# *The CEO Financial Index*

**Analysis of Polling**

**for**

## *The CEO Institute, Queensland*

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## *Introduction*

The CEO Financial Index is a tracking survey of the members of the Queensland membership of The CEO Institute. The CEO Institute beings together leaders from business, including not-for-profits and the public sector, who meet regularly to share ideas, experiences and challenges and to be exposed to leading edge business thinking.

The Index is derived from surveying respondents' predictions for the next half-year in four different business areas.

This poll is for the inaugural Index. Movements over time will show how the leaders of significant businesses in Queensland view the economy. It will also be possible to track the Index against growth in the economy and other factors.

Our hope is that the Index will provide useful information for the Queensland business community and business media, and a yardstick over time of the sentiment of this state's business leaders.

**Susan Forrester**
**CEO**
**The CEO Institute, Queensland**

## *The Index*

The inaugural CEO Financial Index for the December quarter 2009 is 30.

The Index has a maximum value of 100 and a minimum value of -100. A figure of 100 would mean that all respondents were positive and a figure of -100 that all respondents were negative.

The Index is made up of measures of confidence in four areas. The table below shows the individual breakdown.

**Figure 1: Index and components for December quarter 2009**

| Factor | Index |
|---|---|
| Economy | 68 |
| Employment | 35 |
| Investment | 2 |
| Profit | 15 |
| **Index** | **30** |

n=62

## Commentary

The Index figure is driven by a very positive rating for the direction in which the economy is heading, with 77% of respondents seeing it as heading in the right direction, and only 10% viewing it negatively.

Their reaction to a favourable view of the economy is to hire staff, with 60% saying they were likely to hire and 25% saying they were unlikely to hire.

Intentions in terms of capital investment were evenly balanced, with 44% likely to invest and 43% likely to maintain current levels.

The net result is that almost half the business leaders – 49% - expected an increase in profit compared to 34% who didn't.

## *Qualitative Feedback*

### The next six months

Respondents were asked to nominate “what they thought would have the biggest impact on [their business] in the next 6 months…”. A number of themes were evident.

Comments were hand-coded into categories and the most significant are tabulated below. Comments could be categorized in more than on category.

**Figure 2: Qualitative responses for factors influencing the next 6 months December quarter**

| **Next 6 months** | |
|---|---|
| Government spending | 16% |
| Resource Industry | 13% |
| Confidence | 11% |
| Bank/Finance | 10% |
| Property Industry | 10% |
| Price rises | 6% |
| Interest rates | 5% |
| Government regulation | 3% |
| Henry Review | 3% |

n=62

Many Queensland businesses are dependent on the continuation of government investment in infrastructure. One commented:

*“Property development in Queensland has almost come to a complete stop, as a result of capital not being available and the state government's planning policies. Our business is almost solely relying on government infrastructure projects - public transport (Busways), federal funding for local authority projects and Defence Housing projects. The next "big" infrastructure project for us to*

*tender will be Gold Coast Rapid Transport. This has been very slow to proceed and if it doesn't happen there aren't any other big infrastructure projects in the pipeline. If private development doesn't pick up we will need to rely on government infrastructure work."*

There is also concern about the availability of finance:

*"…banks are being very unrealistic about their funding approach in relation to LVRs, valuations, and assessment of financials given the world economic scenario. Banks are changing their policies daily and it is affecting an onflow of cash in order that we may continue to employ and continue to build; which means, if we don't get funding, we don't build, we don't employ, we don't pay tax, we can't pay bills and then this then goes around and around!"*

Other concerns were interest rates, exchange rates and the price of commodities. High commodity prices were good for some, and bad for others:

*"Commodity demand and prices - copper, iron ore and coal. If the demand for resources continues this will re-ignite capital expenditure plans that were placed on hold in March 2009."*

*"Rising world commodity prices, particularly oil leading to reduced margins."*

Increased government regulations were also regarded as a risk for some:
*"Government regulation. It is the biggest inhibitor to business in Australia. In the Health area over regulation and changes without consultation nor understanding are causing enormous angst and is countercyclical to a reasonably robust economy."*

and an opportunity for others:

*"Government reform will mandate requirements that previously have been voluntary. This will increase demand for our services."*

Many businesses are being sustained by the stimulus measures:

*"The biggest impact for our business will be the tailing off of the stimulus spending on infrastructure works such as the BER school program etc. Government spending generally in the building, construction industries looks to be tapering off and our concern is that the private market will not return in sufficient speed and quantum to fill this void."*

## The last six months

Respondents were asked to nominate "what they thought had the biggest impact on [their business] in the last 6 months…". A number of themes were evident.

**Figure 3: Qualitative responses for factors influencing the last 6 months December quarter**

| **Last 6 months** | |
|---|---|
| Confidence | 15% |
| Bank/Finance | 13% |
| Government | 10% |
| Government spending | 8% |
| Staff/Employees | 6% |
| Resource industry | 6% |
| Government regulation | 3% |
| Property Industry | 8% |

n=62

The main concerns here were a lack of consumer and confidence as a result of the global financial crisis which was often seen as unwarranted.

