THE CONFERENCE BOARD

C-SUITE CHALLENGE™ 2020

Collaborating to Compete

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Collaborating to Compete

by Charles Mitchell, Ilaria Maselli, Bart van Ark, Rebecca L. Ray, PhD, and Denise Dahlhoff, PhD

Executive Summary

A Complex Business Environment Calls for Collaboration: Insights for What's Ahead

The Conference Board's annual *C-Suite Challenge™ 2020* survey finds CEOs and C-suite executives believe that collaborating externally with nontraditional partners is critical to remaining competitive. Take for instance the Toyota Motor Corporation, currently the most profitable car maker on the planet, but one that, according to *The Wall Street Journal*, "doesn't feel it can face the future of the auto industry on its own" and has recently joined in a series of alliances with nontraditional partners and competitors—a strategy it calls "creating friends" to share the burden of technology investments.[1]

Our responding CEOs say their external collaboration strategies are driven by a desire for strategic growth, to reach new audiences and markets, and to increase profitability. But to reach their goals they must overcome obstacles that include finding the right partners, revamping their internal cultures to collaborate more effectively, and addressing cultural differences with the partners they do find.

It is worth the effort. Research by The Conference Board shows external collaboration—ranging from strategic alliances to joint ventures to crowdsourcing, including partnership between competitors, industry sectors, big and small firms, government, academia, customers, and communities—can create a business ecosystem that drives innovation outcomes that far exceed the scope of what any single sector or organization can achieve. While this type of collaboration can raise antitrust concerns among regulators, according to our survey, they are not seen as a significant barrier by CEOs and the C-suite.

Defining Collaboration

In our survey we define three types of external collaboration:

- **With traditional partners**: Sharing knowledge, information, targets, ideas, and goals with suppliers, vendors, and consultants to improve business performance.
- **With nontraditional partners**: Same as above, but with unconventional partners including those in related or complementary sectors, universities, think tanks, startups, and government.
- **With competitors**: Partnering with competitors to achieve common business objectives.

The Current State of External Collaboration

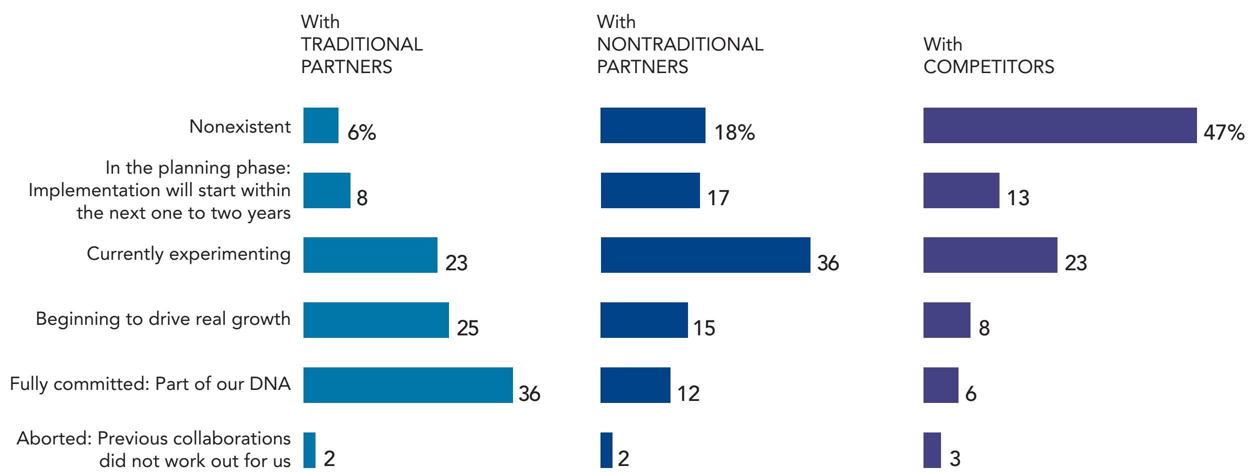
Few organizations currently view external collaborations with nontraditional partners, including competitors, as an embedded part of corporate strategy but, as external pressures mount, there is a trend toward greater experimentation.

While our survey identifies experimentation or planning to experiment with nontraditional partners as an emerging trend, a 2017 study by the Unilever Foundry, the company's collaboration platform, says around four out of five corporates (79 percent) and startups (78 percent) anticipate more collaborative work in the future and that startups believe they are up to the task, with almost nine in ten (89 percent) claiming they're able to deliver business solutions that can scale.[2]

Chart 1

While collaboration with traditional partners remains more common, experimentation with nontraditional partners and competitors is underway

To date, our collaboration initiatives are:



N=740

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

Questions to Help Create an External Collaboration Strategy

Embarking on a collaboration strategy with nontraditional partners and competitors requires asking some hard questions about an organization's basic operating assumptions, business models, available talent and skills, risk tolerance, and organizational culture. Here are eight questions that need to be asked to start the collaboration journey (go to page 18 for a more comprehensive list):

1. What might our industry look like in 5 to 10 years? How will we prepare for future scenarios?
2. Is our current business model sustainable? How can we serve our customers better and create greater value for them by collaborating externally and internally?
3. Who are our competitors? Who are our partners? Should some organizations be both? Can we leverage network economics to drive growth?
4. What capabilities are we missing that would be mission impossible to build from scratch?
5. How do we choose the right partner? Do we look for someone with a similar or complementary culture?
6. Do we have clarity around the opportunity a partnership provides? Are we clear about our own objectives and understand our partner's motivations and strategic interests? Does the operating plan truly capitalize on each other's strengths?
7. Have we clearly identified boundary conditions? Is it clear what's on or off the table, including intellectual property (IP) and access to customers?
8. Do we have the resources and commitment to take full advantage of the partnership? Do we understand the implications of not doing this deal?

Collaboration Drivers

CEOs use external collaboration to drive growth. Defensive strategies, including cost savings and protection against competitors, rate considerably lower.

Chart 2

Collaboration strategies are about growth

What are the objectives for your organization in pursuing external collaboration initiatives?

N=695

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

Improving sustainability performance is seen by CEOs, especially in China, as an important driver of external collaboration. The link between sustainability, strategic growth, expanding markets and increased profits is illustrated by the collaboration efforts of Procter & Gamble (P&G), which has established a model for fostering collaborative networks for innovation and sustainability. Its Connect+Develop model uses a technology-enabled platform to gain multistakeholder input (e.g., academics, customers, individuals, small and medium sized enterprises, startups) to co-create and crowd source. This approach has enabled P&G to establish more than 2,000 successful agreements with innovation partners, so that more than 35 percent of P&G's new products have elements that originated from outside P&G.

Confronting the Barriers to External Collaboration

CEOs see concerns about finding the right partner, an internal culture that fails to support and reward collaboration, and difficulties in overcoming cultural differences between organizations as the three greatest obstacles to collaboration in nontraditional partnerships.

Chart 3

Finding the right partner, a culture poor at collaborating, and cultural differences are top barriers to external collaboration

What are the top three barriers to implementing external (nontraditional partners and/or competitors) collaboration?

N=681

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

Selecting the right partners and getting the most from the alliance requires clarity around the opportunity, vision, and each other's values. Start with a partnership mindset—not just a strong desire to access the partner's technology or asset. Outline both partners' fields of interest and markets. It is important to understand a partner's culture (both their business culture and, in the case of international partnerships, their national culture) from the start because it will influence how strategic decisions are made. Look at the deal from the partner's point of view. If the partnership leverages your core business but is only an adjacent one for your partner, the partner may lose interest. Find out how the partner has worked previously with partners like your organization.

Developing and executing an external collaboration strategy, especially with nontraditional partners, requires patience and a longer-term view. For this reason, strategies and approaches used in digitally transforming an organization can be applied to improving external collaboration efforts. Many CEOs say they have yet to see an adequate return on their investments in collaboration with nontraditional partners. Organizations most often do not receive an immediate payoff from their investment of time and resources. In this way, like digital transformation strategies, collaboration requires a myriad of internal changes, including a more open and transparent culture, changes in risk tolerance, new employee and leadership skills, and a compensation system that rewards collaborative behaviors.[3] For executives responsible for collaboration, it is important to effectively communicate the longer term benefits, especially less tangible ones that go beyond the bottom line, to the CEO and C-suite colleagues.

Since existing corporate policies regarding intellectual property, compensation, and information-sharing can become obstacles to effective external collaboration, CEOs can increase returns on external collaborations by prioritizing the multifaceted complexity of internal cultural issues.

CEO and human capital (HC) executives differ significantly when they rank barriers to external collaboration. While human capital executives are concerned about how corporate culture will affect collaboration, CEOs take a more external, bigger picture view of the barriers. For example: HC executives rank *risk averse organizational mindset* as the second biggest barrier (tied with *partner identification*), while CEOs place it eleventh. For HC executives, *resistance from business units* and *unwillingness of management to give up current business model and products* are tied for fourth, but CEOs rank them twelfth and thirteenth, respectively. Given the importance of an organization's culture to the success of external partnerships, this disparity suggests that CEOs should increase their understanding of the fundamental internal changes and structures necessary for the organization to become an effective collaborator. The disparity raises questions about how well HC executives are communicating the difficulty and time required to execute the internal transformation.

