

Business *Spectator*

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CEO *pulse*

Number 10
December 2010



Views from the top ...

**Australia's leading
chief executives on:**
● Their predictions for 2011

GA RESEARCH

Surveyed Australian CEOs' Predictions for 2011:**Business Sentiment**

- Eight out of ten (80%) are somewhat or strongly optimistic about the prospects for their own organisation in the next 12 months.
- Two thirds (66%) are somewhat or strongly optimistic about the prospects for the Australian economy.

Global Growth

- Global growth expectations are highest in China, followed by the rest of Asia, then Australia.
- Growth expectations are slowest for the US and Europe, with expectations for the US ahead of those for Europe.

Key Economic Indicators

- Nearly eight out of ten (77%) expect growth in the S&P/ASX200.
- Nearly eight out of ten (78%) expect a higher RBA cash rate by this time next year.
- Nearly two thirds (65%) expect Australia's inflation rate to be higher.
- More than two thirds (73%) expect the unemployment rate in Australia to stay the same or fall. 27% expect it to be higher.
- More than half (58%) say that the \$A will be lower compared to the \$US by this time next year.

Company Outlook

- More than half (53%) expect employment in their organisation to increase, 31% expect it to stay the same, 16% expect a decrease.
- The majority (60%) expect capital investment to increase, 31% expect it to stay the same, 9% expect a decrease.
- More than two thirds (69%) expect profits to increase, 20% expect them to stay the same, 9% expect a decrease.
- Nearly two thirds (64%) expect sales to increase, 24% expect them to stay the same, 11% expect a decrease.
- The majority (56%) expect operating expenditure to increase. 26% expect it to stay the same and 16% expect a decrease.

The Top Three CEO Challenges

- Source and retain skilled staff (46%).
- Improve operational efficiencies (33%).
- Achieve top-line growth (29%).

Top Challenges for their Industry

- Labour and skill shortages, particularly for technical staff.
- Competition from both domestic and international markets.

Most Important Initiatives to Improve Productivity in their Organisation

- Improving the efficiency of current systems through the implementation of new processes, enhanced IT systems and other technologies.
- Focussing on employees, skills development and workplace culture.

Judging Their Own Success as a CEO

- In judging their success as a CEO over the next 12 months, most surveyed CEOs said they would judge it by whether or not they delivered on their strategy or business plan or met specific financial targets. However, many also mentioned non-financial targets related to staff or customers.

Methodology

Research design and analysis for the CEO Pulse was conducted by GA Research, an independent market and social research firm that is a member of the Association of Market and Social Research Organisations (AMSRO) and accredited to AS: ISO 20252. Fieldwork was conducted by independent operator AFS.

The sample comprised n=55 CEOs of organisations with an Australian turnover of \$100 million or more who opted to participate in a five minute survey conducted over the phone or online between Wednesday 24 November and Sunday 5 December 2010. CEOs who participated in the survey did so anonymously and represented listed, unlisted and not-for-profit Australian companies as well as the Australian operations of global companies. Industry sectors included professional, commercial and other services including legal and financial services, manufacturing, healthcare, hospitality, retail, mining and agriculture.

Note that some percentages for single response questions presented in this report may not add up to 100% due to rounding. Significant differences between December 2010 and October 2010 at the 5% level (95% confidence) are reported where relevant.

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For more information regarding the research please contact
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If you are a CEO and wish to register your interest in participating, please go to
www.businessspectator.com.au/CEOPulse.

