

Redefining business success in a changing world



PwC's 19th Annual Global CEO Survey Australian report and analysis



82%

of CEOs believe business success in the 21st century will be redefined by more than financial profit



1/3

of Australian CEOs feel confident about revenue growth in the next 12 months



78%

of CEOs see more threats today than they did 3 years ago

CEOs believe the top priorities for the Australian government are:



61% – stable and effective tax system



53% – adequate physical and digital infrastructure



49% – skilled workforce

The Australian CEO

Key findings from this year's survey

Only **31%** of CEOs believe the economy will improve in 2016



Only a third of CEOs feel very confident about their own revenue growth



78%



of CEOs see more threats today vs 3 years ago



Cyber



Speed of technological change



Availability of key skills

CEOs are responding by:

73%

Implementing cost-reduction initiatives



41%

Decreasing headcount

But they need to be looking more broadly as stakeholders expect more



8 out of 10 CEOs

Acknowledge top talent want to work for companies with social values that align to their own



Over half believe creating value for wider stakeholders helps them to be profitable



The top 2 things holding CEOs back from responding to wider stakeholders are:

1. Additional costs to the business
2. Conflict between stakeholder's interest and financial performance expectations

They're still very focused on financial returns

And this is reflected by only

71% say investors are looking for income and capital growth

VS

20% whose investors are seeking ethical investments



24%

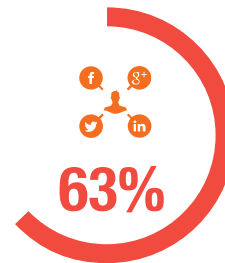
believing R & D and innovation generates a solid return by engaging stakeholders



The top 3 technologies that will generate the greatest return are:



Data and analytics



Social media



CRM systems



Australian CEOs believe that key risks and innovation are the top 2 ways to deliver a more sophisticated approach to measuring success and value for stakeholders.

Government has a key role to play. The top priorities for government as perceived by Australian CEOs include:



A stable and effective tax system (61%)



Adequate physical and digital infrastructure (53%)



A skilled workforce (49%)



82% of CEOs believe business success in the 21st Century will be redefined by more than financial profit

Foreword



Given the tough start to the year, it will come as little surprise to hear that Australia's CEOs are less confident about growth – both globally and domestically – than they were a year ago.

The slowing of China's economy, sluggish global growth and our own economic readjustment away from mining and commodities, are all weighing heavily on the minds of CEOs. Understandably, they see more threats to growth on the horizon: cyber security is number one, followed by the speed of technological change.

As a result, CEOs have increased their focus on getting costs under control: 41% plan to reduce headcount in the next 12 months, up from 12% this time last year.

And while there's merit in de-risking businesses, given the current climate, it's important that leaders keep their sights set on strategies we know will lead to growth over the long term.

So it's encouraging to see Australia's CEOs are also making important changes to their businesses, such as taking a greater focus on technology, considering the needs of a wider range of stakeholders, developing their talent, doing more to measure and communicate metrics that drive growth, and rebuilding trust.

We're particularly impressed to see Australia's CEOs prioritise diversity and inclusion – much more so than their global peers – and say they

are making practical changes to have a greater impact in this area.

One area where our CEOs fall behind, however, is the way they think about R&D and innovation for engagement with customers and stakeholders. Less than a quarter believe it generates the greatest return on investment, compared to 53% of CEOs globally. And more than 40% say they should be doing more to measure the value and impact of innovation.

As complexity has become part of the norm for the global business environment, it's imperative that Australia's CEOs continue to challenge themselves to find new, more innovative and smarter ways of working. The Turnbull Government's innovation package is a welcome start, but businesses have to play their part too.

Thank you to all of Australia's CEOs who shared their views with us. Your perspectives are valuable, and I look forward to seeing how we can start planning for, and implementing, long-term and positive change for Australia in the year ahead.

Luke Sayers

CEO, PwC Australia
Vice Chairman, PwC Asia

04	Foreword
06	Growth in complex times
10	Transformation: technology, innovation and talent
16	Managing stakeholders
18	Measuring and communicating for success
21	Setting Australia up for success
24	Where to next for CEOs

Contents

01

Growth in complex times

“

I'm quite concerned about the overall state of the global economy and particularly the level of debt we have... I think we'll see some forces at work that could really damage some parts of the world, particularly emerging markets economies.”

– Elmer Funke Kupper, Managing Director and CEO, ASX

Today's CEOs continue to face tough operating conditions. Rising global economic uncertainty and technology-led disruption are making the business environment more complex to read and respond to.

It's little wonder that Australia's CEOs, like their global counterparts, are less confident about their growth prospects than they were a year ago. Just over one third are 'very confident' they will see revenue growth in the next 12 months, down from 43% last year.

Confidence in the global economy is low as well; just 31% of CEOs in Australia expect it to grow in 2016.

There are legitimate reasons for this more pessimistic outlook. China's economic rebalancing and the slowing of its debt-laden government and private sector continue to spook investors and rattle entire industries, particularly in the commodities sector. Chinese CEOs too, are feeling the tension, with 27% of them believing the global economy will decline, double that of the 2015 figure. And in countries where growth seems reasonable, such growth has been propped up by extraordinary and unsustainable monetary policies.