For a company to gain meaningful value from collaboration, it must create a culture that values it.

Building a Collaborative Organization

CEOs and C-suite executives believe a highly collaborative organization establishes clearly shared goals and objectives, practices open and transparent communication, builds trust, and creates highly engaged teams. When it comes to the skills, traits, and competencies their organizations need to become better collaborators, they think leaders and employees should think strategically, communicate effectively, and focus on customer needs.

All in all, creating a collaborative culture requires a reconsideration and redesign of traditional rewards and compensation systems. Both CEOs and C-suite executives seem to have doubts that their existing reward and recognition systems support a collaborative culture. Also, people respond to clearly defined goals and an overarching purpose. Collaboration is effective only if goals are evident and employees understand that it will benefit a cause larger than any individual.

Chart 4

Clear goals, communication, and trust define an internally collaborative organization

Survey participants were asked to identify the top three traits that define an internal collaboration environment. Here are their top six choices.

N=681

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

A checklist for successful collaboration with nontraditional partners[4]

- √ Senior management is proactively involved on an ongoing basis. Their actions demonstrate the importance of the alliance.
- √ The right talent is in place. The key people assigned have strong expertise and collaboration skills. There is sufficient staffing on both sides.
- √ Objectives and goals are understood and adjusted when circumstances change.
- √ Roles, responsibilities, and expectations are clear and are revisited regularly. Both parties should contribute to the partnership's mission in unique ways.
- √ Communication is robust. Frequent and collaborative communication takes place between all the work groups—vertical and horizontal, formal and informal.
- √ Work systems are aligned, including email, safety data, budgeting, quality assurance, and forecasting.
- √ Conflict resolution is constructive. Issues are recognized early and dealt with immediately according to established principles.

A Complex Business Environment Calls for Collaboration: Insights for What's Ahead

According to The Conference Board's *C-Suite Challenge*™ *2020* survey, intensifying competition and the creation of new business models in response to disruptive technology are two of the most critical issues CEOs and C-suite executives say their organizations will face in 2020. Today, amid the disruptive impacts and the transformational speed of digital technologies, as well as the rapid emergence of new competitors, few organizations are likely to have the internal knowledge or the resources to ensure future success. The external and internal boundaries that once delineated (and in some cases protected) a company from the volatile world around it, and helped to manage and coordinate the inflow, outflow, and crossflow of resources, ideas, and information, can now work against an organization's agility and resiliency.

Our survey finds CEOs and C-suite executives believe that collaborating externally with nontraditional partners is critical when it comes to their organization's ability to remain competitive. Partnerships between competitors and big and small firms, with government, academia, customers, and communities and across industry sectors can create a business ecosystem that drives innovation outcomes that far exceed the scope of what any single sector or organization can achieve. Take for instance the Toyota Motor Corporation, currently the most profitable car maker on the planet, but one that, according to *The Wall Street Journal*, "doesn't feel it can face the future of the auto industry on its own" and has recently joined in a series of alliances with nontraditional partners and competitors—a strategy it calls "creating friends"—to share the burden of technology investments.[5]

Traditionally, companies have viewed competition as a zero-sum game where one's success most often comes at the cost of another's failure. But the speed and scale of change require a faster, more complex, more nuanced, and more holistic response. In sum, the C-suite believes that thinking more strategically is the most important skill organizations need to improve both internal and external collaboration.

The Pendulum of Competition and Collaboration: **What is the Right Balance?**

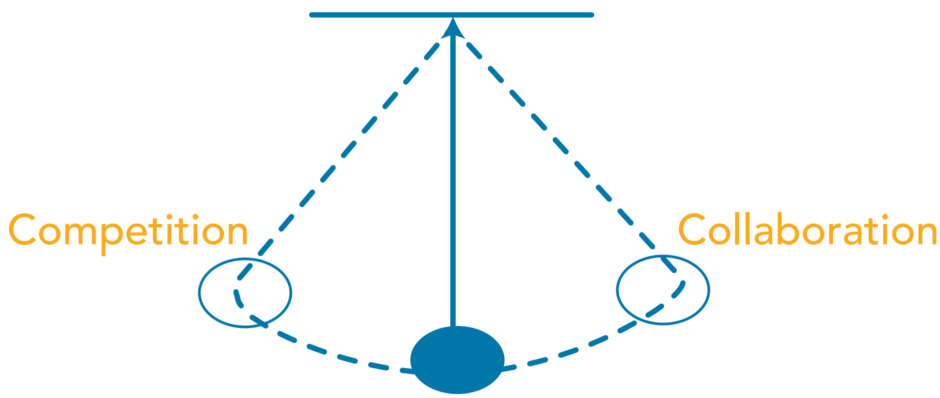
Strengthening collaboration while being alert to competition and remaining agile enough to quickly change course if market conditions demand is a difficult balancing act. Companies will at times have to raise barriers to protect the firm and its intellectual property, and at other times tear down the walls to encourage innovation.

This balancing act raises important questions. What is the right balance between financial value and societal impact? Does the speed required to reach new markets with new products also require greater internal collaboration and flatter organizations with decentralized decision-making processes? Can a vertical build lead to faster growth than an acquisition mindset?

Chart 5

The pendulum is swinging, from competition to collaboration.

What is the right balance?



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

Considering the entire ecosystem requires companies to maintain an open mind when choosing between building or buying, whether the choice involves technology, marketing expertise, or talent and skills. Where the pendulum swings probably depends on each company's sector and geography.

About the Signposts of Innovation

Collaboration is a critical part of a company's innovation strategy. In The Conference Board's "Signposts of Innovation" model, the external innovation system is one of the six signposts that drives an organization's results from innovation.

The Signposts of Innovation Framework identifies six key areas (research and development, digitization, customer experience and branding, environmental and social sustainability, internal innovation culture, and external innovation ecosystem) and provides guidance on the innovation metrics that may be developed to populate each one. Please visit https://www.conference-board.org/future-of-innovation/ for regular updates on this project.

Setting the Business Context: **The CEO View of Risk and Opportunity for the Year Ahead**

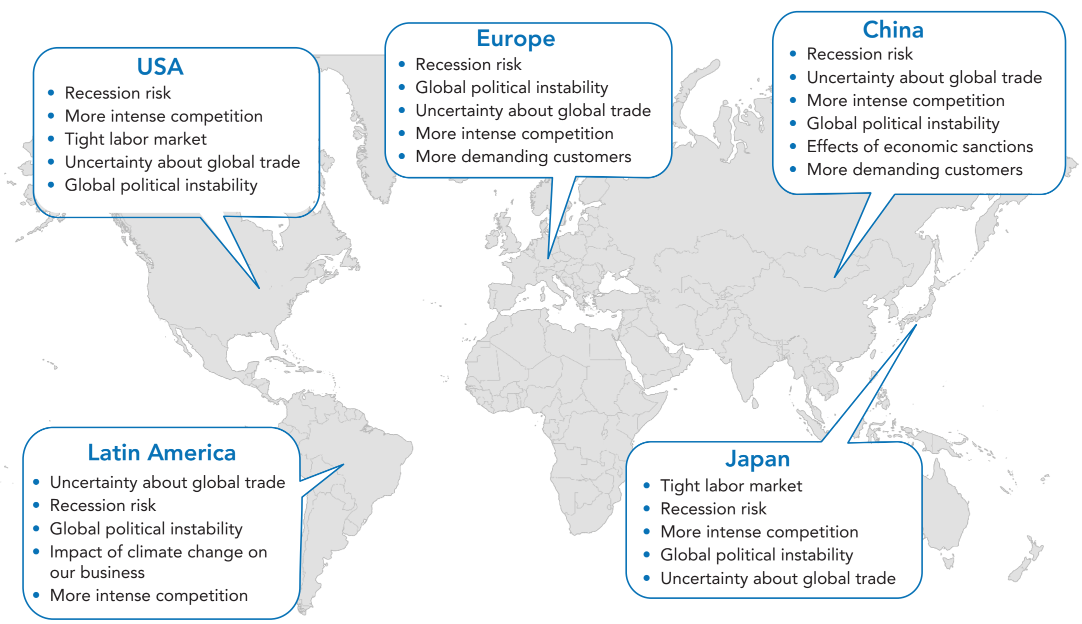
As part of *The Conference Board C-Suite Challenge*™ survey, we ask CEOs and C-suite executives to identify "hot-button issues" they believe will require a special focus in the coming year. For the full report on the hot-button issues ahead for 2020 see: *C-Suite Challenge™ 2020: Risks, Opportunities, and Hot-Button Issues*.

External Hot-Button Issues

For the second consecutive year, recession risk is the top external concern for CEOs globally—a view also shared by other C-suite executives, including CFOs. Just two years ago, in 2018, global recession was barely on the minds of CEOs—it ranked a lowly nineteenth on a list of 28 combined external and internal hot-button issues. Today's heightened recession concerns are amplified by what CEOs see as continued uncertainty around global trade, global political instability, tightening labor markets (which themselves can be significant restraints on business growth), more demanding customers, and growing risk around cybersecurity and data use and protection.

