

Business Leader Survey 2007 results

Background

Through the Chartered Accountants Business Leader Awards, the Institute of Chartered Accountants in Australia and Perpetual are committed to advancing business leadership in Australia. These awards, created by the Institute, celebrate the highest achievers in Australian business.

To better understand the needs and issues faced by Australian business leaders, Perpetual conducts an annual survey of senior business executives from leading Australian companies. Each year, the survey explores the views of Australia's senior executives on leadership, philanthropy and trends in business. This report describes the key findings from the 2007 survey.

Research design

Senior business executives were invited to participate in the survey by completing an online or hard-copy questionnaire. The survey was conducted between 15 March and 5 April 2007 and 520 validated responses were received. The overall response rate was 6.5%, which provides a good representation from the target response group.

To encourage participation, respondents were entered into a draw to win a case of Penfolds Grange, and Perpetual donated \$100 to the Perpetual Foundation for every returned questionnaire. As a result, \$53,000 was donated to programs supported by the Perpetual Foundation, including Surf Life Saving Australia and The Salvation Army.

About the respondents

The survey respondents were typically Managing Directors (25%), Partners (19%), Directors (15%), CEOs (14%) or Heads of business areas (12%), covering a good range of business sizes. While the majority of businesses represented were privately owned, the sample of 101 publicly listed companies was sufficient for a separate analysis.

Chart 1 – Respondent profile

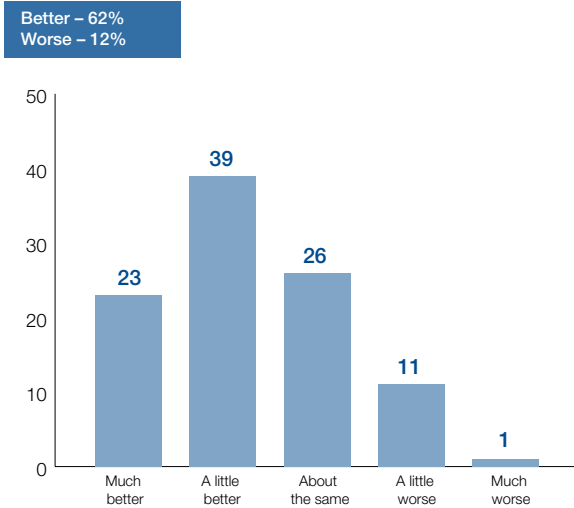


Key findings

The business environment

Business leaders are **optimistic about the outlook** for their business next year. Most leaders (62%) expect their business to perform better next year than last, and nearly a quarter expect performance to be 'much' better. Only a minority (12%) anticipate a downturn for their business.

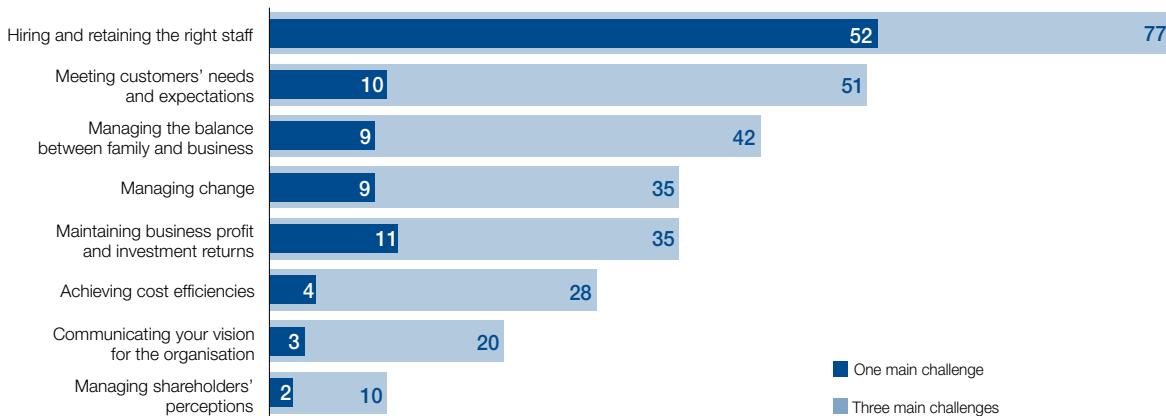
Chart 2 – The outlook for business next year compared to this year (%)



Issues facing business leaders

We found in last year's Business Leader Survey that the **war for talent** was the most pressing issue facing executives. This issue shows no sign of abating as the retention and recruitment of staff continues to be the primary challenge faced by business leaders in the past year. Just over half (52%) said this was the one main challenge they had faced, while three-quarters (77%) nominated it as one of their top three challenges.

