



Worth Noting

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Worth Noting is the journal of research and conferences company L21. It is focused on issues of relevance and interest to senior executives.

It is notoriously difficult to identify the general direction that any company is heading because companies are made of so many different parts. However, one standard way is to simply inquiry as to what the CEO is currently thinking, what they name as their top priority for the next couple of years.

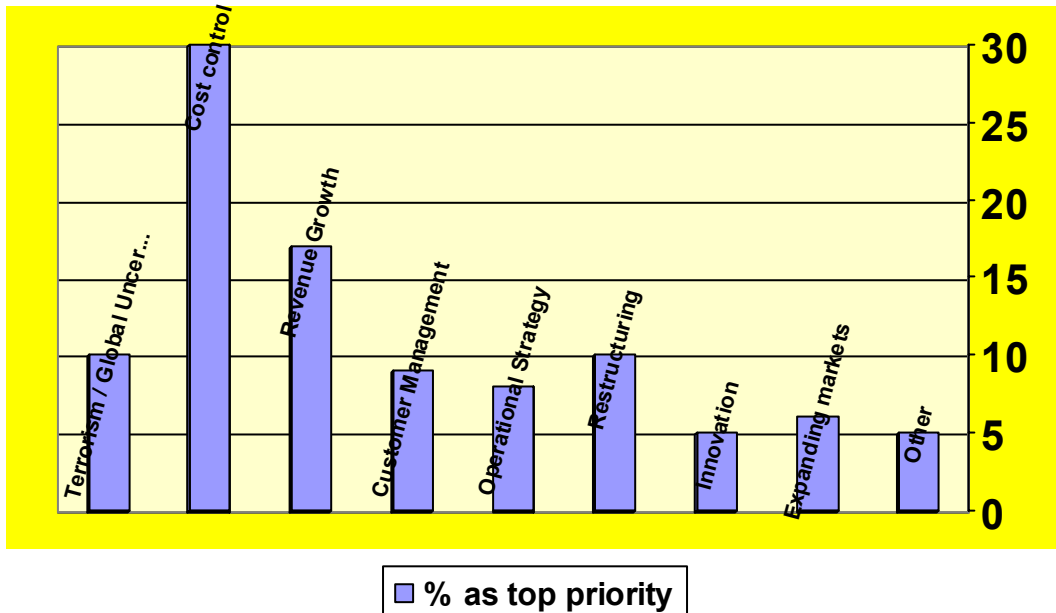
Of course, such priority pin-pointing can be grossly inaccurate. For example, surveys are inexact indications. Any CEO surveyed is limited by the choices offered to them and what they tick as their top priority might bear little resemblance to what they actually do.

To mitigate this problem, we will take summary findings from a number of surveys conducted by reputable institutions and publications to gain a more 'weighted' impression of which direction CEOs believe they should be steering their companies.

What are the CEOs of the largest companies pin-pointing as their priorities?

From 2001-2003, it was all very defensive. 'Uncertainty', 'caution' and 'consolidation' were the key underlying themes. They were what we might call '**defensive positionalists**'. Collating surveys and drawing conclusions from studies by PWC, The Economist and Forbes over this period, the results a few years back were as follows.

As CEO, what concerns you the most?
2000-2003



Source: PWC CEO Reports, 2000-2003; The Economist Intelligence Unit; Forbes CEO Surveys 2000-2003; L21 Analysis