CEO pulse

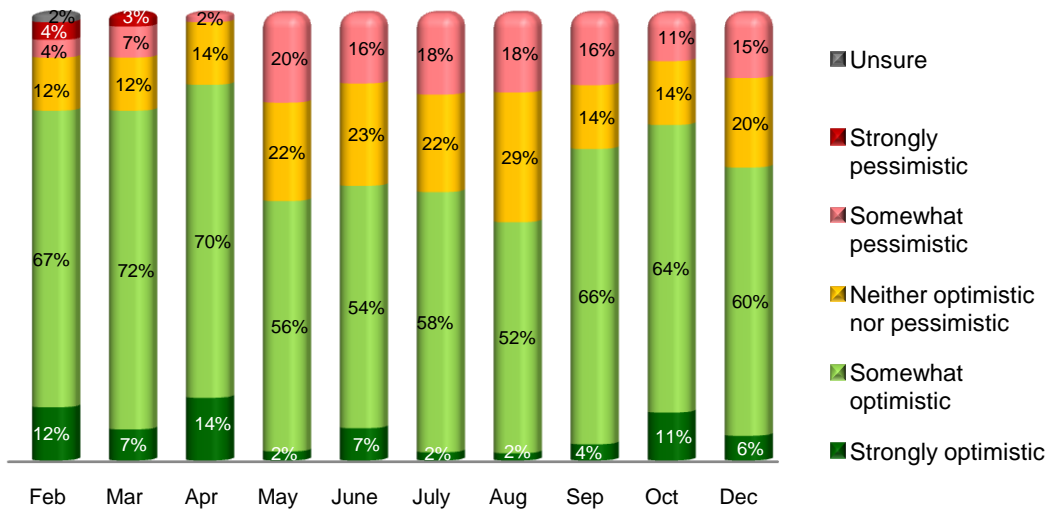
CEO Sentiment

Question 1: To what extent are you optimistic or pessimistic about...? (Feb 2010; n=51, March 2010; n=75, April 2010; n=56, May 2010; n=50, June; n=83, July; n=55, August; n=62, September; n=56, October; n=56, December; n=55)

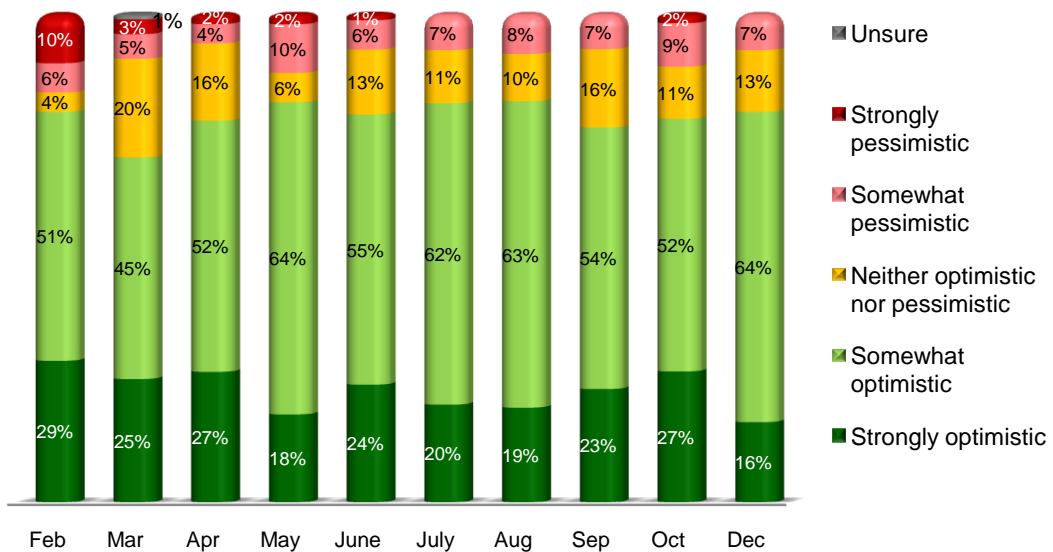
Optimism about prospects for the Australian economy in the next 12 months amongst surveyed CEOs has settled back to levels similar to earlier in the year (66% compared to 75% in October).

CEO's optimism about the prospects for their own organisation in the next 12 months is holding steady (80% compared to 79% in October).