The US is one of the few countries where growth prospects appear to be improving, with the Federal Reserve recently raising interest rates for the first time in almost a decade. Despite this, US CEOs are particularly pessimistic, with only 12% expecting global economic growth to improve in the next 12 months.

Closer to home, the Australian economy continues to undergo significant adjustment following the end of the mining boom. Domestic spending is lacklustre and private investment has contracted for three consecutive quarters. Real per person incomes have been flat for five years, meaning living standards are not improving. And with current economic headwinds, there's a risk Australia could experience a recession in the next three years.

All of this factors into the uncertainty CEOs are feeling. However, without the desire of Australian businesses to grow their stock of productive assets and look to new growth opportunities locally and abroad, this may stifle the investment non-mining sectors of the economy need to drive growth.



The top 3 threats to business growth are:



Cyber and response to debt top threats

There are other uncertainties that Australia's CEOs must deal with; over three quarters say they're facing more threats to growth than they did three years ago. Cyber threats and the Government's response to fiscal deficit are seen as the as the major concerns from a policy and business viewpoint respectively.

With the number of detected cyber security incidents having increased a whopping 109% in Australia over the last 12 months, it's understandable that CEOs are paying attention¹. Globally, the estimated average annual financial loss from cyber incidents is US\$2.5 million (AU\$3.6 million). Today's cyber incidents often leave behind a broad swath of operational, reputational and financial damages.

Consequently, 45% of boards overseas have become increasingly involved when it comes to cyber. They understand that cyber security is a serious risk issue that has strategic, cross-functional, legal and financial implications. And while this involvement from directors regarding cyber has yet to take hold locally, CEOs need to plan for increased scrutiny from boards than has historically been the case.

The level of concern among CEOs about the government's response to debt is high, despite Australia's fiscal position being arguably better than many of our global peers, the majority of whom are less worried than us. It's likely this mismatch reflects the uncertainty around the Australian Government's long-term plan to address the country's growing debt burden, and the resulting impact this will have on business and the economy.

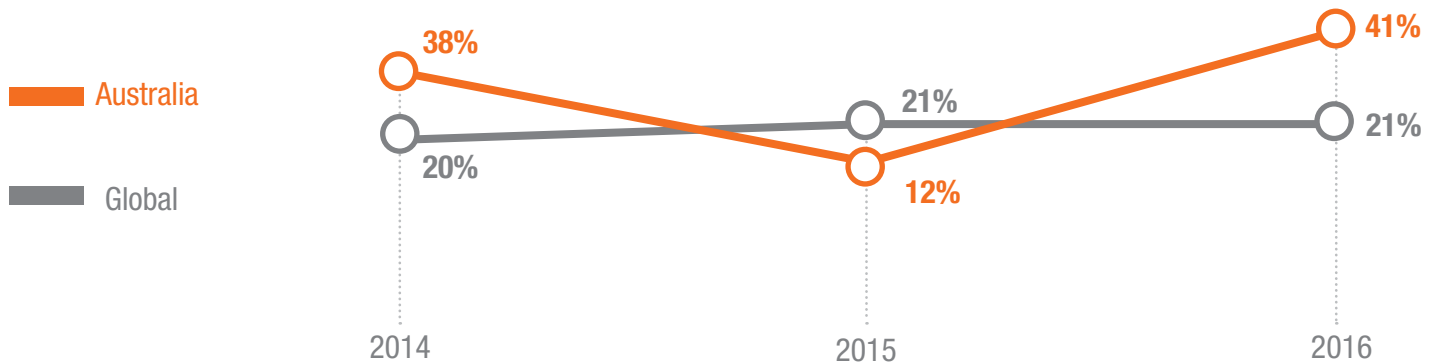
CEOs respond by ‘squeezing the lemon’

So how are Australia’s CEOs responding? It seems their first instinct is to reduce costs.

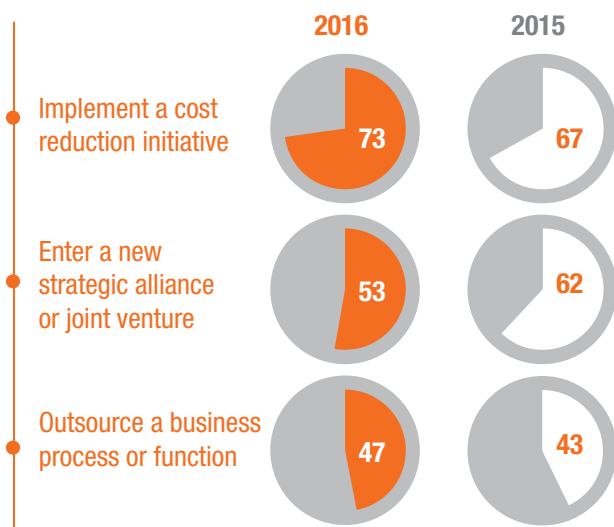
There has been a rise in the number of CEOs looking to take overheads out of their businesses, with almost three quarters planning to implement a cost-reduction initiative in the next 12 months and more than 40% saying they plan to cut jobs in the coming 12 months, a substantial rise from 12% last year. A comparable number (43%) plan to

increase headcount, although this is down from 55% last year. The divergence in CEO intentions reflects the two-speed nature of the Australian economy; as the mining boom fades, employment growth shifts to other sectors of the economy.