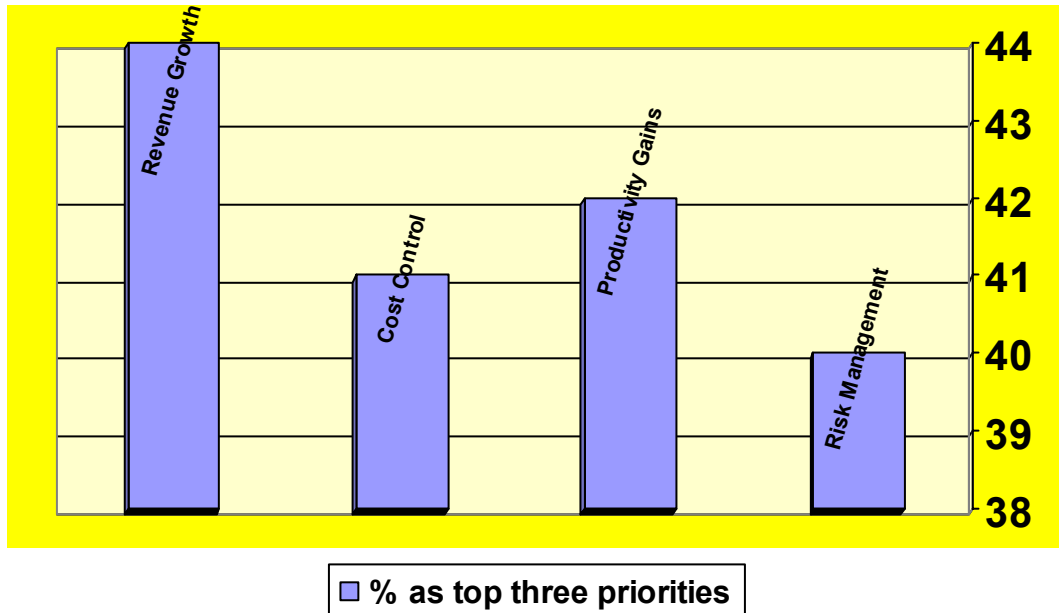
What about now? In Australia, it is easy to be optimistic. Despite continual uncertainty regarding threats from terrorism and other conflicts, stock markets are at record levels, there have been no dramatic property price collapse, interest rates remain low, inflation remains low, commodity prices are high and consumer sentiment seems to be soaring. It is therefore easy to forget that other major economies have not experienced the same bounce we have.

We will look at surveys of CEOs in Australia and New Zealand and then compared these results to international surveys.

The picture from Australian & New Zealand CEOs

There is clear evidence that ANZ CEOs share a growing optimism about the near future. Consider the following survey results.

Which will be your key focus over the next 3 years? ANZ CEOs



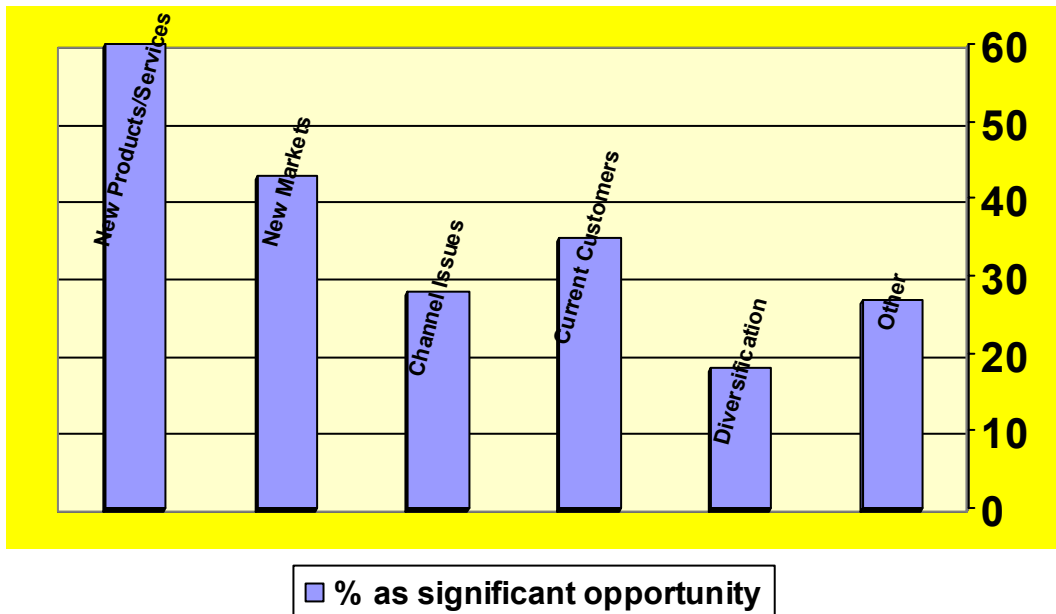
Source: IBM CEO Study 2004; Forbes; L21 Analysis

Although more defensive priorities such as 'Cost Control' and 'Risk Management' still rate significantly, the most anticipated goal is now revenue growth. This is a clear change from the pattern of the last three years.