Chart 3 – Issues faced by leaders in the past 12 months (%)



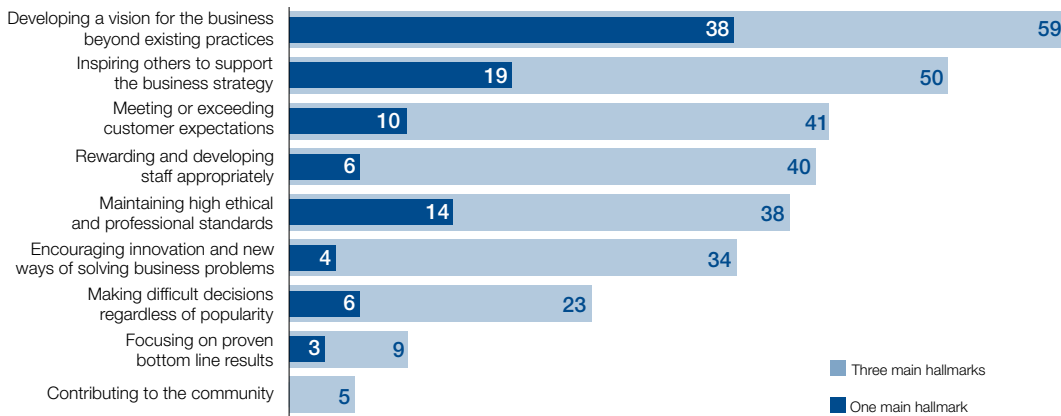
Given the positive outlook expressed by most respondents, it is no surprise that business leaders expect the challenge of finding and retaining staff will continue through next year. Around half (48%) say it will be their biggest issue next year, and three-quarters (76%) expect it will rank in their top three challenges for the year. Leaders' expectations of the business outlook largely determine the challenges they anticipate over the coming year - those who are optimistic about the outlook are particularly concerned about finding staff, while the minority, who are pessimistic, are more concerned with maintaining profits and achieving cost efficiencies.

Characteristics of leadership

Respondents were asked about the most important hallmarks of leadership and the most important measures of a leader's success.

In a similar result to last year's survey, leaders typically nominate '**developing a vision** for the business beyond existing practices' as the most important hallmark of leadership. Four in ten (38%) said this is the most important hallmark of leadership and six in ten (59%) nominate it as one of the top three.

Chart 4 – The hallmarks of leadership (%)



In terms of importance, developing a vision for the business is followed by ‘inspiring others to support the business strategy’. However, cluster analysis indicates that these two hallmarks of leadership are regarded as quite distinct issues. This type of analysis examines the pattern of responses among individual leaders, and it yields an insight into the personal leadership styles of Australia’s senior executives. Those respondents who mention developing a vision, usually also mention innovation as a key hallmark of leadership. Those who mention inspiring others to support the business strategy tend also to regard making difficult decisions a key hallmark of leadership. A third cluster of leaders emphasises the needs of customers, staff and the community as the important hallmarks of leadership.