CEO plans to decrease headcount over the past three years



Restructuring plans for 2016



More than half of CEOs plan to enter into a new strategic alliance or joint venture and almost half plan to outsource a business process or function this year. The focus on external markets is softening with fewer CEOs proposing to complete a cross-border M&A (16% in 2016 versus 21% last year).

Productivity is the key to real income growth

It's understandable that CEOs are focused on making their businesses leaner. In addition to improving profitability, it helps address Australia's global competitiveness, which has been given additional impetus by our lower dollar.

But companies run a risk if they focus too much on costs.

Household consumption accounts for close to 60% of GDP in Australia, but household earnings have changed little since 2011 in real terms. The prospect of further labour market weakness – combined with volatility in share markets and property prices – could act as a brake on economy-wide spending. That's ultimately bad for business.

The major challenge for Australia's CEOs, if they want to secure business growth over the long term, is to lift productivity. Productivity growth in Australia is still well below the 1.5% assumption in the Government's *2015 Intergenerational Report*². With economic growth below trend, commodity

prices declining and the population ageing, productivity is one of the few remaining levers that companies and government has to drive growth – for businesses and households.

But productivity is not just about working harder, or squeezing more out of the lemon. It's about successfully integrating innovation and technology into a business so that people and assets work smarter. And CEOs understand that despite the challenges they face today, they need to look ahead and build a business that's ready for even more.

“

Every part of Mirvac is changing, if you're not changing, you're not keeping pace with what's happening in the broader society and the expectations people have of you.”

– Susan Lloyd-Hurwitz, CEO
& Managing Director, Mirvac.

Questions for CEOs

Australian CEOs are more optimistic about global growth prospects than their international counterparts. Are you preparing your business for a world in which the pessimists are right?

How are you preparing your organisation to face non-traditional competitors now and in the future?

How well protected is the information and data you're entrusted with to operate your business?

Beyond improving cost efficiency, what investments are you making to improve your business' productivity and drive organic growth?

02

Responding to changing expectations and transforming businesses

“

Technology is the greatest enabler of change. When I first started, our mantra was ‘performing while transforming’, and actually that’s just the norm now.”

– Nicole Sheffield, CEO,
NewsLifeMedia

The majority of CEOs recognise they need to make significant changes to their businesses to respond to changing market conditions and the widening expectations placed on them by customers and stakeholders. Recognising this is one thing, actually delivering on it is another.

So other than plans to lower headcount and reduce costs, what are business leaders doing to respond?

CEOs focus on technology

New technologies have significantly disrupted the playing field for businesses all around the world. Mobile connectivity and social media in particular have become fundamental ways to get information and buy goods and services as well as giving people more access to what companies do and the impact of their actions. Australia’s CEOs rate technology advances as the number one global trend that will transform customer and stakeholder expectations of business over the next five years.

Every CEO in the survey says they’re making changes to the way they use technology to assess and deliver on customer and stakeholder expectations. The technologies they say deliver the greatest returns are data and analytics, followed by social media communications and engagement, and customer relationship management systems.

CEOs who say these groups have a high impact on their organisation’s strategy



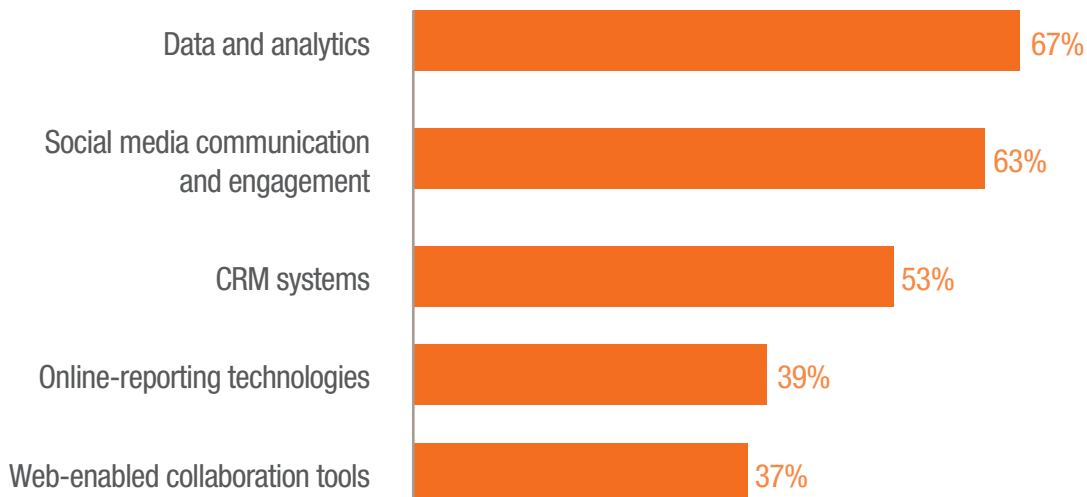
Technology is only one part of the equation. Companies are making significant organisational changes to their businesses to better focus on customer needs. For example, last year ANZ appointed a senior McDonalds restaurant executive to run its retail distribution business, with the aim of attracting new retail customers, growing the bank’s relationship with existing customers and championing strategies to improve customer satisfaction. Microsoft’s CEO wants to change its culture and last year announced a new corporate mission. With less focus on revenue and profit, the company will now be focusing on other

leading indicators of success such as customer experience and “customer love”, as coined by CEO Satya Nadella.