Significantly, CEOs are starting to again use words akin to 'building' for the 'future', 'opportunities' and 'growth'. Words like 'caution', 'protection' and 'survival' are still in the kitbag but are less prominent.

As an example of ANZ CEOs preparing for a full assault on revenue growth, consider the areas identified as the greatest opportunity for growth.

Which areas offer the greatest opportunity for growth in the next 3 years?
ANZ CEOs



Source: IBM CEO Study 2004

The areas most targeted as likely ones for revenue growth are the more ambitious and expansionary ones such as 'New products/services' and 'New markets' rather than ones that more efficiently utilise existing resources and models such as from 'Current customers'. This shows a categorical expectation of general market and economic growth rather than just companies fighting for a bigger piece of the same size pie.

Moreover, as detailed in the previous *Worth Noting*, the more aggressive avenues for revenue growth have led to greater and more innovative marketing expenditures. This is always a general signal that companies are beginning to explore aggressive policies and not only consolidate and manage risk.

The global picture from CEOs

The economic outlook for 2004-2005 is strong but the longer term prognosis is still shaky. This is based on perceived imbalances in the U.S. (especially massive deficits), continued weakness in European countries that appear structural rather than cyclical (i.e., labour market inflexibilities) and continued uncertainty about the true extent of the Japanese 'recovery'. Moreover, much of the current growth in commodity prices is driven by demand from China – not too many economists are willing to stake their reputations on guessing what the future holds for this massive emerging market.

Nevertheless, it is clear that business optimism has grown in major global markets. The survey below of global 527 CEOs from 76 countries is an illustration.

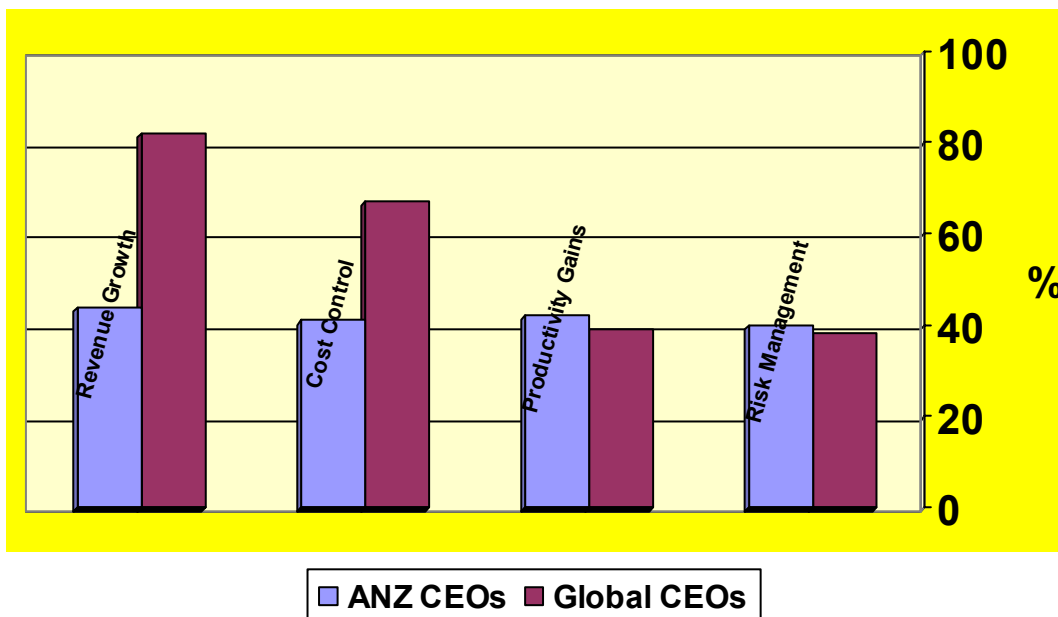
How do you view the prospects for business in the global marketplace over the next three years?

