

Business Performance and Priorities in the Downturn

**Views of CEOs, business owners, directors
and top level executives**

© Australian Institute of Management VT (Victoria / Tasmania)

This report has been produced by the Australian Institute of Management VT. Apart from any use permitted under the *Copyright Act 1968*, no part of this publication may be reproduced without express written consent. Requests should be made to the Australian Institute of Management in Melbourne.

The views and opinions expressed in this document are those of the Australian Institute of Management VT.

Document prepared by:

Leigh Funston and Hwafern Quach

For further information regarding the contents of this report, please contact:

Mr Leigh Funston

Head, Stakeholder Relations

Australian Institute of Management (Vic/Tas)

181 Fitzroy St, St Kilda 3182

Phone - +61 3 9534 8181

Email - lfunston@aimvic.com.au

Executive Summary

Dealing with the Downturn and Beyond

The Australian Institute of Management recognises the global economic crisis will test the skill sets and capabilities of organisations – and the people who manage them – to an extent that would not have seemed possible 12 months ago.

The extent of the crisis and the constraints on lending, have seen the Federal Government establish a \$4billion partnership with the nation's major banks to ensure the refinancing of current Australian commercial property syndicated loans impacted by the withdrawal of foreign bank funding.

Clearly, the availability of credit will be a key driver of a company's performance over the next one to two years.

Our survey, 'Business Performance and Priorities in the Downturn' sought the views of CEOs, business owners and top level executives on how the crisis was affecting their organisations. These business people came from a cross section of Australian industry working with small to large enterprises. The survey attracted 528 participants.

Two key findings have emerged from the survey – the crisis is cutting deeply into the revenue streams of our nation's companies and secondly, despite that, survey respondents are optimistic about the future for their companies.

Only 11 per cent of survey participants said their business has not been impacted by the crisis. Around a quarter of respondents advise that their company has been significantly affected by the downturn. The industry segment most impacted by the crisis has been large companies. One in three (32%) of our large company respondents said their organisation is looking at downsizing and retrenchments. This finding compares to 13 per cent of small companies and 23 per cent of medium sized companies who said downsizing/retrenchments are on the agenda. The greater impact of the crisis on large companies is a pointer to the cascading nature of the downturn and to the need for smaller sized enterprises to be ready for its full impact. I fear that some small companies may not yet be ready to deal with the realities of the tightening credit lines. Companies need to look at their core business operations and examine revenue projections, working capital levels and recognise that 'cash is king'.

“Eighty one per cent believe investment in the development and retention of their employees will have a pay off in the future.”

The scale of the financial 'hit' that companies are experiencing is revealed by our survey data showing that 55 per cent of organisations have suffered a loss in revenue. Worse is still to come with respondents indicating a 38 per cent reduction in orders, a 33 per cent decline in request for quotations and a 19 per cent increase in bad debts.

What is very encouraging is that the survey data shows a high level of confidence by respondents in the long term health and well being of their organisations. Eighty seven per cent said they believe their company will survive the downturn and 84 per cent are positive about the future of their organisations. Of particular interest to federal and state governments is that only 16 per cent of respondents disagree with the view that the 'Australian economy is fundamentally sound and is well placed to weather the full impact of the global financial crisis'. Significantly, 71 per cent of respondents indicate that the downturn is a good opportunity to gain a competitive advantage and build market share whilst many of their competitors are in retreat.

In a particularly positive sign for the 'rebound' capabilities of Australian companies, 81 per cent of survey participants believe investment in the development and retention of their employees will have a pay-off in the medium term future. Thirty three per cent of respondents said their organisation will be increasing expenditure for professional development and training over the next year. Despite the impact of the downturn, 59 per cent believe there will be a long term shortage of skilled, well trained employees.



Susan Heron

CEO

Australian Institute of Management VT

Melbourne, February 2009

Methodology

As the impact of the global economic crisis deepens, Australian companies face the almost certain prospect of our nation going into recession.

Already, many of Australia's trading partners are in recession and this has led to a decline in world trade and a tightening in foreign credit availability.

The questions in this survey have been developed to gain a better understanding of how Australian businesses are performing in the downturn and how they are positioning their organisations for long term growth.