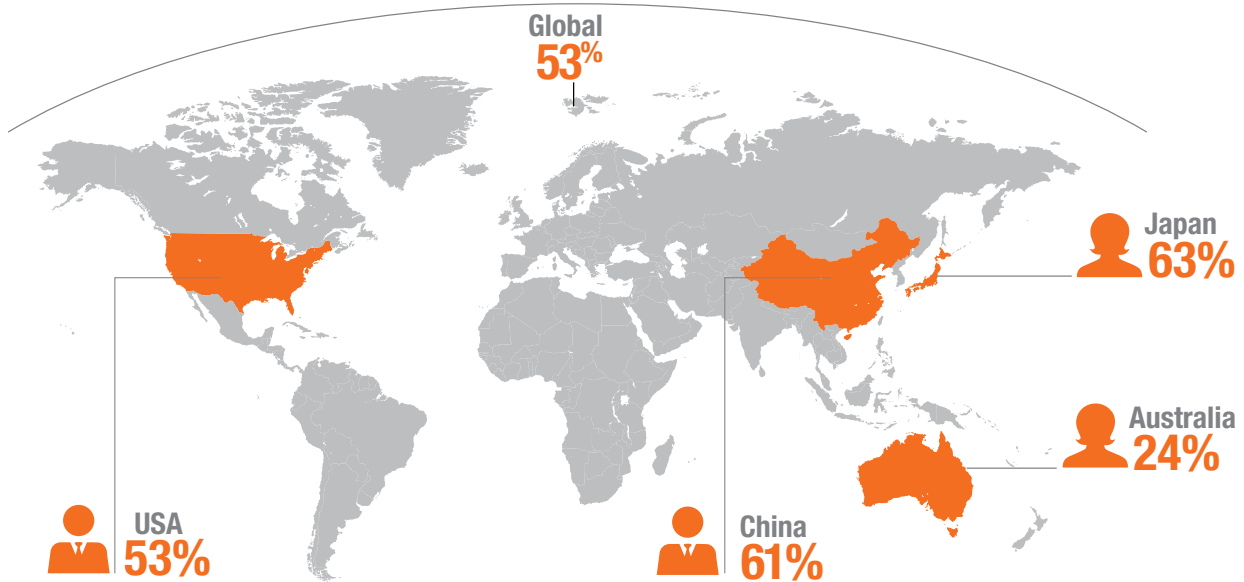
But what about innovation?

One area where Australia’s CEO were significantly behind the rest of the world, however, was their attitudes towards R&D and innovation. More than half of CEOs globally said that in terms of engagement with customers and stakeholders, R&D and innovation generated the greatest return. But less than one quarter of Australia’s CEOs agreed.

Technologies that will deliver the greatest returns in terms of engagement with customers and stakeholders



CEOs who agree R&D and innovation generates the greatest return on investment for engagement with customers and stakeholders



This mis-match between the high priority given to technology and the comparatively low importance placed on R&D and innovation by Australia's CEOs, suggests they have some work to do on the way they view the relationship between innovation, technology, disruption and growth.

The winners in the innovation game will be those companies that use both technology and innovation to deliver products and services that are cost effective, convenient, functional and sustainable. While technology plays a critical role, often it's in conjunction with business model change that the impact is greatest.

Take for example Uber, which has become one of the world's biggest transport companies not through owning assets, but by using technology to unlock the value of underutilised assets while delivering a completely different customer experience.

Or the newly launched Australian airline Airly, which is challenging traditional players not through technology-driven innovation, but a new pricing and service model. They are offering unlimited private flights between Melbourne,

Canberra and Sydney for members who pay a monthly fee. This asset-light and customer-centric approach is typical of the new wave of innovative and disruptive companies emerging globally.

Some established companies understand the importance of innovation and R&D better than others and they need to start making bets, even if they might not all pay off in the short term. One such approach is to create what's known as a fighter or flanker brand – a business unit that sits apart from the parent company and has its own unique offering. For example, Telstra created Boost and Belong to compete in mobile and broadband markets on price, while protecting its established premium network service.

“

At Airtasker, innovation means the ability to think about solutions rather than thinking about the status quo.”

– Tim Fung, CEO & Co-Founder, Airtasker.

Partnerships key to bridging capability gaps

Companies also need to make sure they have the right capabilities to respond to changing stakeholder and customer needs. Developing strong partnerships is an important way companies are addressing capability gaps and Australia's CEOs are leading the charge. Almost half say that they are making significant changes to how they partner and who they partner with, which is more than many of their global peers.

A great example is the recently announced partnership between Qantas and health insurer nib. Through the deal, nib provides its health insurance, risk assessment and underwriting capability while Qantas Loyalty provides its marketing, data and customer retention expertise. The result is a range of Qantas Assure-branded health insurance products and the ability to earn Qantas Points through the Frequent Flyer program. Value gets shared equally between the parties.

There's a growing focus on people and skills

Companies will need a new generation of entrepreneurs, engineers, mathematicians and technologists to harness technology and drive innovation. It's no wonder then that two thirds of Australia's CEOs are concerned about the availability of key skills.

So what are our business leaders doing to develop the workforce they need for today and tomorrow? In line with their global peers, half are making changes to how they develop their leadership pipeline. In recent PwC research, the top 5 key leadership characteristics that stand out amongst all others as key for transformational success were courage, credibility, prioritisation, proactivity and facilitating change³.