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

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



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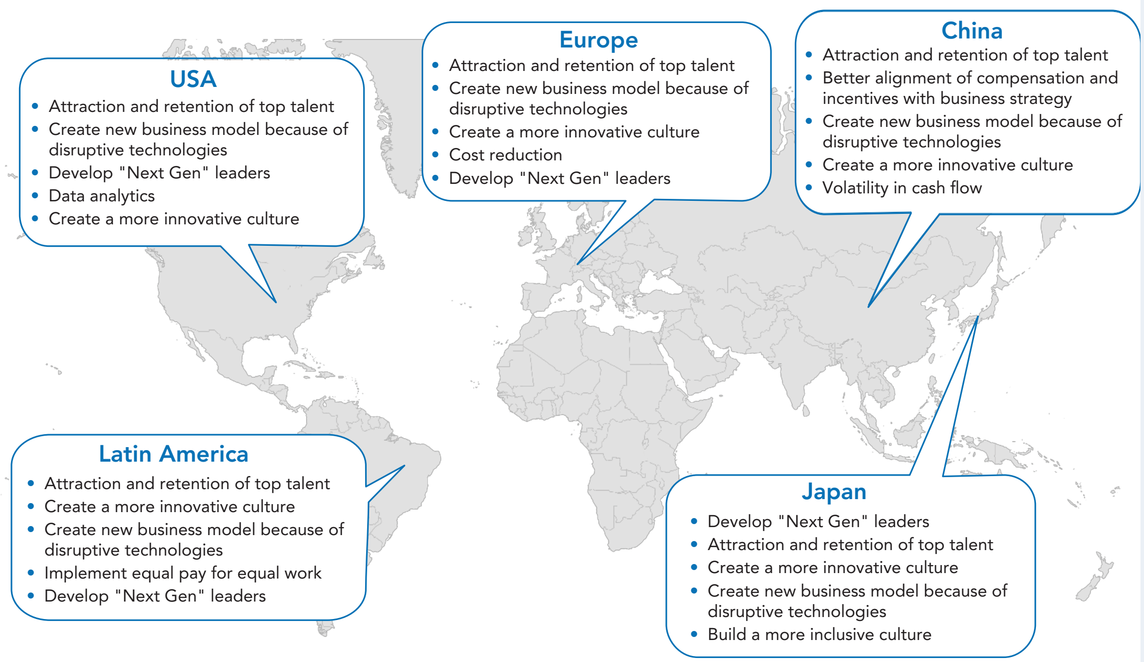
Source: The Conference Board *C-Suite Challenge™ 2020*

Internal Hot-Button Issues

Concerns about talent and skills shortages, disruptive technologies, and building an innovative culture to nurture talent are top internal stress points CEOs say their organizations face in the coming year. Other concerns include developing Next Gen leaders and (with the risk of recession top of mind) controlling costs, which ranks fifth globally but no lower than eighth in any single country or region.

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

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



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

Who's Collaborating with Whom: The Current State and Benefits of Collaboration

Despite the urgency and growth opportunities, few organizations currently view external collaborations with nontraditional partners as an embedded part of corporate strategy or driving real growth

Defining Collaboration

In our survey we define three types of external collaboration:

- **With traditional partners**: Sharing knowledge, information, targets, ideas, and goals with suppliers, vendors, and consultants to improve business performance.
- **With nontraditional partners**: Same as above, but with unconventional partners including those in related or complementary sectors, universities, think tanks, startups, and government.
- **With competitors**: Partnering with competitors to achieve common business objectives.

Table 1

Examples of collaborations with nontraditional partners

External collaboration with nontraditional partners	External collaboration with competitors
Unilever created an entire ecosystem of diverse partners to address an urgent sanitation problem affecting more than 600 million poor Indians. It acted as a partner with nongovernmental organizations, banks and schools to create a profitable market for cleaning products in rural India. At the same time, it was lifting women from poverty with microloans and jobs, improving sanitation, and enhancing public health awareness through educational campaigns.	General Motors is partnering with Honda to speed up the deployment of self-driving cars to major cities in 2019. Honda will contribute about $2 billion over 12 years to the partnership and will finance a $750 million equity investment in Cruise, GM's self-driving car.
In 2015 Apple collaborated with the fashion brand Hermes to style the Apple Watch.	Google supported Mozilla (Firefox web browser), a rival to Google Chrome, in order to limit the expanding influence of Microsoft Internet Explorer and Apple Safari.
In 2011, haute couture brand Versace collaborated with H&M to create a more affordable version of its collection.	Harvard University and MIT formed EDX, a not-for-profit organization that provides free online courses, each investing USD 30 million.
The Roundtable on Sustainable Palm Oil is a not-for-profit that unites stakeholders of the palm oil industry. It was founded to minimize the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions. It has more than 4,000 members worldwide who represent all links along the palm oil supply chain.	Pharmaceutical giants US-based Pfizer Inc and German-based Merck KGaA entered a strategic partnership that combines their complementary strengths with the goal of meeting the needs of patients with multiple types of cancer and to bring new cancer treatments to market faster. The Alliance for Bangladesh Worker Safety is a group of 28 global apparel companies, retailers and brands that recognized the urgent need to rapidly improve working conditions for garment industry workers and that joined together to help improve worker safety in Bangladeshi ready-made garment factories.

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

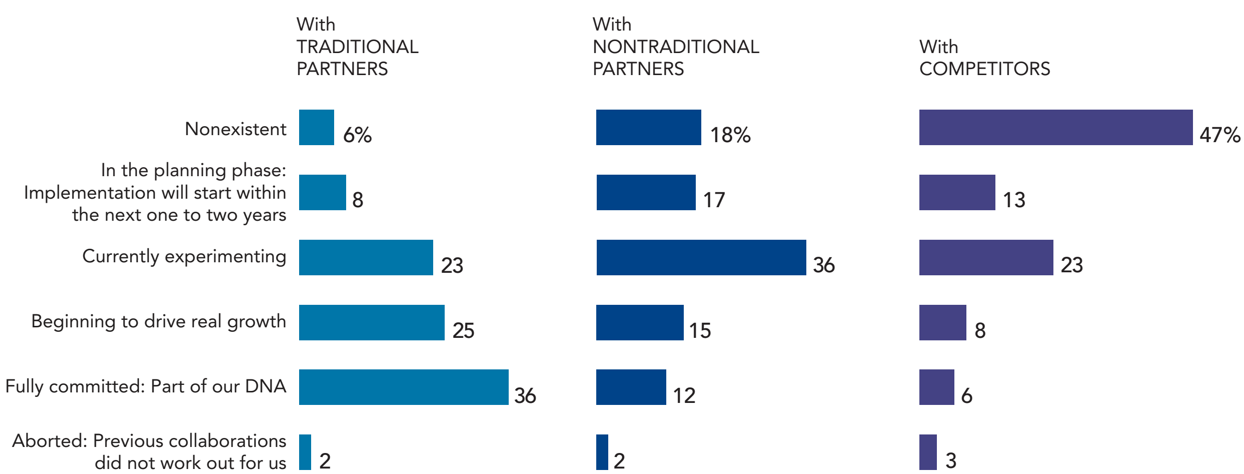
While 60 percent of CEOs say external collaboration with **traditional partners** such as suppliers, vendors, and consultants is either part of their organization's DNA or beginning to drive real growth, the commitment to collaboration with **nontraditional partners** is still emerging. Only 27 percent of CEOs say collaboration with **nontraditional external partners** from such areas as complementary industry sectors, academia, startups, and government is either part of their organization's DNA or beginning to drive growth, but more than a third (36 percent) say their organizations are experimenting with this type of external collaboration. Although partnerships with competitors receive media attention, half of responding CEOs say they are either nonexistent at their organizations (47 percent) or have been aborted because of failure (3 percent). Just 14 percent of CEOs say such partnerships are either part of their organization's DNA or beginning to drive real growth.