The survey was sent to top level executives including CEOs, business owners, directors and senior management across the broad spectrum of employment fields. A range of business sizes have been covered from small businesses employing 1-25 people, medium (26-200 people) and large (201+ people). Survey participants were sourced from the Australian Institute of Management's database. The overwhelming majority of survey respondents were drawn from Victoria, Tasmania, Queensland and the Northern Territory.

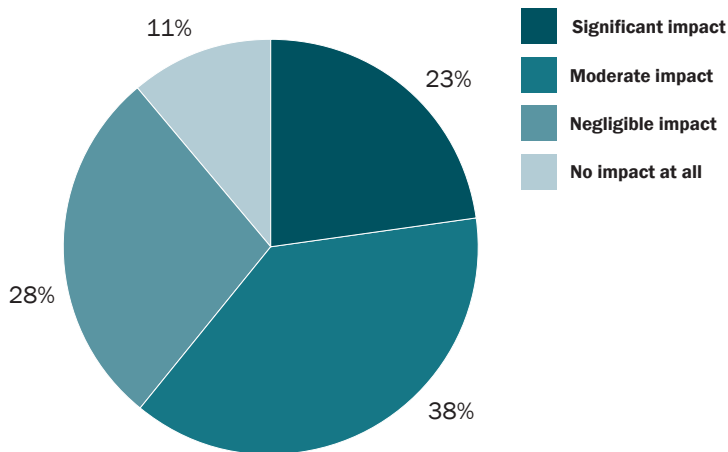
An initial email was sent on the 12th December 2008, inviting people to provide feedback before January 9 on business performance and priorities in a downturn.

In total, over 520 responses have been used in the analysis of our survey results. All survey questions were made mandatory, so survey results only include those who have completed the survey.



Survey Results

Question 1: Has the global economic crisis directly impacted on your business?



Significant impact	23%
Moderate impact	38%
Negligible impact	28%
No impact at all	11%

	Small	Medium	Large
Significant impact	23%	17%	33%
Moderate impact	35%	44%	38%
Negligible impact	28%	27%	25%
No impact at all	14%	12%	4%

- The survey results underline the widespread impact of the global economic crisis on Australian businesses. Just 11% of respondents said their business has not been impacted by the crisis.
- 23% of respondents said their business has been significantly impacted by the crisis.
- Significantly, the responses show that larger organisations have felt the crisis more than medium or small sized companies. One in three of our large company respondents said the crisis has made a significant impact on their business compared to 17% (medium) and 23% (small). Only 4% of large organisations reported that there has been no impact on their business from the crisis.

Question 2: How has it impacted on your organisation? (Select all that apply)

Loss in revenue	55%
Reduction in orders	38%
Decline in request for quotations	33%
Increased bad debts	19%
Reduction in available tenders	14%
Loss of potential investors	12%
Drop in market share	6%
Other, please specify	22%

	Small	Medium	Large
Loss in revenue	43%	51%	63%
Reduction in orders	30%	40%	37%
Decline in request for quotations	30%	33%	20%
Increased bad debts	14%	19%	20%
Reduction in available tenders	12%	13%	12%
Loss of potential investors	9%	11%	16%
Drop in market share	6%	3%	7%
Other, please specify	21%	16%	23%

- 55% of companies have seen a loss in revenue, which underlines why 'cash is king'.
- The top four indicators – loss in revenue, reduction in orders, decline in request for quotations and increased bad debts paint a grim picture of the challenges ahead.

Question 3: How do you intend to best position your business during a downturn? (Select all that apply)

Retention of skilled employees a priority	59%
Stronger focus on cash flow	55%
Restructuring (cost reduction)	42%
Increase productivity	41%
Increase domestic customer base	41%
Introduce new products	31%
Maintain/ boost marketing and advertising	30%
Training/ professional development a priority	28%
Build a partnership with another business	27%
Downsizing/ retrenchment	20%
Increase international customer base	17%
Reduce wages/ conditions/ bonuses	12%
Maintain/ boost research & development	11%
Pursue capital and infrastructure investment	10%
Focus on takeover targets	9%
Other, please specify	7%