Prospects for the Australian economy in the next 12 months



Prospects for your organisation in the next 12 months



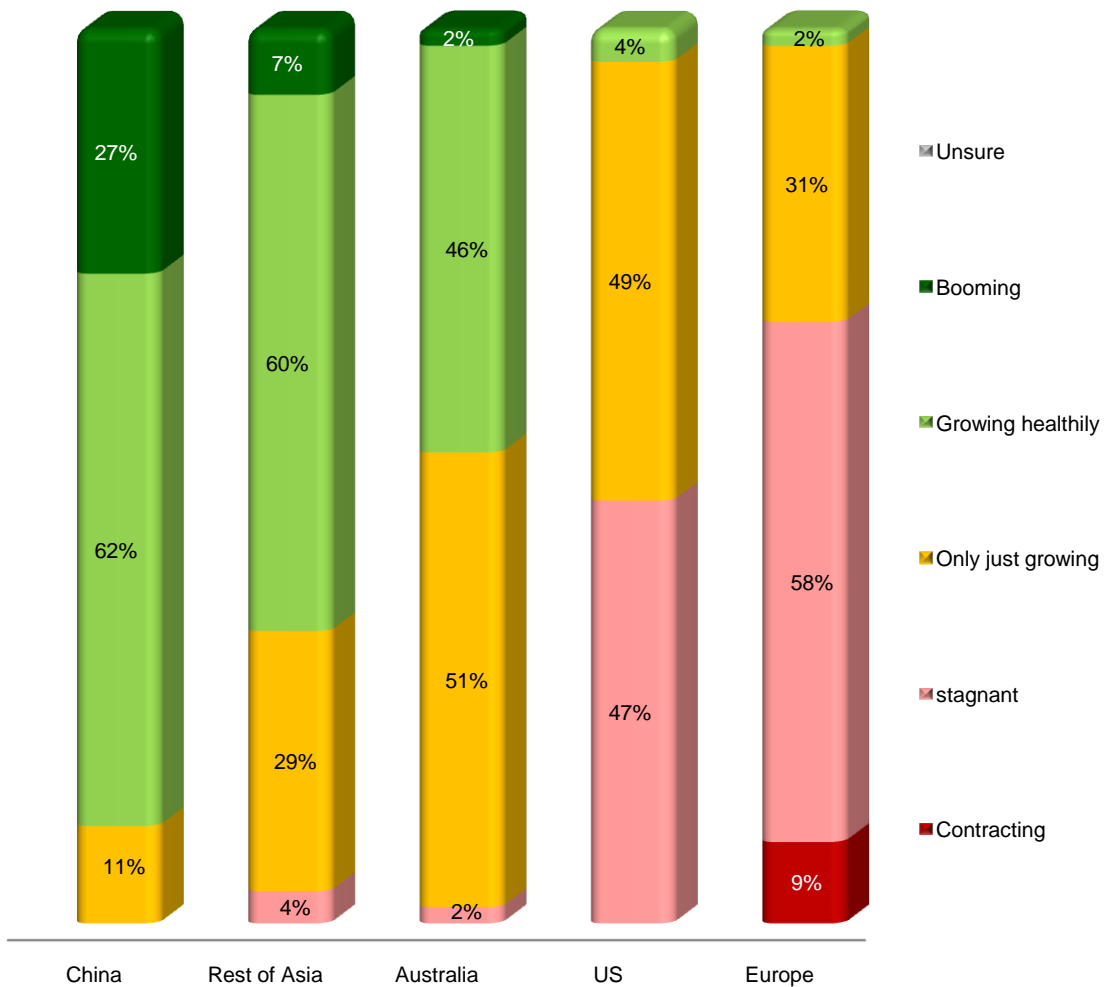
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CEO Predictions of Global Economies

Question 5: Do you think that next year, economic growth in each of the following economies will be...? (n=55)

CEOs surveyed were asked about the expected economic growth of Australia's key trading partners next year, almost nine out of ten CEOs surveyed think that economic growth in China will be booming (27%) or growing healthily (62%). There are also high expectations of economies in the rest of Asia, with two thirds of CEOs saying that economic growth will be booming (7%) or growing healthily (60%).