While our survey identifies experimentation or planning to experiment with nontraditional partners as an emerging trend, a 2017 study by the Unilever Foundry, the company's collaboration platform, predicts that collaboration with startups will become a necessity for corporates by 2025 and beyond. It says around four out of five corporates (79 percent) and startups (78 percent) anticipate more collaborative work in the future and startups believe they are up to the task, with almost nine in ten (89 percent) claiming they're able to deliver business solutions that can scale.[6]

Chart 6

While collaboration with traditional partners remains more common, experimentation with nontraditional partners and competitors is underway

To date, our collaboration initiatives are:



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

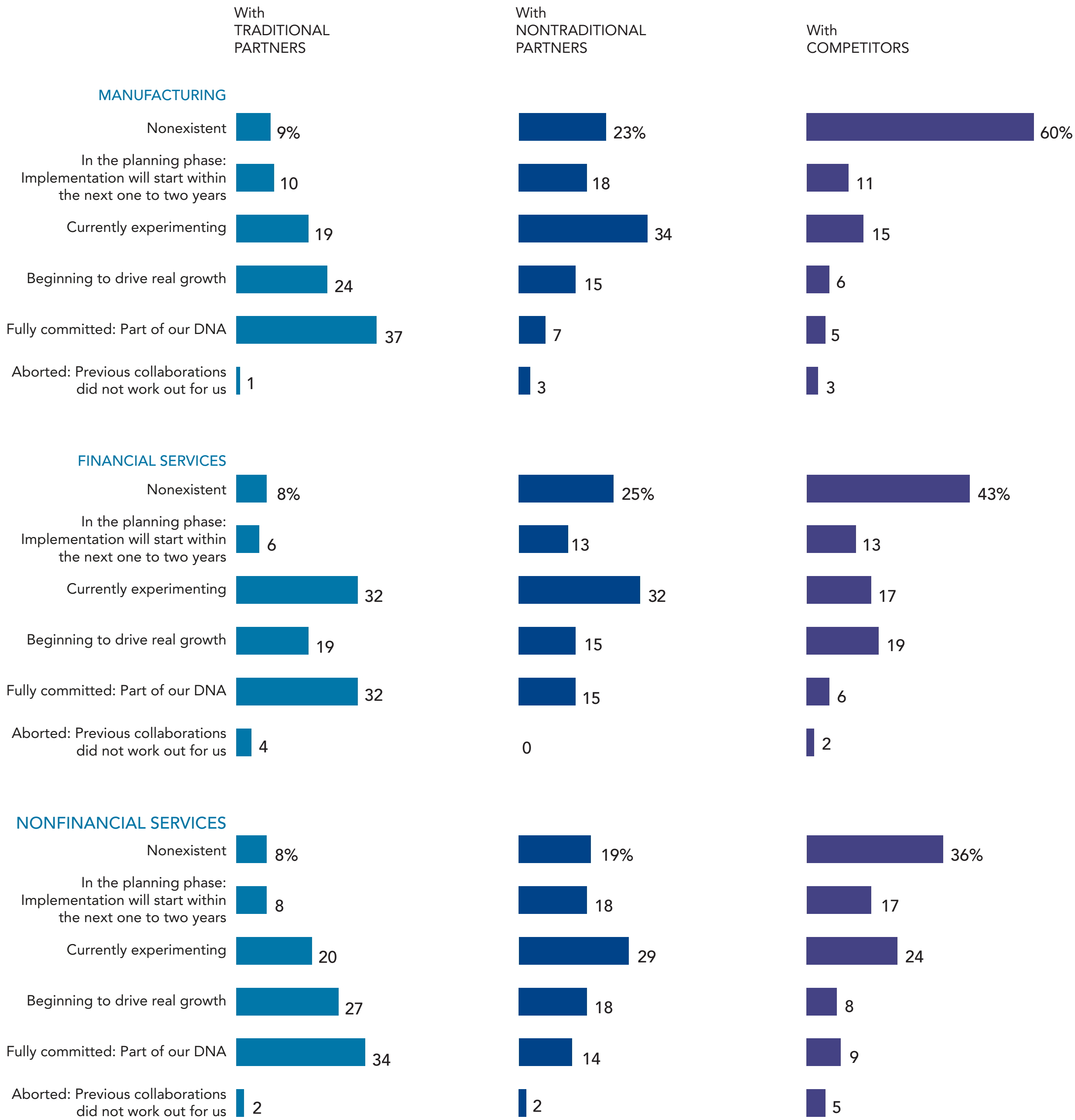
Organizations in both the financial services and nonfinancial services sectors are more aggressive than manufacturing firms when it comes to external collaboration with competitors. One quarter of CEOs in the financial services sector say such collaboration is either beginning to drive real growth or their organizations are fully committed to pursuing it, compared to just 11 percent of manufacturing CEOs. A total of 30 percent of financial services CEOs and 41 percent of nonfinancial services CEOs say their organizations are either currently experimenting with or are in the planning phase of collaborating with competitors. Just 26 percent of manufacturing CEOs say that is the case for their organizations.

Based on a sample of 990 C-suite responses from around the globe, CEOs are more likely to be open and engage in collaborative initiatives with competitors relative to CFO, HC, or other C-suite executives. In addition, business leaders from the services sector are approximately 10 percentage points more likely to pursue external collaborations with nontraditional partners than those in either the manufacturing or nonfinancial services sectors.

Further analysis suggests that on average, business-to-consumer (B2C) companies are approximately 7.2 percentage points more likely to collaborate with a competitor than are business-to-business (B2B) companies. B2C companies are also more likely to collaborate with nontraditional partners.

Chart 7

Organizations in both the financial services and nonfinancial services sectors are more aggressive than manufacturing firms when it comes to external collaboration with competitors



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

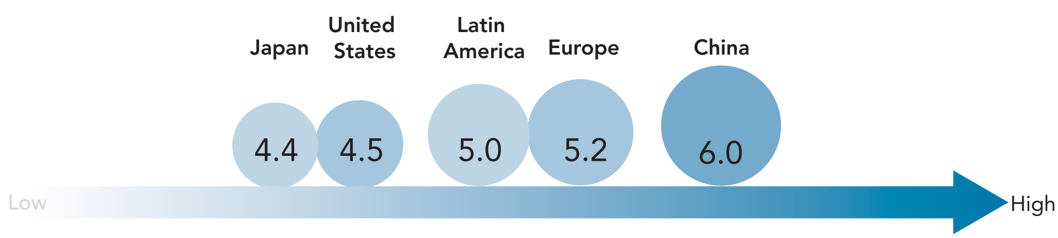
The Confidence Case for Collaboration

Our responding CEOs have a strong belief that their organizations cannot succeed in the future *without venturing into external collaboration with nontraditional partners*. They were asked to rate their confidence levels about issues related to collaboration on a scale from 1 (low) to 10 (high). The statement "we can succeed in the future without collaborating externally with nontraditional partners" received the lowest confidence score, just 5.0 out of 10 from CEOs globally. CEOs in Japan (4.4), the United States (4.5) and from the largest companies in our sample (those above USD 5 billion in revenue) (4.6) are below the global average. CEOs in China are the most confident, with a 6.0 level, still considered a relatively modest level of confidence.

Chart 8

CEOs are sceptical that they can succeed in the future without collaborating with nontraditional partners

On a scale from 1 (low) to 10 (high), how confident are you that you can succeed in the future without collaborating with nontraditional partners?



N=647

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

As noted, one of the most underutilized types of collaboration is between **competitors**, but 23 percent of responding CEOs do say their organizations are experimenting with this type of "frenemy." This collaboration can raise concerns around antitrust issues among regulators but, according to our survey, CEOs and the C-suite don't see them as a significant barrier.

Questions to Help Create an External Collaboration Strategy

Embarking on a collaboration strategy with nontraditional partners and competitors requires asking some hard questions about an organization's basic operating assumptions, business models, available talent and skills, risk tolerance, and organizational culture. Here are questions that organizations should address to start the collaboration journey:

The market environment

- What are key trends in our target markets and in our competitive landscape?
- What kinds of companies in our industry—as well as adjacent and seemingly unrelated industries—are growing the most?
- What might our industry look like in 5 to 10 years? How will we prepare for future scenarios?
- Is our current business model sustainable? How can we serve our customers better and create greater value for them by collaborating externally and internally?
- Who are our competitors? Who are our partners? Should some organizations be both? Can we leverage network economics to drive growth?
- What capabilities are we missing, including access to game changing technology, that would be mission impossible to build from scratch?
- How can partners help us attract a new target audience/market?
- How can we transform our product into a service? What partner would make it possible?