	Small	Medium	Large
Retention of skilled employees a priority	45%	74%	71%
Stronger focus on cash flow	49%	63%	57%
Restructuring (cost reduction)	30%	51%	62%
Increase productivity	32%	49%	51%
Increase domestic customer base	44%	38%	35%
Introduce new products	32%	37%	18%
Maintain/ boost marketing and advertising	35%	24%	24%
Training/ professional development a priority	24%	34%	31%
Build a partnership with another business	31%	24%	23%
Downsizing/ retrenchment	13%	23%	32%
Increase international customer base	15%	18%	21%
Reduce wages/ conditions/ bonuses	10%	13%	12%
Maintain/ boost research & development	9%	15%	13%
Pursue capital and infrastructure investment	9%	10%	12%
Focus on takeover targets	8%	8%	12%
Other, please specify	6%	8%	7%

- The number one objective listed by respondents is 'Retention of skilled employees a priority' at 59%.
- Cash flow and a focus on cost reduction are also key priorities.
- Interestingly, restructuring is listed as a much greater priority in 2009 for large companies than it is for small organisations (62% to 30%).
- Disturbingly, 32% of large organisations are looking at downsizing/ retrenchment.

Question 4: Prior to the downturn, did your company have any plans to publicly list within the next:

1 Year	1%
2 Years	2%
3 Years	2%
4 Years	0%
5+ Years	1%
No plans to list company	94%

- 6% of our respondents had plans to publicly list their company.

Question 5: Has the downturn caused you to review these plans?

Yes	71%
No	29%
Total	100%

- Given the significance of the crisis, it is not surprising that 71% of those companies that did have plans to list their company have reviewed such plans due to the downturn.

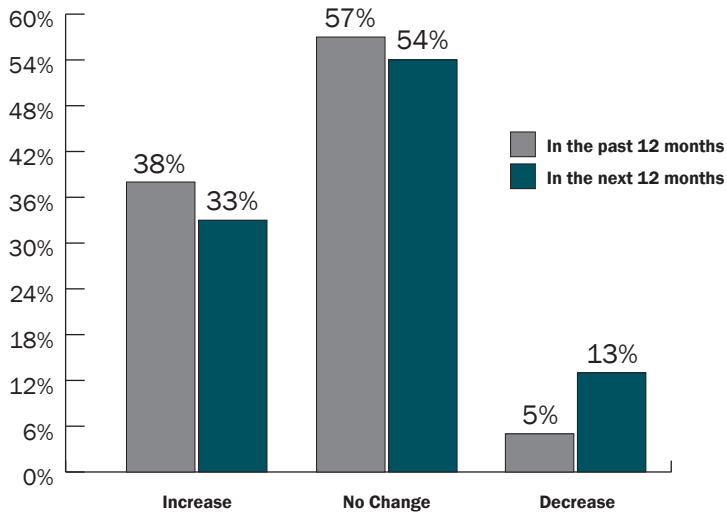
Question 6: Please indicate your levels of agreement with the following statements: (From 1= Strongly agree to 5= Strongly disagree)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
I am positive about the future of my organisation.	45%	39%	11%	4%	1%
An economic downturn is a good opportunity to gain a competitive advantage and build market share whilst many of your competitors are in retreat.	26%	45%	17%	10%	2%
The Australian economy is fundamentally sound and is well placed to weather the full impact of the global financial crisis.	10%	45%	29%	15%	1%
World economic conditions strongly influence the way my organisation operates.	11%	30%	20%	34%	5%
My business will survive the downturn.	49%	38%	9%	2%	2%
Australia's ageing workforce means there will be a long term shortage of skilled, well trained employees.	20%	39%	23%	15%	3%
I believe investment in the development and retention of our employees now will have a pay off in the medium term future.	27%	54%	13%	4%	2%

