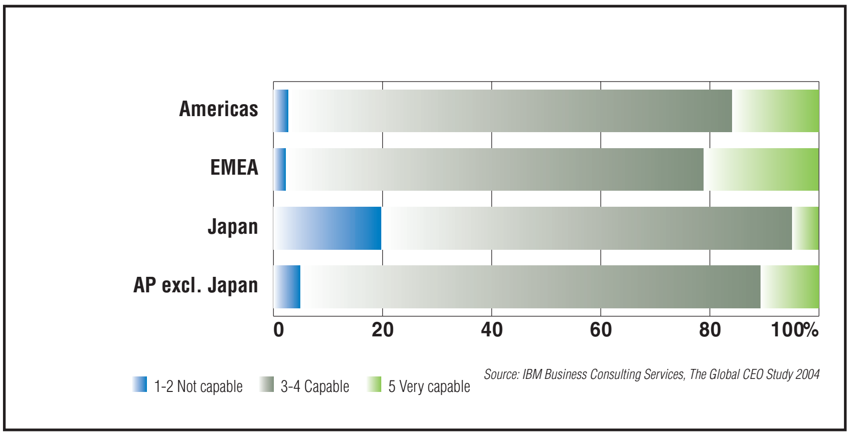


On a scale from 1 to 5, how would you rate your organization's ability to respond to continuously changing business conditions?

CEOs do not see a very strong capability within their organizations to respond to continuously changing business conditions.

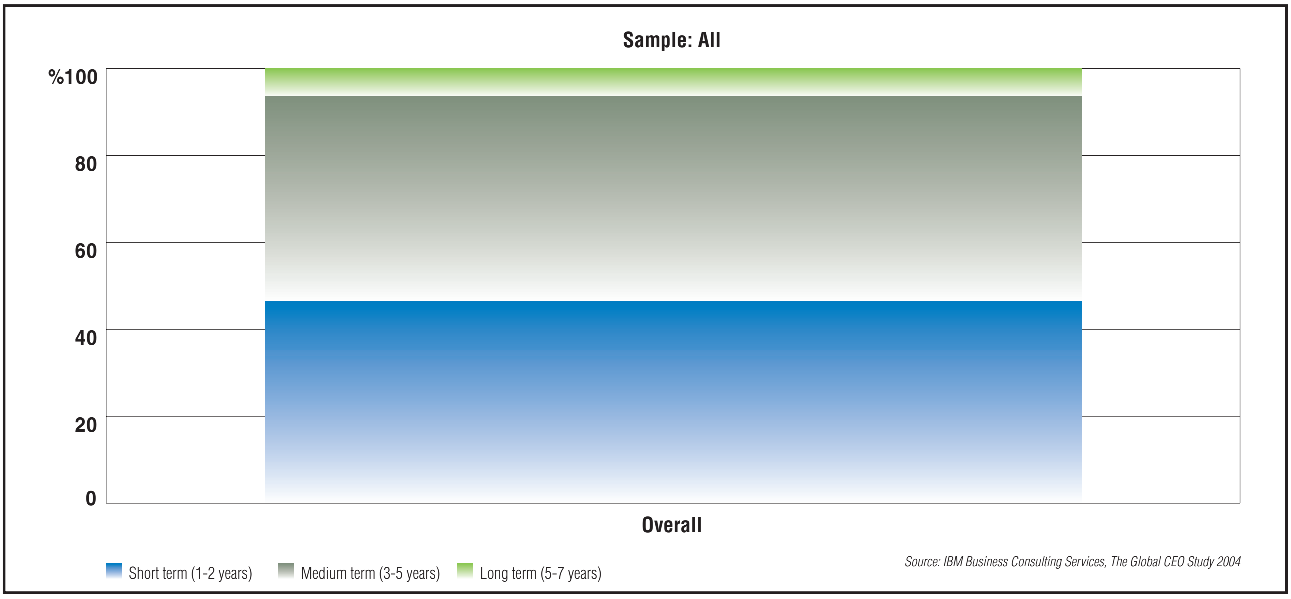


Geographical breakdown of how CEOs rate their organization's ability to respond to continuously changing business conditions.