Creating the partnership

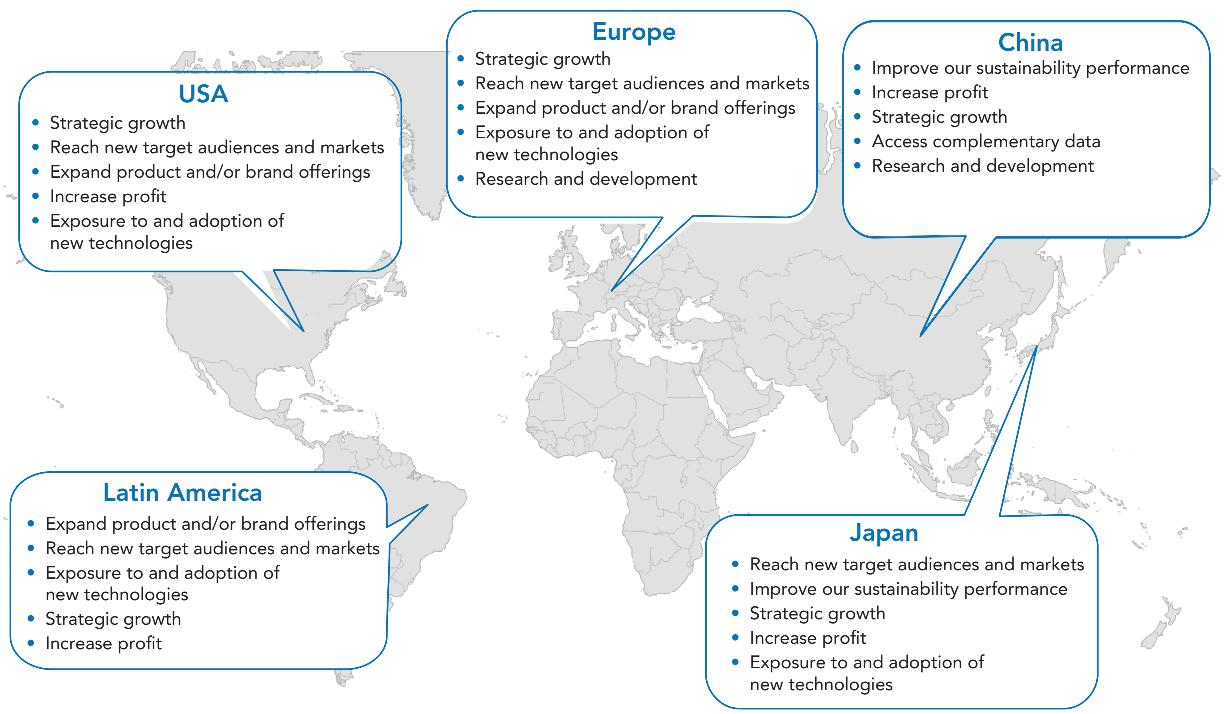
- How do we choose the right partner? Is a similar or complementary culture important?
- Do we have clarity around the opportunity a partnership provides? Do we understand our own objectives as well as our partner's motivations and strategic interests? Does the operating plan truly capitalize on each other's strengths?
- How well do we understand our partner's culture (both internal business culture as well as their national culture if it would be an international partnership), given the impact it will have on how each side makes strategic decisions?
- Have we clearly identified boundaries? Is it clear what's on or off the table, including intellectual property (IP) and access to customers? Do we know how we would protect our interests if we were to leave the partnership?
- Do we have the resources and commitment to take full advantage of the partnership? Do we understand the implications of forging this deal?
- Can we succeed at building trust before issues crop up or a potential disaster happens? Are we committed to putting in time to build relationships in the beginning while everyone is still excited about the novelty and potential of the partnership?
- How much human and financial resources do we want to devote to the partnership?

Internal issues

- Do our leaders have the vision, knowledge, skills, and courage to lead a truly collaborative organization and manage nontraditional partnerships? Do our employees have the strategic thinking skills and resilience to understand and embrace this new way of working?
- Does our current structure facilitate external and internal cross-functional collaboration, decentralized decision making, agile innovation, self-organizing teams, and embracing unconventional partners?
- What people, positions and skills, etc., will we need to collaborate? How can we get them? What new roles might we need to execute our future strategy? Is our rewards and compensation system in line with our new direction?

Strategic growth, opening to new markets, and product expansion are key elements for pursuing collaboration initiatives with external partners.

What are the objectives for your organization in pursuing external collaboration initiatives? (Select no more than three)



N=633

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

For CEOs, collaboration strategies are about driving growth and expanding markets; C-suite executives, especially those in human capital, are seeking access to new technologies. Defensive strategies, including cost savings and protection against competitors, rate considerably lower.

There is ample evidence that collaboration can propel real growth. A 2019 report by Forrester Consulting found that external partnerships in companies with well-developed partnership programs (high-maturity companies) contributed an average of 28 percent of overall company revenue compared to 18 percent for low-maturity companies (those with limited partnership programs). High-maturity companies also reported nearly two times faster revenue growth at the company level (30 percent versus 16 percent to 17 percent), than low-maturity companies.[7]

Table 2

There is clear evidence of disparities in opinions between CEOs and HC executives regarding the factors driving external collaboration strategies

What are the objectives for your organization in pursuing external collaboration initiatives? (Select no more than three)

	CEOs
Strategic growth	1
Reach new target audiences and markets	2
Increase profit	3
Expand product and/or brand offerings	4
Improve our sustainability performance	5
Exposure to and adoption of new technologies	6
Research and development	7
Cost savings	8
Access complementary data	9
Improve our organization's contribution to society	10
Culture transformation	11
Secure specific talent and fill skill gaps	12
Protection against a competitor	13
Other	14

N=695

HC Executives	
T-1	Exposure to and adoption of new technologies
T-1	Strategic growth
3	Culture transformation
T-4	Improve our sustainability performance
T-4	Reach new target audiences and markets
T-6	Improve our organization's contribution to society
T-6	Secure specific talent and fill skill gaps
T-8	Access complementary data
T-8	Increase profit
10	Expand product and/or brand offerings
11	Research and development
12	Cost savings
13	Protection against a competitor
14	Other

N=91

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

However, while C-suite executives are generally aligned with CEOs on the top collaboration drivers there is one major exception: C-suite executives place considerably more emphasis on *exposure to and adoption of new technologies* as a reason for seeking external collaboration. HC executives rated it as their organization's top objective (tied with *strategic growth*), while C-suite executives overall ranked it second. CEOs place it further down their list at number six.

The reasons may be twofold: Since the HC function is expected to focus on strategic capabilities across the organization, those executives may have clearer vision than other C-suite executives of the technology gaps plaguing the entire enterprise and individual business units. Also, as companies' structure and ways of working become more fluid, the organization may recognize that the HR function itself lacks the necessary technology to do its own job better or support a more collaborative corporate strategy. One way to fill that gap is through external collaboration with nontraditional partners.

As organizations, especially larger ones, seek partners, they should focus on ones that are using technological innovations that can change their industries. Even if these solutions aren't quite market-ready, the key is the potential they represent. Once they are working together, the organizations can share the burden of additional trouble-shooting and development.[8]

Improving sustainability performance is seen by CEOs, especially in China, as another important driver of external collaboration, propelled by interests in both potential growth strategies and compliance risk. Globally, CEOs chose *improve our sustainability performance* as a top five driver of external collaboration, with CEOs in China ranking it as their number one driver, and CEOs in Japan placing it second.

The collaboration efforts of Procter & Gamble (P&G) illustrate the link between sustainability and strategic growth, expanding markets, and increased profits. The company has established a model for fostering collaborative networks for innovation and sustainability. Its Connect+Develop model uses a technology-enabled platform to gain multistakeholder (e.g., academics, customers, individuals, small and medium-sized enterprises, startups) input to co-create and crowd source. This approach has enabled P&G to establish more than 2,000 successful agreements with innovation partners. As a result, more than 35 percent of its new products have elements that originated from outside P&G.

Unilever has piloted with hundreds of startups, crafting strategic partnerships that help scale technologies, accelerate innovation and create disruptive products, services, and technologies. Its Sustainable Living Brands grew 69 percent faster than the rest of the business in 2018 and delivered 75 percent of the company's growth.[9]

For CEOs in China, much of the sustainability focus is government policy driven. There are four forces influencing the drive for higher standards for environmental conduct and reporting:

- Central government planning, with an emphasis on binding national environmental performance targets;
- Environmental Protection Law revisions;
- Global climate change negotiations and China's role in them; and
- Increasing environmental activism by the Chinese public ("citizens as regulators").[10]

The scale, scope, and complexity associated with improving sustainability performance, regardless of geographic location, means that no one sector–government, business, civil society, or academia–will be able to manage the transformation alone. Companies can collaborate across their industry to create cost efficiencies and leverage the power of a larger network for mutual benefit. Initiatives can include industrywide programs; for example, to develop sustainable materials together or agree on certain production standards that facilitate recycling or making newly developed technologies available to other companies.

In one example that illustrates how an organization can contribute to a more sustainable circular economy, Dell, Arup, a British research laboratory, and Renault are collaborating on delivering circular solutions for product repair, recycled plastics, and the built environment. They have shared the results of their collaborative research in an effort to inspire others to adopt circular principles into their own operations.

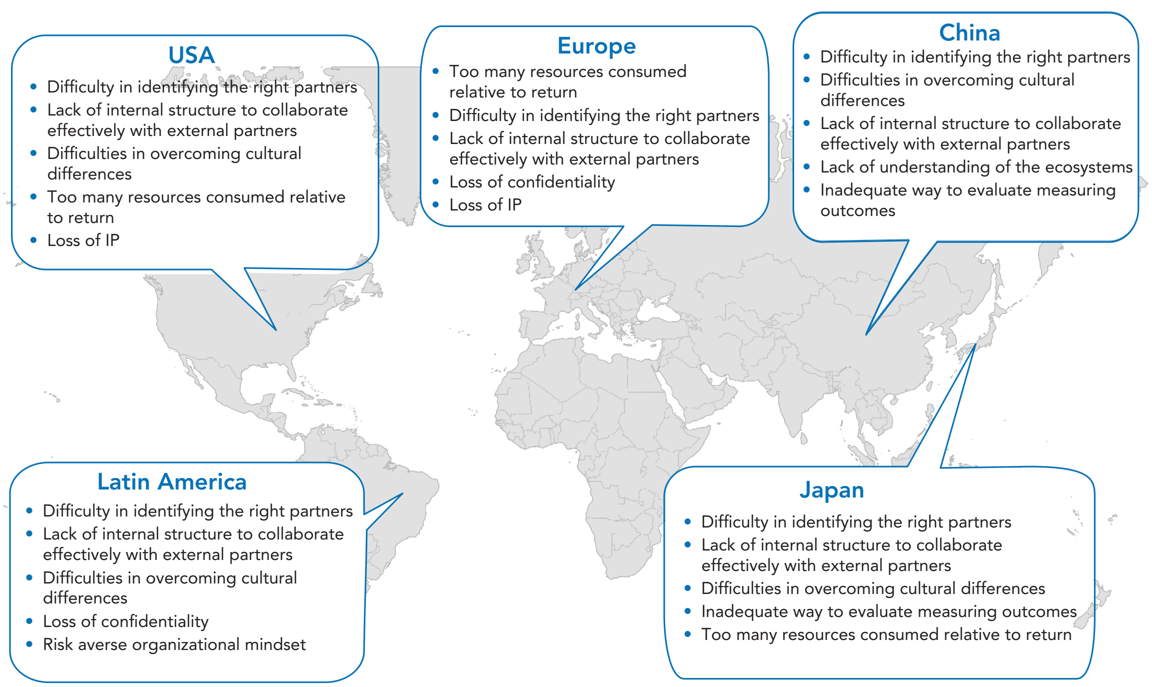
HC executives and CFOs see external partnerships as a way to fill growing talent and skills gaps. In a world where digital skills often quickly become outdated, paying a premium for specific technology skills may no longer make sense and hiring may not solve all capability gaps. Forming joint ventures, creating external partnerships, and investing in independent startups can be cost-effective ways to find the talent and skills needed to enhance growth and competitiveness.