		Small	Medium	Large
I am positive about the future of my organisation.	Strongly Agree	45%	40%	51%
	Agree	38%	44%	33%
	Undecided	13%	11%	6%
	Disagree	3%	4%	7%
	Strongly Disagree	1%	1%	3%
An economic downturn is a good opportunity to gain a competitive advantage and build market share whilst many of your competitors are in retreat.	Strongly Agree	26%	23%	28%
	Agree	43%	51%	41%
	Undecided	18%	16%	15%
	Disagree	10%	9%	14%
	Strongly Disagree	3%	1%	2%
The Australian economy is fundamentally sound and is well placed to weather the full impact of the global financial crisis.	Strongly Agree	14%	8%	6%
	Agree	41%	47%	49%
	Undecided	26%	34%	28%
	Disagree	17%	11%	15%
	Strongly Disagree	2%	0%	2%
World economic conditions strongly influence the way my organisation operates.	Strongly Agree	10%	9%	17%
	Agree	26%	31%	35%
	Undecided	20%	24%	17%
	Disagree	37%	33%	28%
	Strongly Disagree	7%	3%	3%
My business will survive the downturn.	Strongly Agree	46%	47%	62%
	Agree	39%	43%	26%
	Undecided	11%	9%	6%
	Disagree	2%	0%	3%
	Strongly Disagree	2%	1%	3%
Australia's ageing workforce means there will be a long term shortage of skilled, well trained employees.	Strongly Agree	21%	15%	23%
	Agree	35%	40%	45%
	Undecided	23%	22%	22%
	Disagree	18%	17%	8%
	Strongly Disagree	3%	6%	2%
I believe investment in the development and retention of our employees now will have a pay off in the medium term future.	Strongly Agree	25%	26%	36%
	Agree	54%	57%	51%
	Undecided	15%	14%	6%
	Disagree	5%	2%	3%
	Strongly Disagree	1%	1%	4%

- 87% believe that their business will survive the downturn.
- Only 16% of respondents disagree with the statement that the Australian economy is fundamentally sound and is well placed to weather the full impact of the global financial crisis.
- Despite the crisis, 84% of organisations remain positive about the future of their business.
- The response data shows that decision makers are still investing in the future of their business by investing in the development and retention of their employees (81%).
- The belief that investment now in employee development and retention will pay off in the medium term future ties into responses to Q3 – Retention of skilled employees a priority.
- 59% agree that we are facing a long term skills shortage.

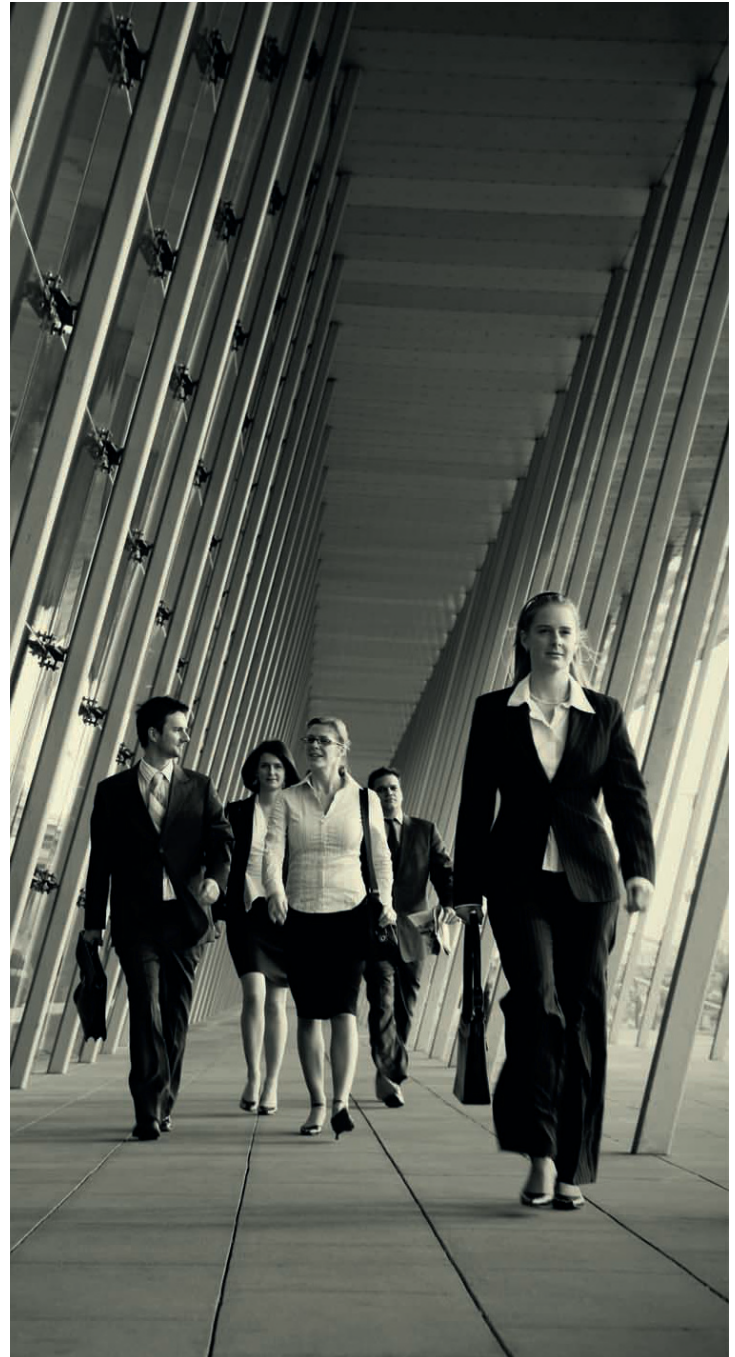
Question 7: Please indicate levels of expenditure for professional development/ training: (1= Increase, 2= No change, 3= Decrease)