Expectations of economic growth in Australia are higher than the US and Europe - half of surveyed CEOs say that the Australian economy will only just be growing (51%) while the other half are expecting it to be growing healthily (46%) or booming (2%). Almost half of CEOs are expecting economic growth in the US to be stagnant next year (47%). In Europe, 58% expect that economic growth will be stagnant, with another 9% saying they think it will be contracting.



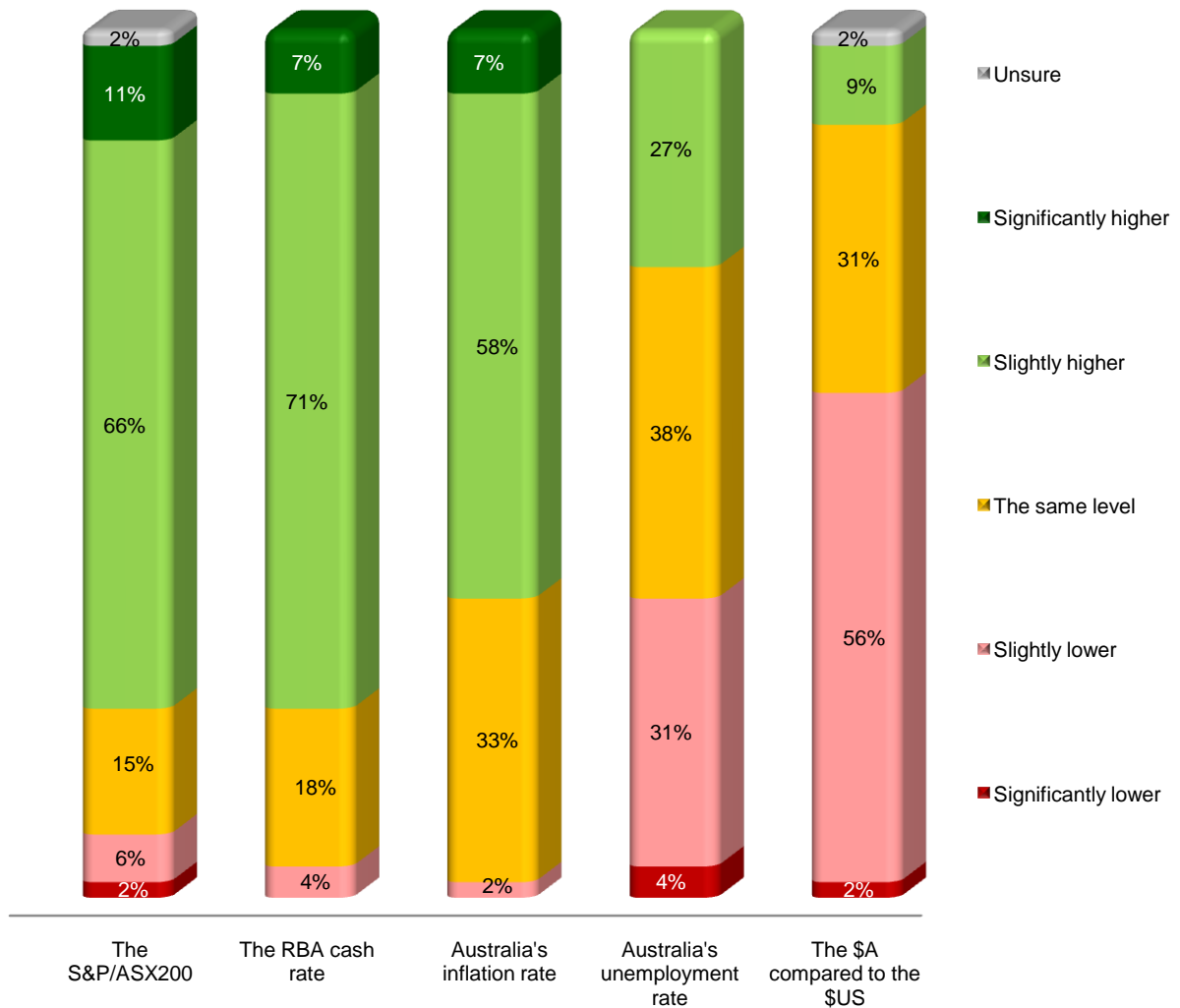
CEO pulse

CEO Predictions of Economic Indicators

Question 4: Compared to current levels, where do you think each of the following will be by this time next year? (n=55)

When asked about where they expect a range of key economic indicators to be this time next year, almost eight out of ten surveyed CEOs said they are expecting growth in the S&P/ASX200 (77%) and the RBA cash rate (78%), with 65% also thinking that Australia's inflation rate will be higher.