Confronting the Barriers to External Collaboration

CEOs cite concerns about finding the right partner, an internal culture that fails to support and reward collaboration, and difficulties in overcoming cultural differences as the three greatest obstacles to implementing successful nontraditional partnerships. Corporate policies regarding intellectual property, compensation, information-sharing, and noncompete agreements are often at odds with many of the strategic capabilities and the cultural mindset required for effective external collaboration and can limit a company's ability to work with such partners.

CEOs say that difficulties in finding the right partner, overcoming cultural differences, and internal structures that do not promote partnerships are top barriers for a successful external collaboration.

What are the top three barriers to implementing external (nontraditional partners and/or competitors) collaboration? (Select no more than three)



N=621

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

Approaches that Contribute to Successful External Partnerships

Members of The Conference Board Councils on Applied Innovation and Innovation Leadership—organizations with a wealth of experience in building nontraditional partnerships—believe some common approaches contribute to successful external innovation ecosystem partnerships. These approaches have also been addressed at Conference Board conferences dealing with strategic alliances and joint ventures.

To begin, it is important to brainstorm everything that could go wrong, such as changes in the business environment or personnel changes at a partner, and develop contingency plans for how to address them. Build in flexibility to renegotiate the deal if necessary to save it.

Identifying partners and nourishing the partner relationship

Time spent planning prior to launch is time well spent. Start with a partnership mindset—not just a strong desire to access the partner's technology or assets. During the negotiation stage, consider governance, exit strategies, addressing change, and the nitty gritty of the operating model and business plan. If decisions about strategic intent, objectives, decision-making processes, and dispute resolution mechanisms aren't made early, they will have to be made later—when it will be much harder.

- Think about what you are trying to accomplish with potential partners. When selecting a partner(s), make sure you have clarity around the opportunity, vision, and each other's values. Find out how has this partner behaved previously in collaborations similar to the one you're planning.
- Recognize that your partner will not share all of your strategic objectives. That's OK, as long as you identify your differences.
- Negotiate for win-win. The partner who feels unfairly treated will find some way to undercut or exit the partnership. Negotiations set the tone for how the partners will solve problems going forward.
- While trust is important, it is also critical to have a solid contractual relationship. Identify boundary conditions: Determine what's on or off the table, including intellectual property (IP) and access to customers.[11] Protect yourself legally by creating a strong governance mechanism.

Additional wisdom from the Councils

ALLIANCES BETWEEN CORPORATIONS AND STARTUPS CAN BE AMONG THE MOST CHALLENGING

- Be sensitive to the needs of the startup. They are often cash strapped and have an urgent desire to drive revenue quickly. Hence, they are willing to take on more risk to do it.
- Streamline legal agreements and project decision-making as much as possible.
- Align with startups that have corporate experience. Those that have worked with large companies in the past are better bets for success.
- Encores help: Success often grows with a second or third project with same startup.

ALLIANCES WITH CUSTOMERS CAN BE AMONG THE MOST PRODUCTIVE

Consider collaborations with customers first. Why? The parties are familiar with each other and strongly motivated to succeed (as a failed project might damage the relationship). Management and employees alike are often more engaged in projects involving customers. In addition, alliances with customers provide ongoing customer feedback. However, while a customer can be an attractive partner, caution is needed because:

- The customer could potentially become a competitor.
- The relationship may alienate other customers.
- Overreliance on one company's feedback may hinder potential innovation.

There are clear differences in the perceptions of CEOs and C-suite executives about the most important barriers to collaboration with nontraditional partners and competitors. As a result, organizations will have to make adjustments in alignment and better internal communication. While CEOs have concerns about the return on resources invested in nontraditional partnerships, other C-suite executives instead rank *lack of balance in resource allocation strategies to implement collaborative strategies (i.e., favoring short-term performance over longer-term growth*) as the third biggest barrier. CEOs place it ninth.

While CEOs rank *too many resources consumed relative to return* as the fourth biggest barrier to implementing a collaboration strategy, C-suite executives place it ninth. Developing and executing an external collaboration strategy, especially with nontraditional partners, requires patience and a longer-term view. Organizations most often do not receive an immediate payoff from their investment of time and resources. In this way collaboration strategies are very akin to digital transformation strategies. They require a myriad of internal changes, from a more open and transparent culture, to improved internal communication, to changes in risk tolerance, to new employee and leadership skills and a compensation system that rewards collaborative behaviors.[12]

One explanation for this disparity in perception may be that executives closer to the day-to-day operations and execution of a collaboration strategy are failing to manage CEO expectations and are not effectively communicating the real or potential benefits (the business case) of external collaboration. The disparity in rankings raises an interesting, if understandable, question about time horizons and external pressure from stakeholders and investors. CEOs are generally under pressure externally for more immediate returns (hence their concern about lack of returns on collaborations), while other C-suite executives can have a longer orientation and envision a longer-term payoff as the organization transforms itself culturally (a relative slow process) and builds the internal structure, skill sets, and mindsets that will lead to partnership benefits. The solution is a strong business case that will justify the patience required to all stakeholders, both internal and external.

Table 3

Relative to CEOs, human capital executives place more emphasis on cultural transformation and internal changes as key elements for successful external partnerships

What are the top three barriers to implementing external (nontraditional partners and/or competitors) collaboration? (Select no more than three)

	CEO	CFO	HC Executive	Other C-Suite
Difficulty in identifying the right partners	1	1	T-2	1
Lack of internal structure to collaborate effectively with external partners	2	2	1	2
Difficulties in overcoming cultural differences	3	4	12	4
Too many resources consumed relative to return	4	7	T-8	9
Loss of confidentiality	5	3	7	5
Lack of understanding of the ecosystems	6	T-8	6	7
Loss of IP	7	13	T-13	14
Inadequate way to evaluate measuring outcomes	8	T-10	T-13	12
Lack of balance in resource allocation strategies	9	T-5	T-8	3
Potential loss of competitive advantage	10	12	10	8
Risk averse organizational mindset	11	T-5	T-2	6
Resistance from business units	12	T-10	T-4	11
Unwillingness of management to give up current business model and products	13	T-8	T-4	10
Lack of organizational knowledge in partner's field	14	T-14	11	13
Antitrust concern	15	T-14	15	15
Other	16	16	16	16
	N=681	N=101	N=89	N=500

Note: T indicates tied ranking

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

CEOs in mature markets see greater risk and a higher potential price to pay for external collaboration than those in emerging markets For CEOs in mature markets, there appears to be a perception that their organizations will gain less than they give in an external collaboration with a nontraditional partner unless it is properly planned, executed, and governed. When it comes to collaboration barriers, CEOs in mature markets rank concerns about *loss of IP* sixth (it is fifth in the United States and Europe). IP loss ranks near the bottom of the barriers list in emerging markets at fourteenth. Mature market CEOs rank the *loss of confidentially* (fifth) and *potential loss of competitive advantage* (eighth) much higher as collaboration barriers than do emerging market CEOs who rank these two issues seventh and thirteenth, respectively.

CEOs may be able to increase returns on such collaborations by keeping in mind the multifaceted complexity of internal cultural issues The potential seems to be there, at least when comparing CEOs' view of collaboration barriers with that of HC executives, who have a clear idea of the heavy lift required to adjust the cultural and managerial mindset to become effective collaborators. They cite *lack of internal structure to collaborate effectively with external partners* as the top collaboration barrier. HC executives also rank *risk averse organizational mindset* as the second biggest barrier (tied with *partner identification*), while CEOs place it eleventh. HC executives have *resistance from business units* and *unwillingness of management to give up current business model and products* tied for fourth, while CEOs have these two issues ranked twelfth and thirteenth, respectively. This raises concerns that CEOs may underestimate the depth and breadth of changes needed within the organization to implement a successful external collaboration strategy. HC executives will have to determine how to communicate the difficulty and time required to execute cultural transformation. Ultimately, companies need to assess their culture and promote the value of risk-taking and collaboration internally and externally.