Chart 5 – Three types of leaders are apparent

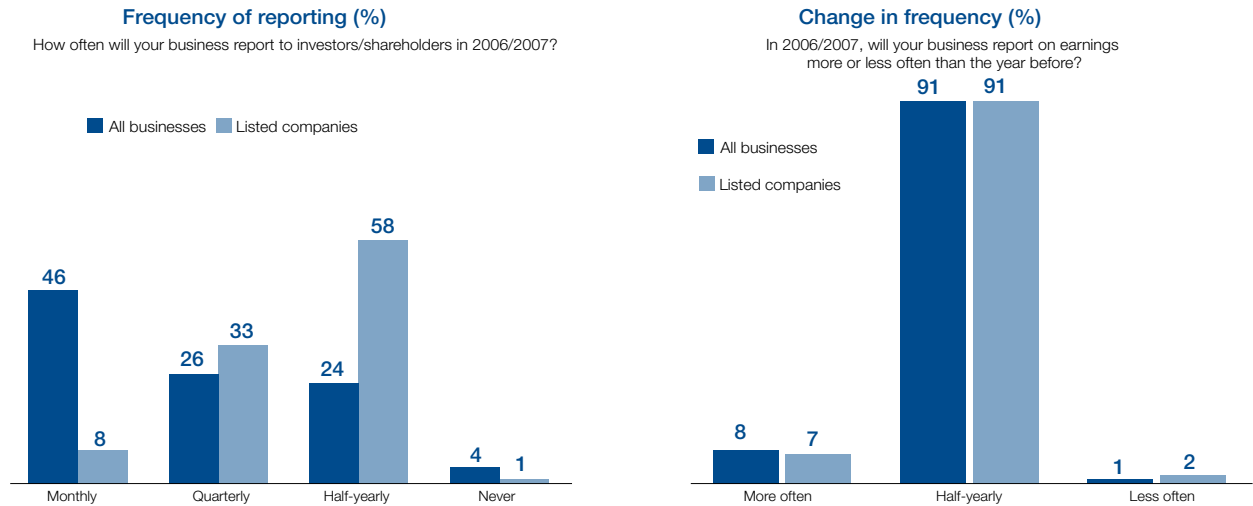
Type	Hallmarks of leadership style	Related characteristics
‘Innovators’ (49%)	Developing a vision beyond existing practices Encouraging innovation and new ways	More optimistic about business outlook. Feel business has major responsibility for charity. Make large business donations.
‘Humanists’ (26%)	Meeting customer expectations Rewarding and developing staff High ethical standards Contributing to community	Often work in small businesses. Personally donate more to charity each year.
‘Generals’ (25%)	Inspiring others to support the business strategy Making difficult decisions regardless of popularity	More pessimistic about business outlook. Inclined to donate less each year. Often work in large corporations. Believe their financial reporting is too short-term focused.

When asked about the most important measures of a leader’s success, respondents most often nominate **customer loyalty** and **advocacy scores**, followed by staff retention rates and various financial measures of business performance. In terms of their own development as a leader, these executives value their years of experience in business over other factors.

Attitudes to financial reporting

Overall, close to three-quarters (72%) of the businesses represented in this survey report their financial results to investors and shareholders at least every three months. However, this includes the large contingent of privately-owned businesses that are no doubt reporting to internal equity-owning partners through monthly management reporting. Publicly owned companies (those listed on the stock exchange) report less frequently – generally every six months (58%), although a large minority (39%) report quarterly or monthly.

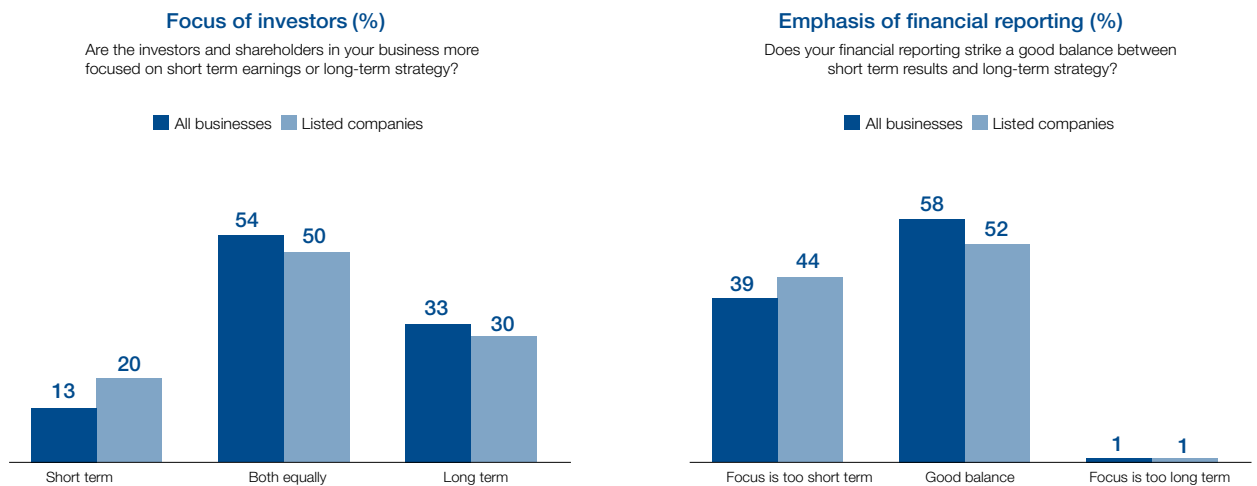
Chart 6 – Frequency of financial reporting