They are split on where Australia's unemployment rate will be, with around a third saying it will be lower (35%) or higher (27%) and 38% saying it will be the same. Over half of CEOs surveyed say that the \$A will be lower compared to the \$US (58%) by this time next year.



CEO pulse

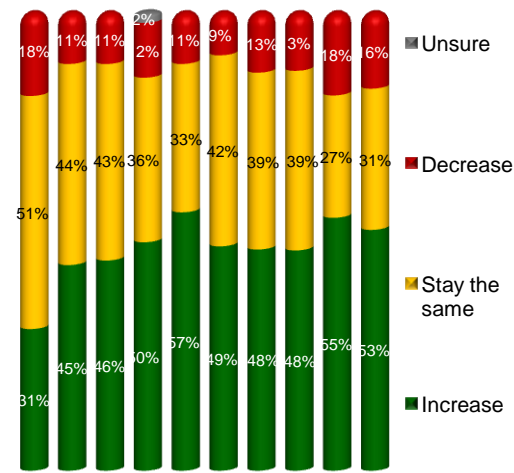
Short Term Company Outlook

Question 2: Thinking about your organisation in the next 12 months, do you expect the following to increase, decrease or stay the same? (Feb 2010; n=51, March 2010; n=75, April 2010; n=56, May 2010; n=50, June; n=83, July; n=55, August; n=62, September; n=56, October; n=56, December; n=55)

Similar numbers of CEOs to previous months report they are expecting employment, capital investment and profit levels will increase in the next 12 months. They are a bit less optimistic about sales (64% reported expecting an increase compared to 75% in October).

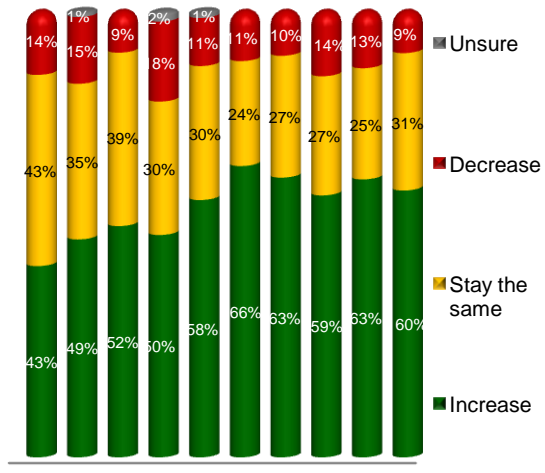
This month, we also asked about expectations for operating expenditure in the next 12 months; 56% of surveyed CEOs report they expect an increase, 26% expect it to stay the same and 16% expect a decrease (2% were unsure.)