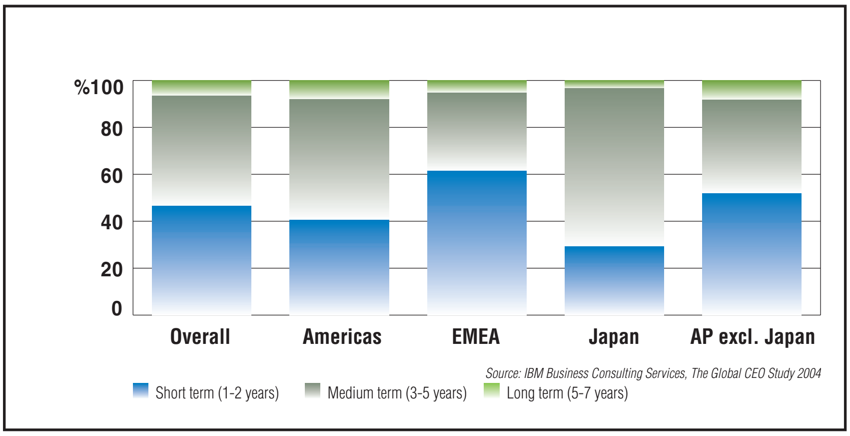


Over what time frame do you believe the goals of your change management program need to be achieved?

More than 90 percent of CEOs believe that their goals of the change management program need to be achieved in less than five years, and almost half of them within two years.

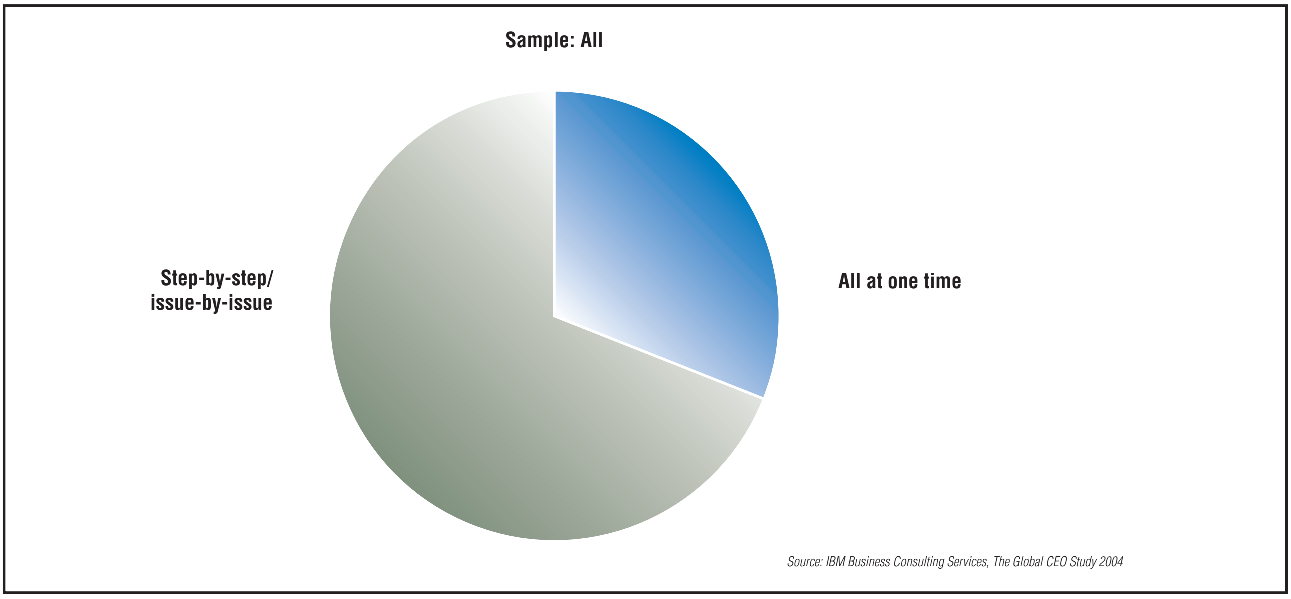


Geographical breakdown of the time frame in which CEOs believe that the goals of their change management program need to be achieved.