	2004	2003
Very Bad	1	1
Bad	5	16
Indifferent	18	22
Good	69	55
Very Good	7	6

Source: The Economist intelligence Unit *CEO Briefing 2004*

On the face of it, it appears that global CEOs share the same perspectives as ANZ CEOs – revenue growth is all the rage.

Which will be your key focus over the next 3 years?
ANZ CEOs vs. Global CEOs



Source: IBM CEO Study 2004; Forbes

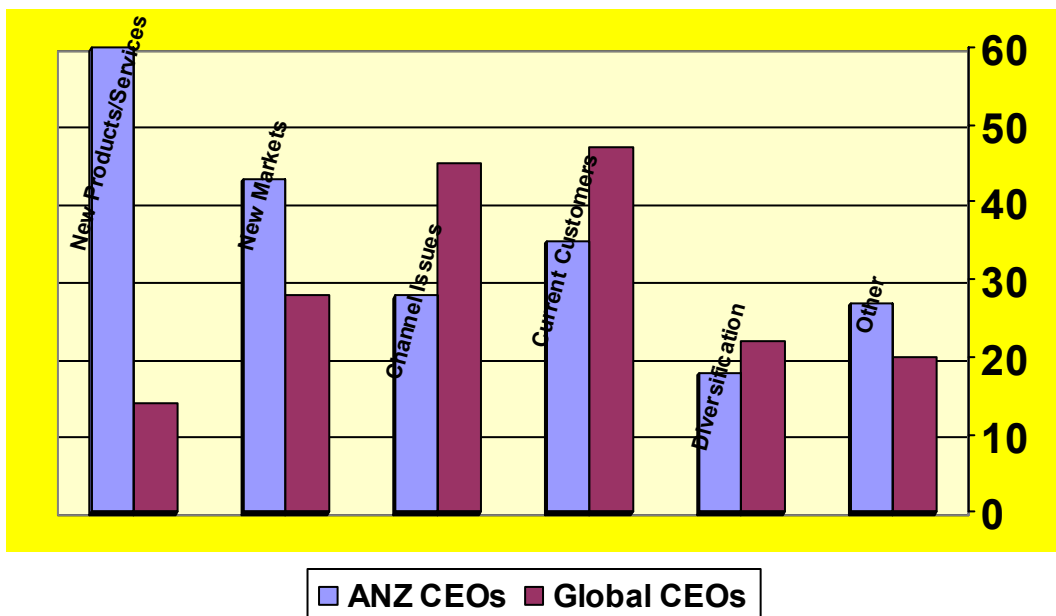
Yet, there are differences in the perceived sources and threats to future revenue growth for global CEOs compared to ANZ ones.

Whilst ANZ CEOs operate in a structural environment that they are generally happy with, and see threats to growth mainly coming from either internal company failures in operations and strategy, global CEOs have different concerns. Recent surveys indicate that the uncertainty from greater global political events are receding in significance as CEOs are more willing to take events like terrorist attacks in their stride as part and parcel of the modern operating environment rather than calamitous aberrations.

However, there is an increasing tendency for global CEOs to see the threat to growth coming from tighter regulations and unhelpful government policies, particularly in labour market obligations and other 'burdens' of compliance.

There is also evidence that global CEOs are not as bullish about the future as their ANZ counterparts and are hence not as aggressive in their methods. Consider the following chart.

**Which areas offer the greatest opportunity for growth in the next 3 years?
ANZ vs. Global CEOs**



Source: IBM CEO Study 2004; The Economist Intelligence Unit; L21 Analysis

Unlike ANZ CEOs, for global CEOs, opportunities will arise more from greater efficiency and exploitation of current markets and customers, not from new products and new markets. There is a sense that unlike the Australian economy which suffered only at worst a very mild recession, global markets suffered a much bigger dip and global companies are hence struggling to recover lost ground rather than create completely new opportunities.

It would still be fair to say that ANZ CEOs are much more optimistic about the longer term prospects of the economy than CEOs in other major economies. Whether this is inward looking ignorance on our part or the sort of optimism that secures future markets remain to be seen.