Employment



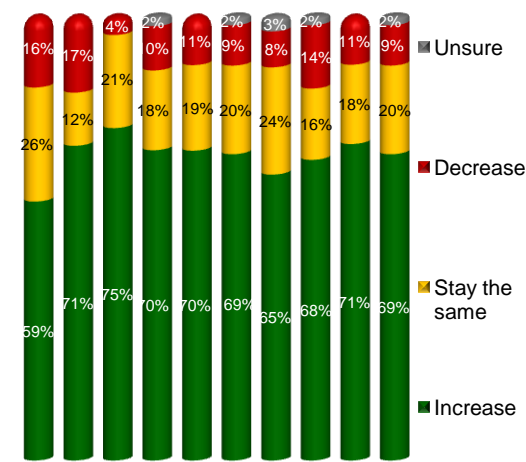
Feb Mar Apr May Jun Jul Aug Sep Oct Dec

Capital Investment



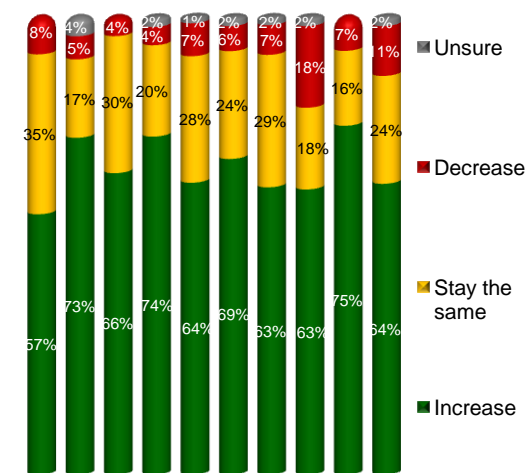
Feb Mar Apr May Jun Jul Aug Sep Oct Dec

Profit



Feb Mar Apr May Jun Jul Aug Sep Oct Dec

Sales



Feb Mar Apr May Jun Jul Aug Sep Oct Dec

CEO pulse

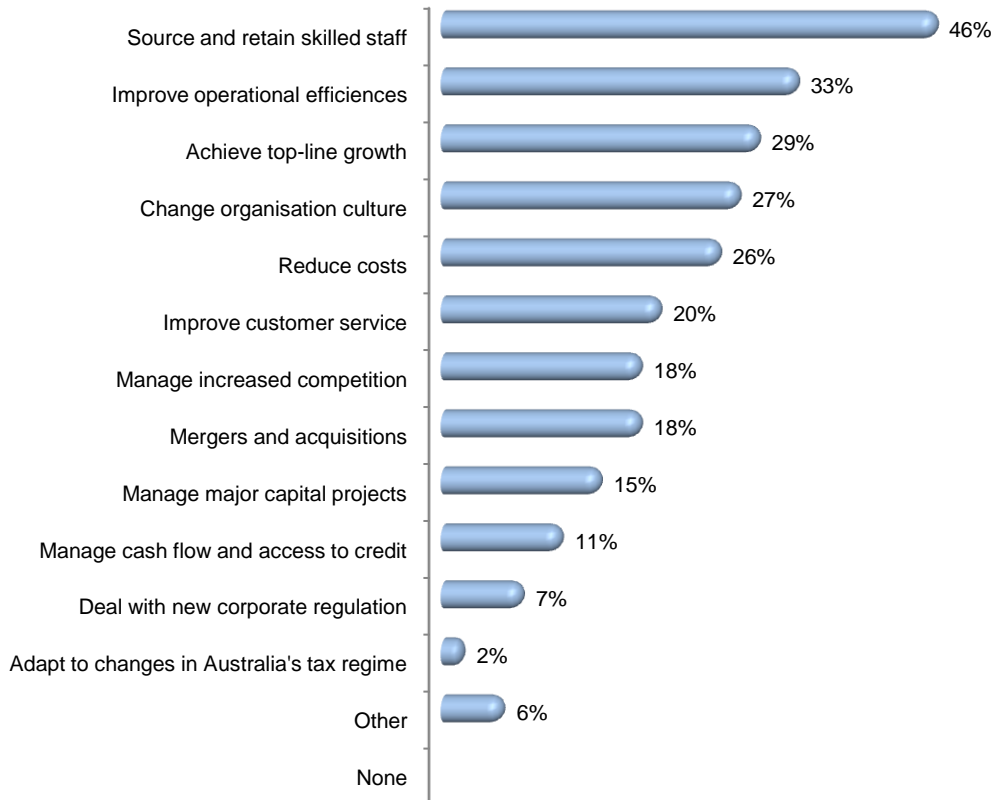
Challenges Expected to Dominate CEOs Management Agendas