But it's on workplace culture and behaviour where Australia's CEOs are placing their greatest focus, with more than two thirds making changes in this area of talent strategy. This is encouraging, as culture is critical for developing businesses geared towards innovation and growth. Organisations with a strong innovation culture know that failing, learning and innovating go hand in hand. CEOs need to make a point of communicating that failure is ok.

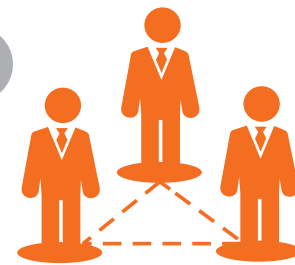
Two key facets of organisational maturity that have the biggest impact on transformation

1



Shared accountability

2



Leadership alignment

“

Getting a culture of innovation is one of the hardest things to do as a CEO... we want people to take risks, we want them to make mistakes. You've got to have an environment where people feel they can have a go and change things without fear.”

– Richard Goyder, Managing Director, Wesfarmers

Diversity and inclusion matters

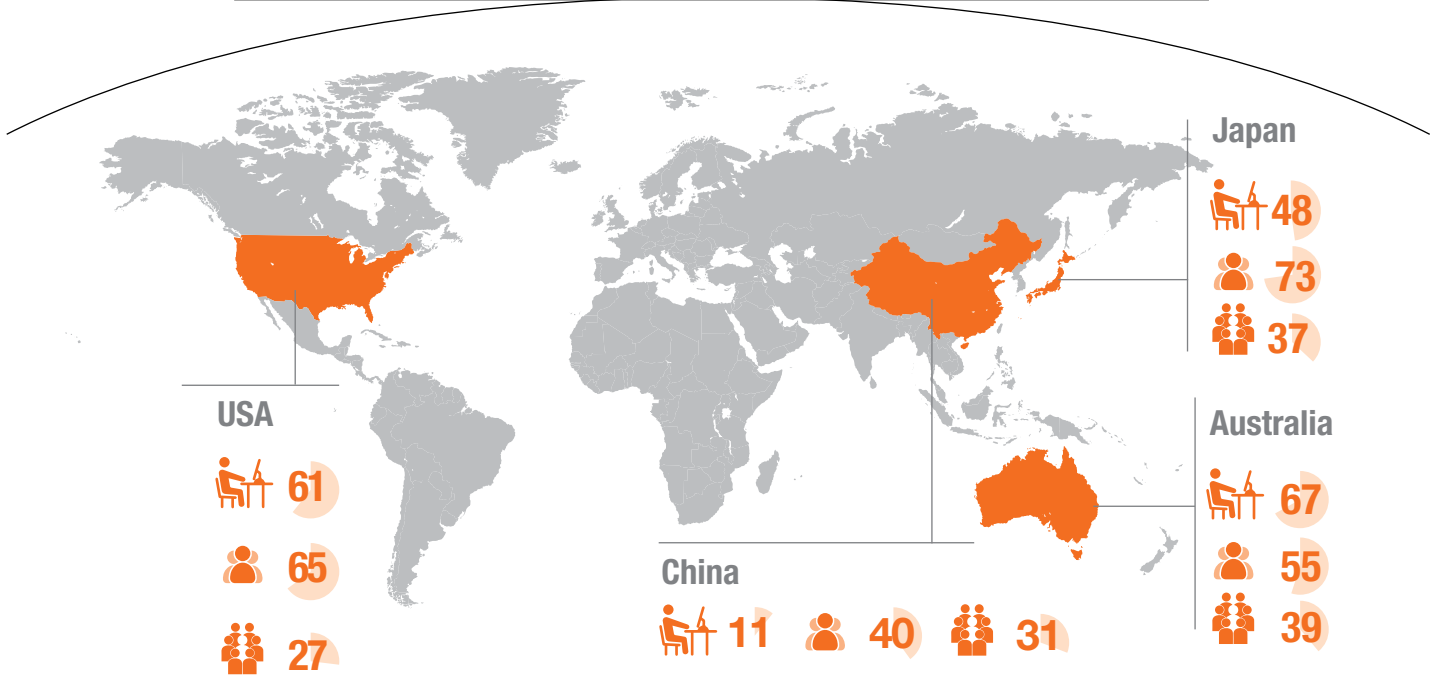
Another critical ingredient for driving innovation and performance is a diverse workforce. Diverse thinkers bring a broader range of ideas to a problem. When an organisation values diversity, there is a willingness to do things differently.

It's reassuring therefore that almost four in every ten CEOs in Australia are making changes to their diversity and inclusion strategy in order to attract and keep the talent they need to remain relevant and competitive. Australia is leading the world in this area, with more of our CEOs viewing diversity and inclusion as having an impact compared to their peers in the US, Japan, China, or globally.



What aspects of talent strategy are you changing to make the greatest impact?

Global



Workplace culture and behaviour
 Pipeline of leaders
 Diversity and inclusion



Tough questions to ask about transforming: technology, innovation and talent

Are your products and services keeping pace with the changing needs of customers?

How are you adopting new technology and innovating to deliver on the needs of customers?

Do you have a change capable organisation – one that is able to drive transformation?

How are you building a portfolio of future transformation leaders that fit what is required for the next wave of change?