	Increase	No Change	Decrease
In the past 12 months	38%	57%	5%
In the next 12 months	33%	54%	13%

		Small	Medium	Large
In the past 12 months	Increase	32%	45%	42%
	No Change	64%	50%	50%
	Decrease	4%	5%	8%
In the next 12 months	Increase	32%	33%	35%
	No Change	57%	53%	48%
	Decrease	11%	14%	17%

- The survey results show that professional development/ training remain very important in the business planning cycle of companies.
- More than 30% of organisations (small to large) intend to increase training over the year ahead.



Question 8: Has your company found it increasingly difficult seeking external funds to support business operations in the wake of the global economic crisis?

No	21%
Yes	18%
Unsure	2%
Have not sought funds since the economic crisis began	59%

	Small	Medium	Large
Yes	13%	19%	31%
No	17%	24%	25%
Unsure	2%	1%	2%
Have not sought funds since the economic crisis began	68%	56%	42%

- Response data shows that larger companies are finding it increasingly difficult to seek external funds (31%).

Question 9: Which of the following external funding options has your company routinely/ traditionally pursued to develop your business? (Select all that apply)

Existing banks/ financial institutions	62%
Working capital	24%
Equity (Private)	11%
Equity (Market)	6%
None	6%
Overseas finance	5%
Factoring	3%
Government	3%
Bond issuance	1%
Other, please specify	2%

	Small	Medium	Large
Existing banks/ financial institutions	59%	66%	64%
Working capital	20%	26%	33%
Equity (Private)	13%	9%	11%
Equity (Market)	2%	4%	17%
None	9%	3%	2%
Overseas finance	3%	5%	11%
Factoring	3%	4%	2%
Government	3%	2%	4%
Bond issuance	0%	0%	5%
Other, please specify	3%	3%	1%

- This response data shows a strong reliance on 'traditional' funding options available through the banks and financial institutions.

Question 10: Since the downturn began, which alternative new sources of funding has your company pursued or will consider pursuing? (Select all that apply)

No other funding sources	65%
Alternative banks/ financial institutions	16%
Internal funding from operations	12%
Equity (Private)	10%
Working capital	10%
Overseas finance	3%
Equity (Market)	2%
Factoring	2%
Bond issuance	0%
Other, please specify	3%

	Small	Medium	Large
No other funding sources	70%	62%	59%
Alternative banks/ financial institutions	13%	19%	21%
Internal funding from operations	10%	13%	16%
Equity (Private)	10%	11%	9%
Working capital	8%	12%	13%
Overseas finance	2%	1%	6%
Equity (Market)	1%	1%	8%
Factoring	1%	3%	2%
Bond issuance	0%	0%	2%
Other, please specify	8%	1%	2%

- Overall, 65% of respondents said their organisations have not pursued new funding sources to support business operations. This is further indication that companies remain satisfied with current practices and lenders.

Question 11: How has the economic downturn impacted on your organisation's cash reserves?

Being maintained at pre-downturn levels	51%
Decreasing	39%
Increasing	10%

	Small	Medium	Large
Being maintained at pre-downturn levels	49%	60%	46%
Decreasing	41%	32%	43%
Increasing	10%	8%	11%

- A disturbing finding is that 39% of respondents have indicated that cash reserves have decreased during the downturn. This points to the need for companies to comprehensively assess their future funding requirements.

Question 12: If you are employed with a subsidiary company, has your parent company been looking to replace local debt with overseas funding?