Executives responsible for collaboration must be able to communicate its benefits, especially less tangible ones that go beyond the bottom line, to the CEO and C-suite colleagues. A company that gets meaningful value out of collaboration must have a culture that values it. Collaboration is a human-centric activity, and it starts with the top. Senior business leaders should be highly visible advocates for the organization's collaboration strategies to set the right cultural tone within their organizations. They should also highlight how important they consider collaborations and be role models for collaborating externally.

When building a collaborative culture:

Take these actions:

- Identify business units or corporate functions that can benefit from working with external partners and the key reasons they should pursue external partnerships.
- Involve empowered executives from both sides of the alliance and the leaders who will be running the collaboration from the very beginning. To ensure accountability, one person should oversee all aspects of the collaboration to ensure continuity.

- When planning the deal, take a cross-functional view. Involve teams such as information technology, product development, marketing and communications, health and safety, and legal along with the traditional deal team.
- Focus on communication. Engage the hearts and minds of employees of both partners and explain how the collaboration will affect them.
- Check engagement. To monitor and further reinforce the culture, some organizations take employee engagement and pulse surveys of those involved in the collaboration and create a rewards and recognition program for them, as well.
- Make sure the legal team understands the importance of the collaboration and the potential long-term risks involved if your organization does not collaborate externally. This team's job is defense: to protect the company, not necessarily to drive strategic growth or excite customers. The legal team may view the negotiations as a transaction to be won or lost, not the beginning of a partnership. Help them see the opportunities before the risks.

In seeking collaboration—not all regions are created equal C-suite executives were asked in which region they were concentrating their external collaboration efforts. Those that embrace external collaboration seem to see a lower perceived risk in teaming up with partners from "peer economies." Collaborations closer to home pose fewer challenges due to different languages, cultures, and time zones, as well as geographic distance.

Executives in Europe (76 percent) and the United States (81 percent) overwhelmingly cited "advanced economies" as the primary target area for their collaboration initiatives, and those economies were also the preference of executives in Japan (50 percent). Less than a quarter of executives in Europe (19 percent), the United States (22 percent), and Japan (18 percent) cited Chinese firms as collaboration targets; however 83 percent of executives in China named their own home country as their primary target for collaboration initiatives. That executives in the mature economies of Europe, the United States, and Japan are more comfortable collaborating with companies in other advanced economies rather than in China should come as no surprise. Issues that could give them pause include possible fears about loss of IP and confidentiality, coupled with concerns about the rule of law and what many consider an unfair playing field for multinationals and joint ventures in China.

The reluctance of Chinese executives to venture outside of their home ground is also understandable given language and cultural barriers as well as concerns around the threat of US sanctions on individual firms and the uncertain outcome of lingering trade disputes with many advanced-economy nations. Excepting export-focused manufacturers and traders, state-owned enterprises and private enterprise alike in China have traditionally been oriented toward silos and high levels of vertical integration. Value sharing has not been a core competence.

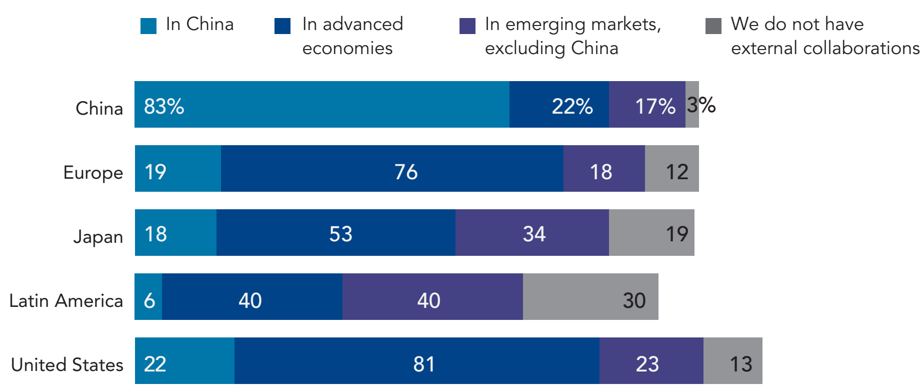
When creating alliances across geography and cultures organizations should:

- Gain familiarity with the country being considered, including regulations and policies, demographic trends, and cultural norms.
- Know the market share and demand for your and your partner's products and services.
- When dealing internationally, make sure your partners will operate in compliance with your home country laws and health and safety regulations. Don't consider shortcuts such as bribery or unethical behavior that run contrary to your company's values as an acceptable way of conducting business.
- Not underestimate the agility of your partner. Companies in emerging markets often are used to change in government and regulations
- In dealing with language barriers, recognize that alliances and collaborations will likely take longer to complete.

Chart 9

Except in China, most C-suite executives focus their efforts for establishing external collaborations with partners in mature market economies

In which region are you concentrating your efforts to establish external collaboration initiatives? (Select all that apply)



N = 1340, all C-suite responses
Note: Figures do not sum up to 100% as respondents could choose more than one option.

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

Building a Collaborative Organization

CEOs and C-suite executives identify the lack of an internal structure that will allow more effective external collaboration as a major obstacle. When asked which traits define an organization with a strong internal culture, CEOs and C-suite executives agree on the top four: clear shared goals and objectives; open and transparent communication; trust; and highly engaged teams. When it comes to the skills, traits, and competencies their organizations need to become better collaborators, they see the need for leaders and employees to think strategically, communicate effectively, and focus on customer needs.

All in all, creating a collaborative culture requires a reconsideration and redesign of traditional rewards and compensation systems. Both CEOs and C-suite executives seem to have doubts that their existing systems support a collaborative culture. Traditionally, organizations differentiate rewards based on individual performance. The question for organizations is: Does our performance management and reward systems foster true collaboration or are we rewarding outdated behaviors and paradigms that promote internal competition over internal collaboration? Pitting employees in head-to-head competition tends to drive out collaboration.

Currently, we train managers, but we need to train teams. There is a difference between a leader and a manager. A manager's role is defined by the formal structure of the organization. As hierarchies give way to collaborative work and fluid and often self-managed teams, the need for a manager as a monitor of work gives way to the role of a performance coach for teams. HC's role is to help the organization define this new leadership mindset and develop new competencies to support it.[13]

CEOs and their C-suite colleagues cite *think strategically* and *focus on customer needs* as among the leading competencies their people require to enable successful internal and external collaborations. In addition, CEOs cite *communicate effectively* as another required skill, while C-suite executives point to *360 thinking*— being cognizant of ideas and insights coming from a variety of sources, both internally and externally, and understanding the critical interconnectedness of these ideas.[14] This set of traits seems to be in sync with top executives' leading objectives for external collaborations: strategic growth, reaching new target markets, and expanding the company's product/brand portfolio. They are outward-looking goals that traditionally have been key responsibilities of marketing and communications functions.

Chart 10

Shared goals, strong communication and trust are the traits that define a collaborative organization

What are the top three traits that define an internal collaborative environment?

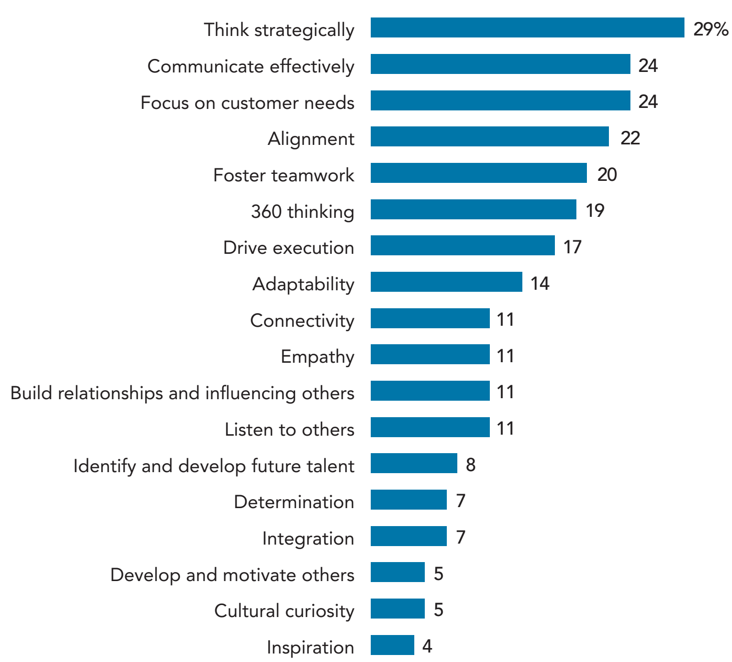
N=681

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

Chart 11

CEOs say their organizations need more strategic thinking, better communication and a sharper customer focus to improve collaboration

To improve internal and external collaboration, which are the three most important skills/traits/competencies that people in your organization need?



N=681

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

Public Policy Implications

The changing nature of competition and greater collaboration between competitors have important consequences for public policies. In the private sector, when collaboration leads to concentration, as markets move towards oligopolies and monopolies, consumers may lose as prices artificially increase and/or companies lose the incentive to invest and innovate. These principles guided the creation of antitrust authorities in most countries.