03

Customers and stakeholders: values and impact, now and in the future



of Australia's CEOs say customers want relationships with organisations that meet wider stakeholder needs



of CEOs believe business success in the 21st Century will be redefined by more than financial profit

Australia's CEOs have their radar set on a wide range of stakeholders. While customers are number one, government and regulators, industry competitors and peers, employees, local communities and the media are all considered by a large number of CEOs to have a high impact on their organisation's strategy. So what do CEOs think customers and stakeholders really want? And how will expectations change over time?

Customers, employees, investors want more – but there's a cost

More than half of Australia's CEOs say that customers are mostly interested in cost, convenience and function. But an almost equal number agree that customers also want relationships with organisations that meet wider stakeholder needs. And this jumps to two thirds when CEOs consider what their customers will prioritise in five years' time.

On the talent side, 78% of CEOs say that top talent wants to work with organisations that share their social values. On the investor side, only 20% of CEOs say investors are seeking ethical investments, however this rises over time, with one third of CEOs saying it will be important in five years.

Despite the strong incentives to do so, there are major barriers CEOs must face in order to respond to changing customer and stakeholder needs. Almost half are concerned about the additional cost to their business, and one third cite conflict between stakeholder interests and financial performance expectations. More than one quarter of Australia's CEOs believe they don't have the right capabilities to meet expectations.

Trust is a major issue and CEOs are looking to respond

CEOs know that keeping the trust of their customers and stakeholders is fundamental to their organisation's long-term viability. But trust, it appears, is slowly eroding. Two years ago 40% of Australia's CEOs were concerned about the lack of trust in business. That number has now jumped to 57%.

CEOs are aiming to rebuild trust by doing a better job of meeting the widening expectations being placed on them. For example, one third say they have changed their organisation's purpose in the last three years to take account of the broader impact they have on society. But they recognise there's more to do: more than half say that business should be doing more to communicate organisation purpose and value for stakeholders.

Business leaders are also looking to deepen their organisation's purpose into the future. A significant number of Australia's CEOs say that the organisations who will be successful in five years time will: prioritise long-term over short-term profitability (92%), address wider stakeholder needs (86%), report on financial and non-financial matters (80%) and put corporate responsibility at the core of everything they do (73%).

Having a long-term focus is particularly important. Given the volatile and complex environments that CEOs face, there's little benefit focusing on every market change and event as they happen. Rather, developing a long-term view that factors volatility into its plan will give investors and customers the certainty they're seeking.

“

I think transparency is fundamental in everything you do.”

– Elmer Funke Kupper, Managing Director & CEO, ASX

“

We take the long-term view. We've been around for 100 years and want to be around for a lot longer. Therefore, we always say to people, do the right thing and fall on the side of doing the right thing. If there's a short-term hit to profit, we think over the long run, we'll be better off.”

– Richard Goyder, Managing Director, Wesfarmers

Tough questions to ask about addressing greater expectations

Has your organisation undertaken scenario modelling or other initiatives to better understand how global trends like technological advances, demographic changes and global economic shifts are driving customer and stakeholder expectations today and tomorrow?

How is your organisation building trust by better understanding stakeholders' views?

As customers, employees and other stakeholders increasingly care about what companies stand for, how are you demonstrating your organisation's purpose and values?

04

Measuring and communicating for success

In a time of increasing complexity, the adage ‘if you can’t measure it, you can’t manage it’ rings truer than ever. How can you lead if you don’t know the impact your decisions are having?

Almost half of Australia’s CEOs say that business should be doing more to measure the impact and value of key risks, and that the measurement of innovation needs greater attention. These are the same key areas listed by CEOs globally, although our overseas peers gave much higher priority to innovation.

Measurement underpins ongoing investment

Most businesses haven’t cracked the code on measuring innovation, and Australia is no exception. It’s not uncommon for a company to fund an innovation project to great fanfare, only to find itself struggling to assess the value of the investment down the track.

An unfortunate consequence is that when it’s time to cut costs, innovation is the first thing to go because no one can figure out what it contributed to the bottom line. The fact there can often be a significant lag on the financial return for innovation projects – particularly ‘breakthrough’ innovation like moving into a new market with a new technology; or significantly rethinking part of your business model – doesn’t help.

Communication ensures ongoing support

This in turn puts pressure on CEOs to better explain their innovation strategies to investors and stakeholders. Which is why four out of ten CEOs in Australia think business should be doing more to communicate the value and impact of innovation.

This can be challenging. Business and political leaders have discovered that the innovation story doesn't necessarily break down into convenient sound bites. But it's a story that must be told if they're to win support for the investment in innovation that Australian business needs. The largely positive reception to the Turnbull Government's \$1 billion innovation package shows it's possible.

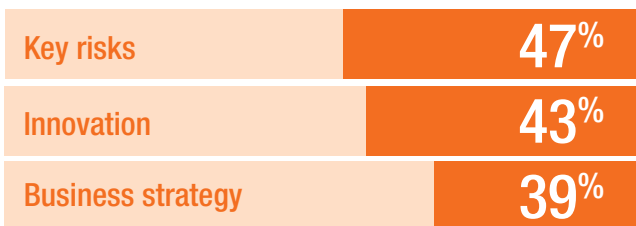
“

The government's agenda in terms of technology and innovation is fantastic, those reforms are going to bring a lot of capital and expertise into Australia.”