While the great majority of business leaders perceive no change in the frequency of their financial reporting, there is a slight trend towards **more short-term reporting**. Around one in ten (8%) say their business will report earnings more often this year than last, while only a tiny fraction will report less often.

Investors are generally regarded as focused on a balance of short and long-term objectives, with a skew towards long-term focus. Financial reporting, however, is regarded as somewhat skewed towards a short-term focus (see Chart 7). This suggests that factors other than shareholder needs are often influencing the emphasis of business financial reporting.

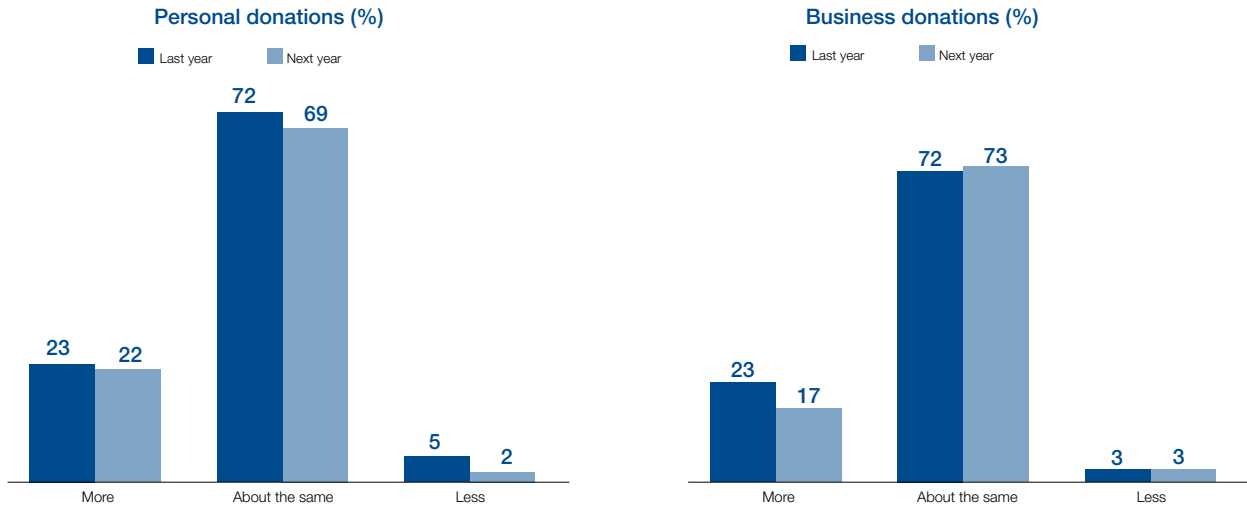
Chart 7 – Focus of investors and financial reporting



Philanthropy and charitable trusts

There is a clear trend among Australia's business elite towards giving more to charities, both personally and in business. Nearly a quarter (23%) made **larger personal donations** last year than the year before and a similar proportion (22%) plan to give more next year. Business donations tell a similar story, with 23% saying their business gave more to charity last year and 17% are planning to give more next year.