With a large body of evidence showing market concentration has been increasing, especially in the US, one may wonder about the role of antitrust authorities in the twenties of this century. Will it collide with companies' strategy to collaborate to compete?[15]

Can business make the case that the longer-term effects of collaboration outweigh a short-term sacrifice of consumer freedom? While *antitrust concerns* ranked last in CEOs' and C-suite executives' list of barriers to collaboration globally, regulatory policy could well become a more important factor considering governments' recent scrutiny of the tech industry.

A checklist for successful collaboration with nontraditional partners[16]

- √ Senior management is proactively involved on an ongoing basis. Their actions demonstrate the importance of the alliance.
- √ The right talent is in place. Key people have strong expertise and collaboration skills. There is sufficient staffing on both sides.
- √ Objectives and goals are understood and adjusted when circumstances change.
- √ Roles, responsibilities, and expectations are clear and are revisited regularly. Both parties should contribute to the partnership's mission in unique ways.
- √ Communication is robust. Frequent and collaborative communication takes place between all the work groups—vertical and horizontal, formal and informal.
- √ Work systems are aligned, including email, safety data, budgeting, quality assurance, and forecasting.
- √ Conflict resolution is constructive. Issues are recognized early and dealt with immediately according to established principles.

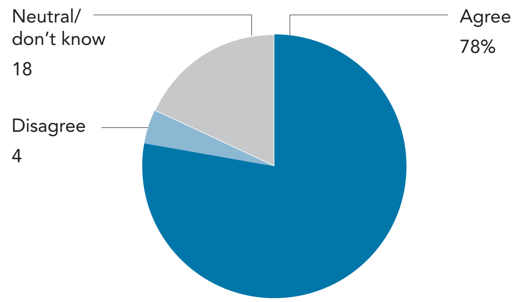
Data Privacy and Cyber Security: **A Preview**

As part of this year's *C-Suite Challenge* survey, we asked about respondents' views on data privacy and cybersecurity and the risks and opportunities they see attached to these two critical issues. The report on their response, the third in our *C-Suite Challenge™ 2020* series (the other two: "Hot-Button Issues," to be released in February 2020, and this report), finds the majority (78 percent) of responding CEOs believe an ethical approach to data privacy can translate into a competitive advantage, but almost 50 percent of CEOs say governments should take the lead in regulating data privacy. On the cybersecurity side, CEOs see the biggest threat coming from external hacker attacks, followed by internal employees. It is interesting to note that CEOs in China see internal employees as the greatest threat.

Chart 12

Regarding data privacy, most CEOs agree that the ethical use of their customers' data can translate into competitive advantage for their business

Do you agree that trust in companies' responsible, ethical use of customer data will be a competitive advantage?



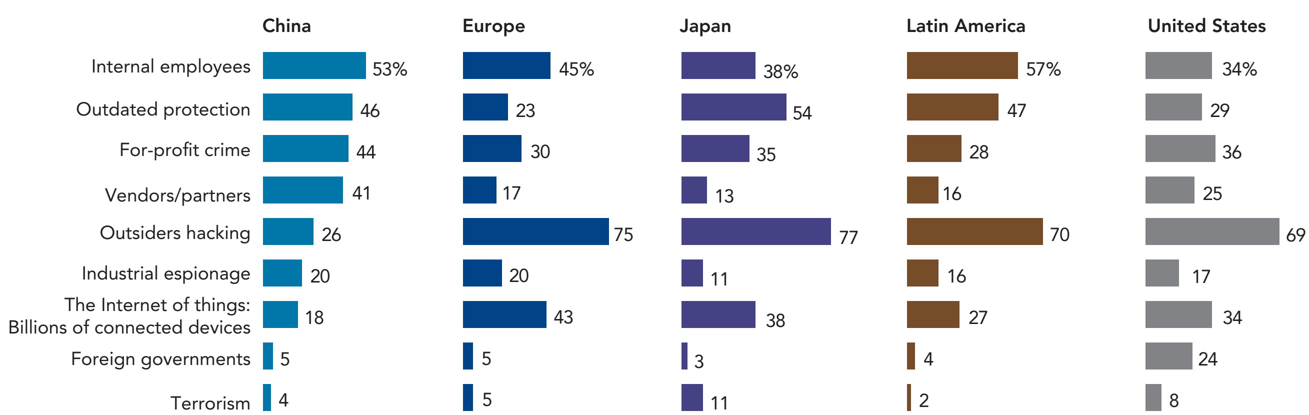
N=601

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

Chart 13

When CEOs were asked about cybersecurity, they cited external hacker attacks and internal employees as the biggest cyber threats their companies face

Where do the biggest cyber risks to your company come from? (choose a maximum of three)



N = 651

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

Endnotes

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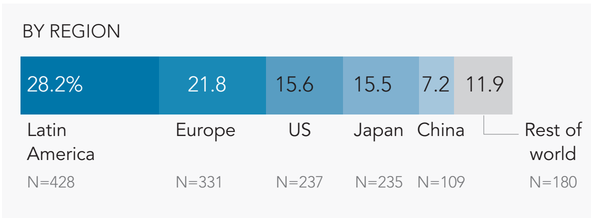
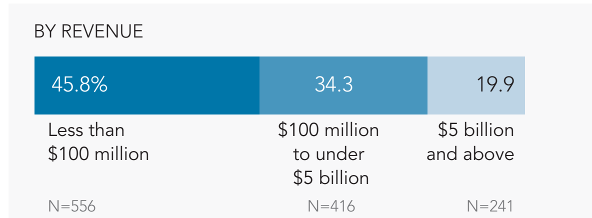
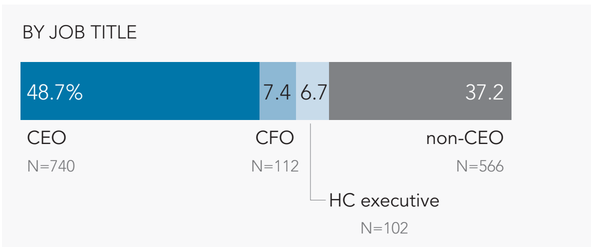
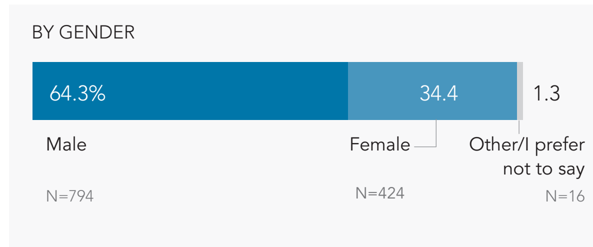
Survey Demographics

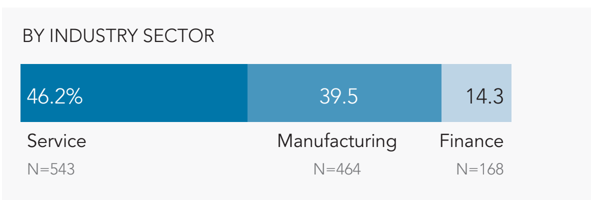
Respondents' Profile











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About the Authors

Charles Mitchell, Executive Director, Knowledge Content and Quality, at The Conference Board, is responsible for the development of member-generated content and ensuring the objectivity, independence, accuracy, and business relevance of the organization's research.

Ilaria Maselli has been the Senior Economist for Europe at The Conference Board since March 2016. Maselli monitors the monthly business cycle of the European economy and contributes analysis to The Conference Board Global Economic Outlook. She also contributes to in-depth research related to global supply chains and labor markets.

Bart van Ark is Executive Vice President and Chief Economist of The Conference Board. He leads a team of almost two dozen economists in New York, Brussels, and Beijing who produce a range of widely watched economic indicators and growth forecasts and in-depth global economic research.

Rebecca L. Ray, PhD, serves as the Executive Vice President, Human Capital, of The Conference Board and oversees the integration of human capital-related conferences, peer learning networks, research, and digital media in support of the profession. A former practitioner at F250 companies, Rebecca was recently tapped for the Marshall Goldsmith 100.

Denise Dahlhoff is the Senior Researcher for consumer research at The Conference Board, working in the Economy, Strategy & Finance and Marketing & Communications Centers. Previously, she was the Research Director of the Wharton School's Baker Retailing Center and also held positions with Wharton Executive Education, Nielsen's Marketing Analytics team, and global pricing consultancy Simon, Kucher & Partners.

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About the Survey

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

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

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

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AMERICAS | +1 212 759 0900 | customer.service@conferenceboard.org
ASIA | +65 8298 3403 | service.ap@conferenceboard.org
EUROPE, MIDDLE EAST, AFRICA | +32 2 675 54 05 | brussels@conferenceboard.org
COMMITTEE FOR ECONOMIC DEVELOPMENT OF THE CONFERENCE BOARD | +1 202 469 7286 | www.ced.org
THE CONFERENCE BOARD OF CANADA | +1 613 526 3280 | www.conferenceboard.ca

PUBLISHING TEAM
Sara Churchville, Anita Dennis, Peter Drubin, Pam Seenaraine, Ray Vella

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