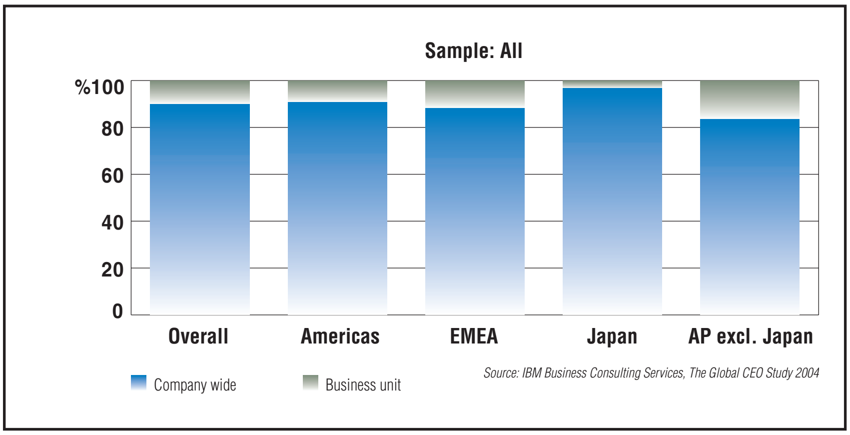
How do you plan to implement the transformation?

Over two-thirds of CEOs will implement their change management program on a step-by-step basis.



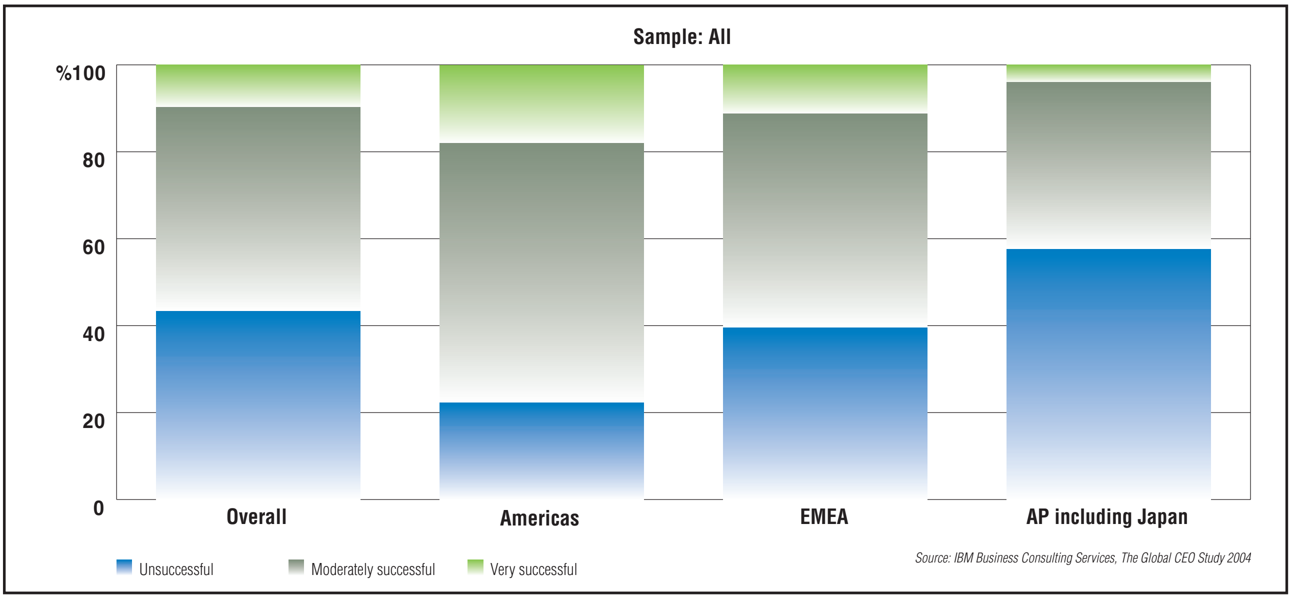
How broad do you expect the scope of this initiative to be?

Nine out of ten CEOs are implementing their transformation across the entire organization. Almost every CEO in Japan is doing this.