*"The economic downturn and the severe impact on business and consumer confidence."*

Bank finance was mentioned as a problem more frequently with respect to the last six months than the future:

*"Again, funding. The banks over-reacted to the world crisis and decided that if you were in a high risk industry, such as construction, that they would 'call in' loans due to adverse valuations. The valuers are given a directive by the banks to have a risk ratio built in which is excessive, your funding is directly related to that. In shor, the banks are a huge problem!"*

Employment was an issue that cut both ways:

*“Reduced staff "churn" resulting in a lower cost base which facilitated improved margins on static turnover and improved service levels.”*

*“Finding good staff.”*

## Lessons from the Global Financial Crisis

Respondents were asked to nominate “the most important thing that [they] learned from coping with the global financial crisis”. Most of the respondents saw it as an opportunity to reacquaint themselves with the basics of their business, or even to find and exploit new opportunities.

**Figure 4: Qualitative responses for lessons learned from the global financial crisis December quarter 2009**

| **Lessons** | |
|---|---|
| Basics | 15% |
| Flexibility | 13% |
| Finance | 11% |
| Staff | 6% |
| Customer | 6% |
| Planning | 6% |
| Cost control | 5% |
| Reporting | 5% |

n=62

Some of these comments overlap. While many referred to “basics” in general a number referred to specific issues which could also be characterised as “basics” but which were coded separately to give a finer-grained view of the responses.

The aggressive optimists:

*“Attack economic change with change. For every nightmare there are opportunities. Embrace what is going on around you”*

*“I learned how to hunt again. The boom period for 10 years leading up to 2008 meant that gaining business was relatively simple and you could be selective in what business you took on. This led to laziness and complacency. The GFC saw an immediate drop in business and a tightening of budgets. This forced me to rethink our strategy and focus on aggressively seeking out new business with an absolute focus on closing every opportunity. As we come out of the crisis this is providing us with growth opportunities.”*

Getting to know the business again:

*“The importance to always keep an eye on controllable costs and make the tough decisions quickly and clearly understand the impacts on working capital and the challenges presented by a tougher banking system around credit.”*

*“Good staff make the company”*

*“To always keep a sharp eye on working capital and the cash need to run your business.  Remember that the projects of tomorrow and beyond tomorrow are dependent on the profitability of today.”*

Getting to know the customer better:

*“Better understanding what represents real value to customers. Need to retain very best staff under any circumstances.”*

Working out who you can trust:

*“Spread your risk with financiers and have low expectations of how they will support you if times get a bit tough.”*

*“Ensure credit worthiness of counterparties, support contracts with guarantees.  Maintain flexibility in the workforce, ensure strategies are tested against possible scenarios.”*

Remembering that the good times don’t roll forever:

*“Planning ahead. Strategy for the good times and strategy for the not so good times. The good times don't last forever”*

Understanding how others can affect the business:

*"Government under reaction or over reaction is the major issue here. Generally our business has been untouched by the GFC. It is only government policy to it that has had unintended consequences usually negative to business."*

## Conclusion

Queensland appears to have a weathered the worst of the global financial crisis, with major Queensland businesses emerging with a more focused view of their activities. As a result of measures taken during the down-turn it appears that profitability will recover first before there is a significant increase in investment in capital or people. Major concerns for business are for the government to continue to support the economy, that consumers and other businesses remain confident and that banks become more liberal in their lending policies.

Queensland business appears to be heavily exposed to mining and property, and developments in those two industries are being watched by CEOs to drive strength in the economy. There is also some small concern about increases in cost inflation via increases in commodity prices. Government regulation is another area they are monitoring.

Should you require any further information or explanation I can be contacted on 07 3252 1470 or 0411 104 801, or by email: graham.young@internet-thinking.com.au.

Regards,

**GRAHAM YOUNG**
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## *About the CEO Financial Index*

The *CEO Financial Index* is a survey of the members of the CEO Institute (Queensland) which is used to construct a quarterly index of expectations for the future of business and the economy. It is conducted online for the Institute by polling company Internet Thinking.

The Index measures attitudes to the economy, employment, investment and profitability and combines it into one index figure. The figure is constructed by subtracting those who are negative on an indicator area from those who are positive, adding the percentages for each group together, dividing by the number of groups and then multiplying by 100. If every respondent was positive in every area that would result in an index figure of 100. If every respondent was negative in every area that would result in an index figure of -100. A figure of 0 indicates that optimists and pessimists are more or less evenly balanced.

The Index is also disaggregated for each area to allow a more nuanced view of business trends.

Qualitative questions are also asked about expectations of issues that will affect the businesses managed or owned by Institute members for the next 6 months, as well as what factors affected them in the previous 6 months. These qualitative responses are then used as an aid in understanding the Index.

The Index also includes a "wild card" question about a contemporary issue affecting business. This quarter it was the Global Financial Crisis.

**About The CEO Institute**

Established in 1992 as a peer-to-peer membership organisation for chief executives and with offices in Brisbane, Melbourne, Perth, Sydney and Adelaide, The CEO Institute has become Australia's premier network of business leaders**.** The CEO Institute provides a peer-learning forum for CEOs and senior executives to meet regularly and share insights and exchange views on the business issues that matter. **http://www.ceo.com.au/**

## *Methodology*

A poll was hosted on the National Forum site at http://polling.nationalforum.com.au/index.php?sid=83131&lang=en on 26 November, 2009 until Midnight 1 December, 2009 and promoted to the members of the CEO Institute through an email from institute CEO Susan Forrester.

Out of the 104 members of the Institute we received 62 responses.

Quantitative results have been anlaysed using Excel, and qualitative responses have been manually assessed.

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