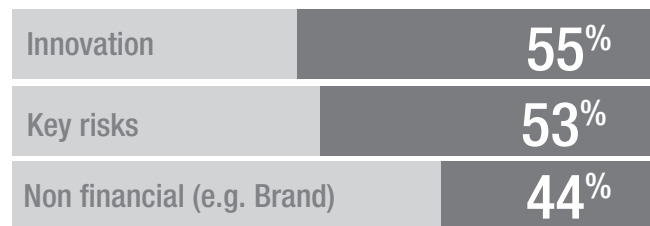
– Tim Fung, CEO & Co-Founder, Airtasker.

Areas that business should be doing more to measure impact and value

Australia



Global



Evaluating risk culture can help companies innovate

The other area Australian and global CEOs say they need to better measure is risk. It's not surprising that innovation and risk both top the list, as there's a strong relation between the two: businesses need to understand risks and risk appetite in order to determine their scope and target for innovation.

CEOs also know that a key part of managing risk is having a healthy risk culture in their organisation. But like innovation, they struggle when it comes to measurement.

A recent survey⁴ found that most boards and CEOs are taking action on risk culture. But very few have defined the behaviours they want to change, or how they'll measure change. Fewer than 15% of organisations we surveyed had mechanisms in place to evaluate the quality of their people's risk management capability, a factor strongly linked to their ability to innovate.

CEOs need better tools as the scope of measurement widens

Getting a grip on measuring innovation, risk and culture is fundamental. But as customer and employee expectations change, CEOs recognise the need to widen the scope of what they measure to include indicators outside their immediate business environment.

More than three quarters of Australia's CEOs say their company reports on both financial and non-financial matters and in five years' time, 80% think that the most successful businesses will be doing this.

So in the future, companies will need to call on a broader and more detailed set of tools to measure the impact and value of a wider range of variables.

Those that have grown up in the digital world are at a distinct advantage. 'Digital-native' organisations have a comprehensive set of online

data about their business, with feedback and response loops at every point in their process. Constantly managing metrics, they are very effective at process change and quick, effective execution – a key driver of successful risk management and innovation.

But 'traditional' businesses are catching up: every CEO surveyed says their company is making changes to how it uses technology to assess and deliver on wider stakeholder expectations, and nine out of ten are changing how their company measures success and what it holds itself accountable for.

“

The obvious way of measuring success is profit, but that's a very narrow definition of success. We look at success across all of our stakeholders.”

– Susan Lloyd-Hurwitz, CEO & Managing Director, Mirvac.

“

For me the true measure of success is whether we're actually learning or constantly growing as a company.”

– Nicole Sheffield, CEO, NewsLifeMedia.

Questions CEOs should be asking about measuring and communicating success

Have you worked out what's important to measure in your organisation to reflect what you're in business to achieve?

How are you ensuring that your business is communicating the information your customers, staff and other stakeholders are seeking?

Are there valuable intangibles you haven't found a way to measure yet, but you think you should measure? And are there things you think you shouldn't be measuring at all?

05

Setting Australia up for success

“

I want Australia to have a competitive tax regime, and I think we've got some work to do on that.”

– Richard Goyder, Managing Director, Wesfarmers

CEOs recognise that both business and government have a role to play in creating an environment that supports productivity and growth. But there are clear signals about who should be focusing on what.

We still need to talk about tax

Like last year, the number one priority that Australian CEOs want the government to address is tax, to make the system clearer and more effective.

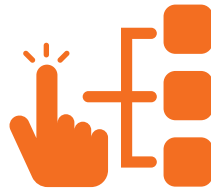
Fixing the tax system is important not just for CEOs – it's critical to Australia's future prosperity. And this requires comprehensive reform aimed at driving innovation and growth, supporting governments and maintaining the living standards of Australians. Minor tweaks to existing arrangements won't be enough⁵. More than half of Australia's CEOs say the government has been ineffective in creating the tax system the country needs.

Corporate tax reform is particularly important. In a world of increasingly mobile capital, competition for investment will rise over time, not diminish. An uncompetitive corporate tax regime will discourage investment and slow the growth in investments required to drive Australia's innovation and productivity goals. While corporate tax reform is not an economic panacea, it should feature strongly in Australia's long-term growth plan.

Priorities for government according to Australia's CEOs



A clearly understood, stable and effective tax system (61%)



Adequate physical and digital infrastructure (53%)

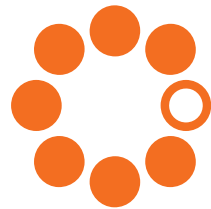


A skilled, educated and adaptable workforce (49%)

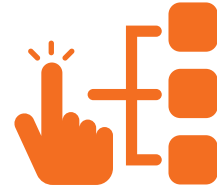
Top three priorities for Australia's CEOs in order for business to deliver



A skilled, educated and adaptable workforce (76%)



Workforce diversity and inclusion (55%)



Adequate physical and digital infrastructure (37%)

Skills are important, particularly STEM

Half of Australia's CEOs say skills and workforce development should be a priority for government, while three quarters say it should be a priority for business.