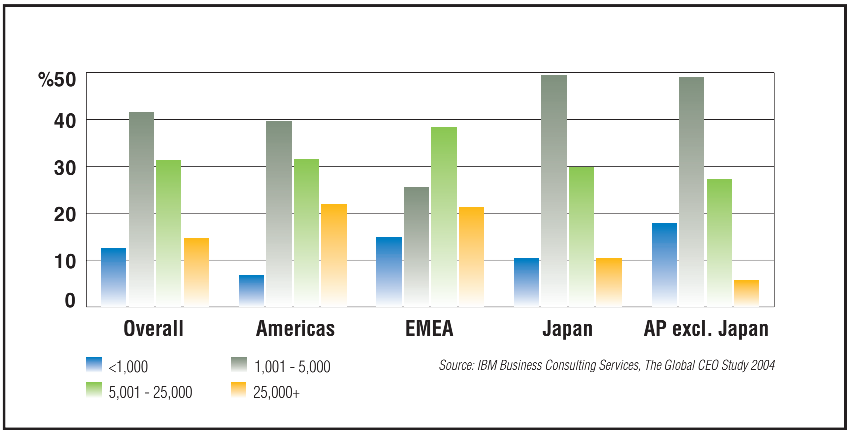
How would you rate your organization's record for managing change in the past?

Less than ten percent of CEOs rated their organization's record of change management as having been very successful.



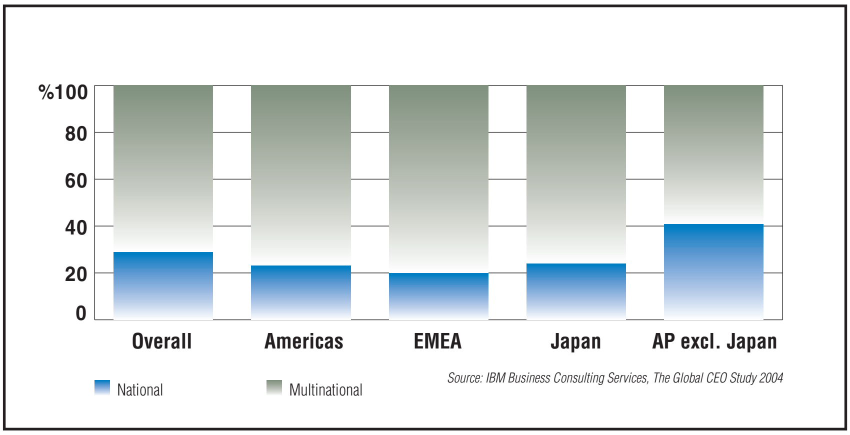
Number of employees

Of the overall sample:
12 percent employed less than 1,000 people;
42 percent employed between 1,001 and 5,000 people;
31 percent employed between 5,001 and 25,000 people;
15 percent employed more than 25,000 people.



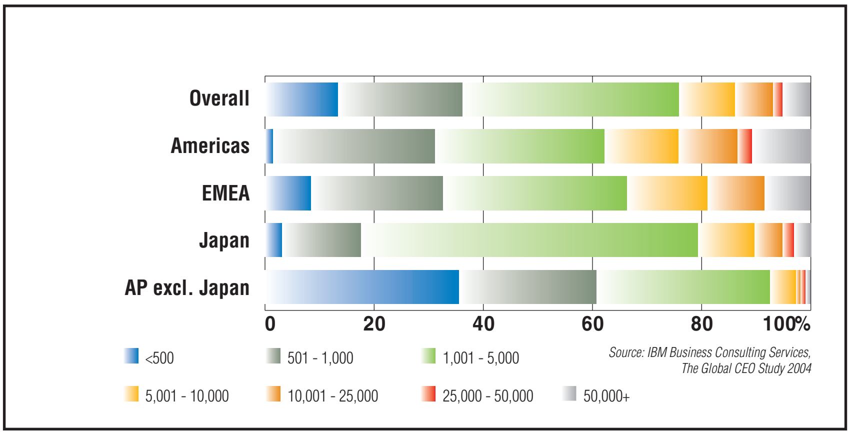
Market Participation

The overall sample was:
29 percent national;
71 percent multinational.



Participants

Business Turnover in millions, US$



Of the overall sample:
13 percent had less than $500m turnover;
23 percent had a turnover between $501m – $1,000m;
40 percent had a turnover between $1,001m – $5,000m;
10 percent had a turnover between $5,001m – $10,000m;
7 percent had a turnover between £10,001m – $25,000m;
2 percent had a turnover between $25,001m – $50,000m;
5 percent had a turnover in excess of $50,000m.