Question 3: Which of the following challenges do you expect to dominate your management agenda over the next 12 months? (n=55) Pick up to three. [Up to three responses permitted – percentages add to more than 100%]

The challenge that most surveyed CEOs expect will dominate their management agenda over the next 12 months is to 'source and retain skilled staff' (46%).

The other key challenges, in descending order of importance are:

- Improve operational efficiencies (33%)
- Achieve top-line growth (29%)
- Change organisation culture (27%)
- Reduce costs (26%)



A small number of surveyed CEOs (6%) say that a range of other challenges will dominate their management agenda over the next 12 months. These include challenges such as new business opportunities, the value of the \$A and IT roll outs.

CEO Expectation of Industry Issues

Question 8: What do you expect will be the biggest issue facing your industry next year? (n=55)
[Unprompted, open-ended question. Responses coded by GA Research into key themes]

When asked about the biggest issue facing their industry next year, there were two common themes.

Firstly, many CEO participants expected their industry to face labour and skill shortages, particularly for technical staff. This reflects the key issue that has kept participating CEOs awake at night throughout this past year; 'being able to source skilled staff'.

"Skills shortage, ongoing challenges with attracting and retaining skilled technical staff."

"Labour shortage across the board, including middle management, technical, skilled and unskilled."

"Shortages in technical professional staff".

Another big issue facing industries was competition from both domestic and international markets. CEOs were concerned that increasing competition would have an impact on prices and margins. This has also been a strong theme in the survey throughout 2010.

"Competitive intensity driving price and margin pressure."

"Domestic and export competition eroding margins."

"Price competition - imports from China".

A few CEOs were expecting a decline in consumer confidence with decreased demand and spending, and were concerned that this in turn would lead to a drop in pricing.

"Continuation of weak consumer confidence, translating into poor demand and price deflation."

"Customer spend reductions."

There was also a range of other comments made by CEOs with lower incidences, such as:

"Second wave of collapses which will hit the SME market and access to debt financing."

"Acquisition activity from US and Europe."

"Environmental Regulation."

CEO Predictions of Important Growth Initiatives

Question 6: What will be the single most important growth initiative you will drive for your business next year? (n=55)

[Unprompted, open-ended question. Responses coded by GA Research into key themes]

When asked what the single most important growth initiative CEOs will drive next year, three key themes emerged:

- A focus on increasing revenue through a number of initiatives such as expanding in new geographic markets, investing in innovative products and developing new ones, improving customer service and focusing on marketing activities to attract more customers.

“Business diversification and explore export opportunities.”

“Chinese growth will be a major factor for the business next year.”

“Aggressive marketing.”

“Topline growth through innovation and an improved customer experience.”

- The second theme is related to managing capital more effectively via acquisitions, expanding facilities, or investing in other infrastructure such as IT to become a more effective and productive organisation.

“Expansion of warehouse capacity to facilitate the type of growth we are experiencing at the moment.”

“Capital management matters.”

- A number of surveyed CEOs say they will pay more attention to reducing costs in order to grow their business. Some say that they plan to do so by restructuring internal operations.

“Implementation of a new organisational structure and operating model.”

“Organising efficiencies in our business administration.”

CEO Predictions of Productivity Initiatives

Question 9: What will be the single most important initiative you will drive to improve productivity for your business next year? (n=55)

[Unprompted, open-ended question. Responses coded by GA Research into key themes]

When asked about the single most important initiative they will drive to improve productivity next year, most responses from the CEO sample fell into two broad categories.

Firstly, the most common responses involved improving the efficiency of current systems through the implementation of new processes, enhanced IT systems and other technologies.