Chart 8 – This year’s donation compared to last year and next



The main driver of this **increase in generosity** is an increase in personal wealth and business earnings. Most of those who are planning to give more personally next year say they will do so because they will be earning more next year (55%). Other reasons for increased personal donations include extended involvement with charities (19%), a sense of obligation to the needy (17%) and a growing awareness of community needs (13%)

‘I will give more next year because it’s the right thing to do if your income increases annually and you can afford to give.’

‘More and more people are falling through the cracks, and their plight contrasts to how fortunate I am.’

Leaders who plan to boost business donations next year most often point to strong earnings as the primary driver for business philanthropy (39%). Again, the impact of strong business confidence is evident here, with those leaders who are most optimistic about their forecast also more likely to boost donations next year (and those who are worried about next year’s outlook are more likely to cut company donations).

‘The business is becoming more established and more profitable, hence we feel comfortable sharing some of the spoils as we grow.’

The expectations of corporate social responsibility also play a role in bolstering business philanthropy. A number of respondents commented that while the business donates largely because it can afford to in a strong economic environment, there is a sense of obligation on businesses to appear to be a good corporate citizen.

‘There’s a trend of good corporate governance which translates to a perceived need to be one of the biggest corporate contributors around. Therefore, the view is that we must be willing to give more – to raise the idea of giving less is to go against today’s expectations of big business.’

In keeping with the **trend towards philanthropy**, around a quarter of senior executives (27%) and the businesses they represent (26%) would consider setting up a charitable trust or foundation. Large businesses with 100 - 999 employees are particularly likely to consider setting up a trust. Smaller organisations typically do not donate sufficient sums to warrant establishing a trust and many large corporations (53% of businesses with more than 1,000 employees) already operate a trust.

Chart 9 – Likelihood of setting up a trust or foundation (%)

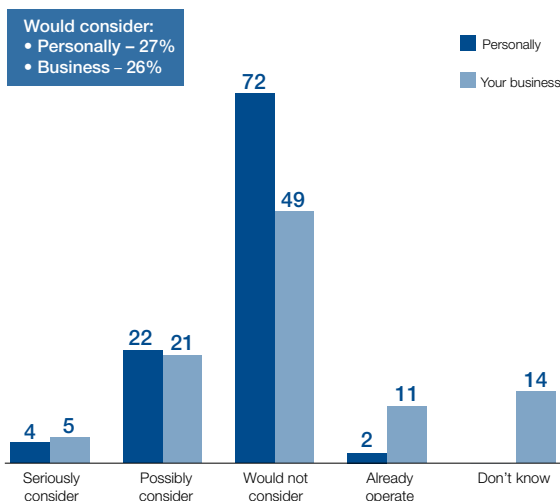
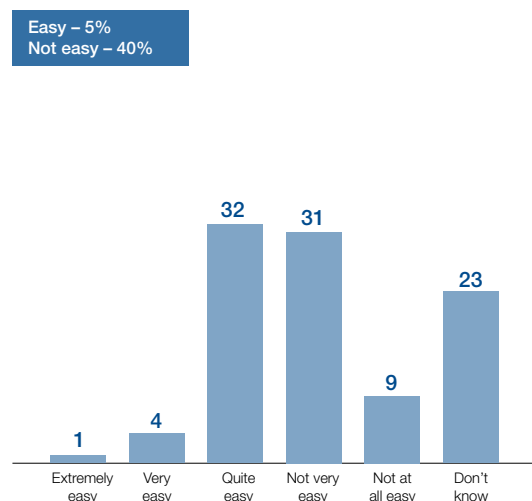


Chart 10 – Perceived ease/difficulty of setting up a charitable trust (%)