No	72%
Unsure	18%
Yes	10%

- 22% of respondents are with subsidiary companies. Of that number, only 10% of parent companies have been looking at replacing local debt.

Question 13: Under the terms and conditions of your current credit facilities, are you concerned that the economic downturn will create difficulties with current lenders?

No	60%
Unsure	20%
Yes	20%

	Small	Medium	Large
No	60%	60%	58%
Yes	16%	22%	28%
Unsure	24%	18%	14%

- Majority of organisations (60%) are confident in their current lenders.
- 1 in 5 respondents are concerned with their current lenders.
- An examination of the responses according to company size reveals a worrying picture for the small business sector. The comparatively low 'yes' response by small business participants in the survey indicates they may be underestimating future credit access difficulties. Also, the comparatively high 'unsure' response points to the need for greater awareness about the possibilities ahead.

Question 14: Have the following factors become more/ less important for your organisation since the beginning of the economic downturn: (1= More important, 2= No change, 3= Less important)

	More important	No change	Less important
Access to funding	25%	74%	1%
Paying creditors	15%	84%	1%
Managing cash flow	65%	35%	0%
Developing new products/ services	50%	44%	6%
Ability to fund payroll cost	15%	83%	2%
Cost of finance	19%	74%	7%
Accounts receivable	51%	48%	1%
Capital expenditure	31%	58%	11%

- 50% of businesses see that the development of new products and services has become more important since the crisis began.
- With businesses now more cautious of their financial stability, we see that capital expenditure focus has become more important for 31% of respondents.
- A disturbing finding is that only 18% of respondents with small sized companies said that access to funding has become more important since the downturn began. This contrasts with 35% of respondents with large organisations who indicated it has become more important. Clearly, with access to capital set to become tighter, small companies need to focus on establishing secure funding arrangements to help sustain and develop their businesses.

		Small	Medium	Large
Access to funding	More important	18%	30%	35%
	No Change	81%	70%	65%
	Less important	1%	0%	0%
Paying creditors	More important	12%	19%	14%
	No Change	86%	80%	86%
	Less important	2%	1%	0%
Managing cash flow	More important	59%	72%	71%
	No Change	40%	28%	29%
	Less important	1%	0%	0%
Developing new products/ services	More important	55%	49%	39%
	No Change	40%	45%	52%
	Less important	5%	6%	9%
Ability to fund payroll cost	More important	15%	17%	11%
	No Change	81%	83%	88%
	Less important	4%	0%	1%
Cost of finance	More important	14%	22%	29%
	No Change	80%	69%	64%
	Less important	6%	9%	7%
Accounts receivable	More important	43%	58%	60%
	No Change	55%	42%	40%
	Less important	2%	0%	0%
Capital expenditure	More important	23%	30%	52%
	No Change	66%	58%	37%
	Less important	11%	12%	11%

Respondent Profile

Detailed below is a breakdown of the respondents who answered the survey questionnaire.

Gender

Female	19%
Male	81%

Age

21 - 28	1%
29 - 35	2%
36 - 45	24%
46 - 55	37%
56 - 65	28%
66 +	8%

Education

Less than Year 12	4%
Completed Year 12	5%
Certificate Level	6%
Diploma Level	14%
Undergraduate Degree	23%
Post Graduate Qualification	44%
PhD	4%

State

Queensland	29%
Victoria	63%
Other	8%

Organisation size

Small	51%
Medium	30%
Large	19%

Position

CEO	25%
Business Owner	46%
Board of Directors	3%
Senior Manager	26%

Industry

Agriculture/ Forestry/ Fishing	2%
Engineering/ Construction/ Property/ Business Services	11%
Consulting/ Professional Services	23%
Education/ Training	9%
Finance/ Insurance	6%
Government Administration	1%
Health/ Community Services	6%
IT/ Communication Services	8%
Manufacturing/ Transport/ Storage	11%
Mining	3%
Retail/ Wholesale Trade	8%
Tourism/ Hospitality/ Leisure	2%
Uniformed/ Emergency Services	1%
Utilities	1%
Other	8%

Australian Institute of Management - Victoria and Tasmania

Management House 181 Fitzroy Street, St Kilda, Victoria, 3182

T +61 3 9534 8181 F +61 3 9534 5050

W aimvic.com.au E enquiry@aimvic.com.au ABN 57 611 096 092



no limits