“Back office efficiency through improved IT.”

“A new ERP [Enterprise Resource Planning] system.”

“Supply chain productivity through ‘Lean’”

The next most common theme involved focussing on employees, skills development and workplace culture.

“Culture change aimed at getting people to think responsibly and creatively about their jobs to make each person more efficient. This will involve further training to kick-start the process.”

“Find quality people.”

“Training, counselling and leadership.”

“Labour reform and safety improvement.”

Linked to these two themes were comments around improvements to management structures and operational systems.

“Cultural management change.”

“Implementation of a new organisational structure and operating model.”

Other initiatives mentioned by a small number of respondents involved topics such as cost management, plant modernisation and new product development.

CEOs Measure of Self-Judged Performance

Question 7: How will you judge your own success as a CEO over the next 12 months? Complete this sentence, 'I will be happy with my own performance as a CEO this time next year if I...'? (n=55)
[Unprompted, open-ended question. Responses coded by GA Research into key themes]

When asked how they will judge their success as a CEO over the next 12 months, most CEOs said they would judge it by whether or not they delivered on their strategy or business plan or met specific financial targets. A wide range of financial targets were mentioned, ranging from sales growth, EBITDA, profit, market share, expenses, cash flow and productivity to debt levels.

Around a third of participants mentioned the importance of other non-financial factors including retaining key staff, providing growth opportunities for staff, building a strong culture, ensuring succession plans are in place, focussing on occupational health and safety and improving customer engagement and satisfaction.

“Continue to build a strong culture that rewards results and cares about how we achieve them.”

“I am successful in achieving our growth targets and have retained all key people in the organisation.”

“Achieve the growth targets that have been set while improving customer experience and people engagement.”

“Have a senior Management team that works as a team and have staff who are happier and more customers who are happy.”

“Have maintained the good culture and adherence to our values, built our revenue and managed costs effectively so as to have a sustainable growth in profit.”

Public Figures CEOs would like to see more of

Question 10: Which public figure in business, politics or in society would you like to see play a bigger role over the next 12 months? (n=55)

[Unprompted, open-ended question. Responses coded by GA Research into key themes]

When asked about public figures they would like to see play a bigger role over the next 12 months, most surveyed CEOs mentioned a political figure. The most common were federal opposition members including Malcolm Turnbull, Tony Abbott and Joe Hockey.

“Malcolm Turnbull – still tremendous potential for Australia!!”

“Tony Abbott as PM.”

A few Federal Government members were also mentioned, mostly the Prime Minister, Julia Gillard and the Treasurer, Wayne Swan. Those CEOs who mentioned other Federal Government Ministers were more specific about how they would like to see them play a bigger role.

“I would like to see Bill Shorten increase his presence and portfolio.”

“Minister of Immigration and Citizenship, Chris Bowen, relaxation of visa requirements for work within Australia, especially associated with the mining industry.”

Several senior public servants were also mentioned, including Glenn Stevens, Graeme Samuel, Ken Henry and Mick Gooda.

“Graeme Samuel from ACCC. More focus on detrimental effects of global competition on Australian Industry”

Some business leaders and commentators, including Richard Goyder, Phil Ruthven, Don Argus, Alan Kohler and Stephen Mayne, were also mentioned, some with particular roles in mind.

“Richard Goyder – go get Woolies!”

“Phil Ruthven - his views on banking and savings levels in Australia are very sound. Maybe the Government need to ensure that a portion of the Superannuation Guarantee ends up with the banks rather than in the stock market to relieve the pressure on money availability.”

Other figures including Shane Warne and Gustav Nossal were also mentioned, while some CEOs indicated they would like to see progress made on the climate change and the carbon issue, although did not identify any specific individuals to take the lead on this.

“We have to nail the Carbon issue. I'm not sure who needs to step up to make this happen.”

“I'd like to see rational and evidence based debate on climate with intelligent and honest coverage in the mass media.”

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