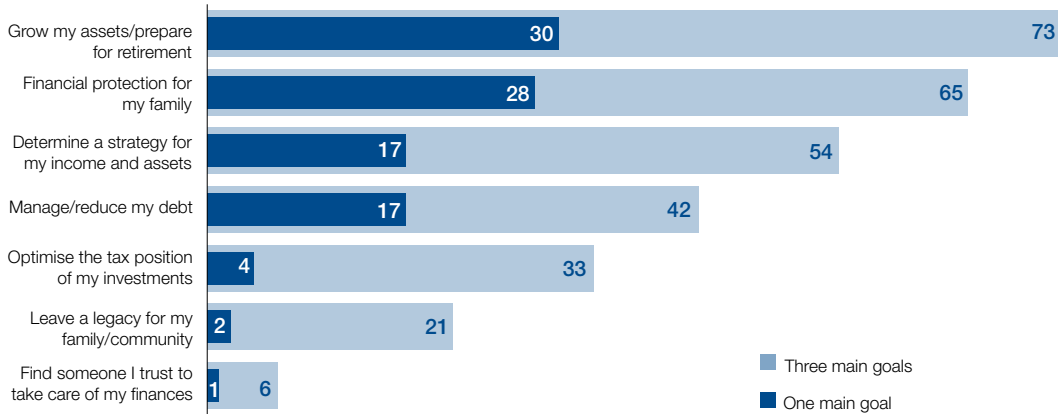


There is a perception that setting up a charitable trust would be difficult. Only a small proportion (5%) of these senior executives felt that setting up a trust would be easy, while four in ten (40%) expect that the process would be difficult. The main challenges anticipated are the legal requirements (33%) and tax requirements (29%) involved in setting up a trust.¹

Financial goals

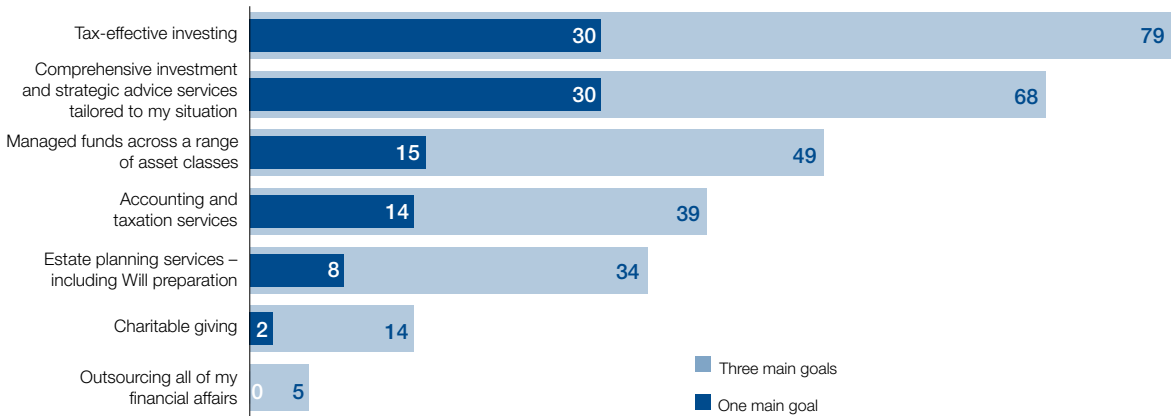
When asked to nominate their most important financial goals, **asset growth** and **financial protection** emerge as the main priorities, followed by determining a strategy for their income and assets, as well as debt reduction. Younger leaders are presently more focused on debt reduction and their tax position, while older executives are focused on building retirement assets.

Chart 11 – Financial goals (%)



In terms of the financial products and services they seek, senior executives are primarily interested in **tax effective investing**, as well as comprehensive investment advice, managed funds and accounting services. Notwithstanding the general trend towards larger charitable donations, charitable giving is a low priority relative to other financial products and services. This is in keeping with the finding that the increase in charitable giving is determined largely by the donor’s capacity to give – in the form of increased personal income or stronger business earnings. Philanthropy is typically offered when financial objectives closer to home have been fulfilled.

Chart 12 – Financial products and services sought (%)



Thank you

Perpetual and the Institute of Chartered Accountants would like to thank all participants for their contribution. We look forward to continuing to work alongside Australia’s business leaders in the future.

1. Perpetual is one of the largest managers of private charitable foundations in Australia, managing more than 450 charitable trusts on behalf of the original donors. Perpetual takes care of all the legal and tax issues involved in establishing a trust, in addition to financial management of the funds.