IBM contacts and continuing dialogue

This Study is based on in-depth research conducted by Strategy & Change as part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help organizations realize business value and helps us to build strategic dialogues with our clients.

About IBM Business Consulting Services
With consultants and professional staff in more than 160 countries globally, IBM Business Consulting Services is the world's largest consulting services organization. IBM Business Consulting Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues and the ability to design, build and run those solutions in a way that delivers bottom-line business value.

About IBM Strategy & Change
IBM Business Consulting Services offers one of the two largest Strategy & Change practices in the world. Strategy & Change fuses business strategy with technology insight to help organizations develop and align their business vision across four strategic dimensions – business strategy, operating strategy, organization change strategy and technology strategy – in order to help ensure survival and growth. Strategy & Change is recognized for its years of experience applying deep expertise in more than 17 industries to generate innovative and implementable strategies for leading organizations worldwide.

About The IBM Institute for Business Value
The IBM Institute for Business Value develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues.

Further Information
To find out more about this study or to speak with the Strategy & Change Leader from your region or industry, please send an e-mail to ceostudy@de.ibm.com

Americas

Eric Pelander
Partner
Strategy & Change Leader
Global & Americas

John Fursey
Partner
Strategy & Change Leader Canada

Marcelo Pontes
Partner
Strategy & Change Leader
Latin America

Asia Pacific

Grace Chopard
Partner
Strategy & Change Leader
Asia Pacific and ANZ

Ryuichi (Rio) Kanemaki
Partner
Strategy & Change Leader
Japan

Mark Camstra
Partner
Strategy & Change Leader
Greater China Group

Kemal Stamboel
Partner
Strategy & Change Leader
ASEAN

James Gordon
General Manager
IBM Business Consulting Services
Korea

Europe, Middle East & Africa

Matthias K. Hartmann
Partner
Strategy & Change Leader
EMEA

Steve Wood
Partner
Strategy & Change Leader
UK, Ireland, Netherlands & South Africa

Giovanni Sgalambro
Partner
Strategy & Change Leader
Italy, Spain & Portugal

Michel Vlasselaer
Partner
Strategy & Change Leader
France, Belgium & Luxembourg

Ulrik Jacobi
Partner
Strategy & Change Leader
Nordic Region

Dirk Siegel
Partner
Strategy & Change Leader
Germany, Switzerland, Austria, Russia & Eastern Europe

Chapter 5

...and now, it's your turn...

The Global CEO Study 2004 has revealed a remarkably consistent view of the key issues irrespective of geography or industry sector. We have reached a turning point; one that will generate challenges for individual CEOs and the organizations that they lead – hence the title of this study, Your Turn.

The return to revenue growth is the headline. A new degree of confidence is emerging among CEOs. This confidence is not unbridled, but tempered by a ferocious competitive environment and the continuing imperative to control and reduce costs. So how will organizations achieve growth? Our study indicates that it will principally come through new and differentiated products and by attacking new markets. It is now “your turn” to consider where profitable, managed growth features on your organization’s agenda.

Our study has shown us that CEOs have recognized that growth cannot be delivered without ever-improving customer responsiveness and organizations with realtime response capabilities. CEOs have also highlighted a clear awareness of the role that technology can play in building a more agile organization. It is now “your turn” to consider how to build responsiveness and agility into your organization.

CEOs have raised the alarm on skills and the key linkage between human capital and the growth agenda and an organization’s ability to differentiate itself and its products and services. CEOs have also identified some disturbing gaps between their organization’s aspirations regarding transformation and their ability to deliver. It is now “your turn” to consider how the people issues are impacting your organization and the actions you need to take going forward.

Growth; responsiveness; people and transformation: these factors are linked and connected. CEOs cannot focus on one to the detriment of another, as they are mutually reinforcing.

The Global CEO Study 2004 poses some tough questions. How will CEOs drive revenue growth while continuing to cut and contain costs? How will CEOs build greater responsiveness into their organizations? How will CEOs tackle the deficiencies in their organization’s skills, talent and leadership pool? This is the unfolding agenda. Now, it is “your turn.”

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BCZEE01056-4 (06/04) NM