This makes sense. Research shows that 44% (5.1 million) of current Australian jobs are at high risk of being affected by computerisation and technology over the next 20 years⁶. In order to realise our potential for innovation and productivity growth, Australia needs a workforce that's fit for the future; and in particular, one with stronger skills in science, technology, engineering and maths (STEM).

The key to achieving this lies in forging stronger connections between business, government and education. These three sectors need to plan and work together to create the STEM workforce Australia requires. And while there's clearly much work to do, there is goodwill to draw from: more than one third of Australia's CEOs say the government has been effective in addressing skills and workforce issues.

Workforce diversity and inclusion a priority for Australian business

One area where Australia's CEOs stand in contrast to many of their international counterparts is workforce diversity and inclusiveness. More than half say it should be a priority for business, compared to about one third of their global peers who said the same.

It's encouraging that our CEOs see this as such an important issue. And why wouldn't they? It's been shown that a strong connection exists between diversity and company performance. This is because when people from different backgrounds and different points of view work together they create the greatest value. For any organisation interested in driving performance and productivity, growing capabilities in relation to diversity and inclusion is a strategic imperative.

“

A diverse workforce and culture means you're more likely to have success because you actually reflect society.”

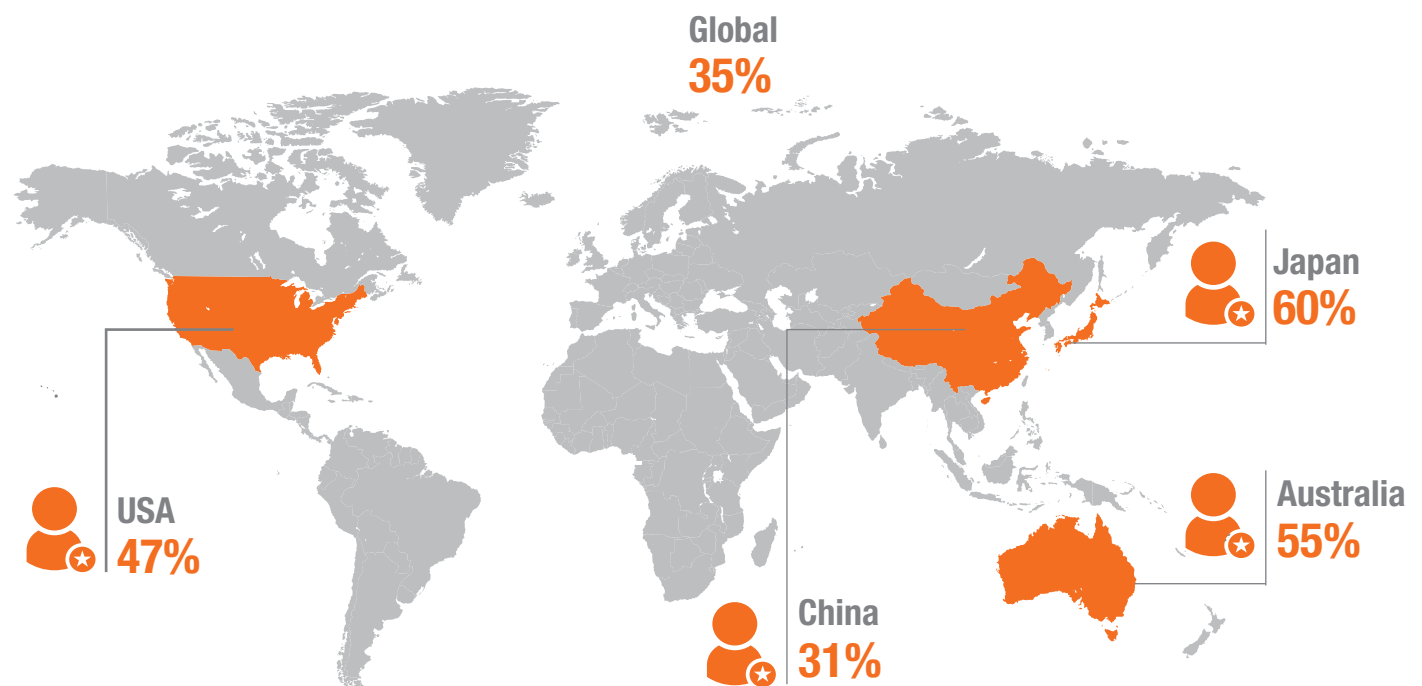
– Nicole Sheffield, CEO, NewsLifeMedia

Key messages on tax: for government and business

Tax reform should be mixed to incentivise investment and promote growth. There needs to be a shift to reduce the corporate tax rate which would go a long way to helping ensure Australia remains an attractive place to invest.

Business needs to consider how it can support the momentum for reform by communicating publicly there are significant national benefits, and how it can help to build trust that the system works fairly, and arguing for adequate compensation for those who may be otherwise disadvantaged by reform, including low-income workers, retirees and welfare participants.

CEOs that say diversity and inclusion should be a priority for business, by country



06

Where to next for CEOs

The cost reduction efforts currently being seen in the market are understandable, as many Australian businesses had little need to focus on cost during the phase of growth recently experienced.

But the pressure to change is evident.

CEOs need to take the time to truly understand the actual challenges that exist in their industry. They may find that many aren't actually new but simply accelerating, adding to the difficulty of being able to keep up. All too often CEOs don't pause to analyse what's really happening to them, to their industries, and what needs to be done beyond the superficial.

We suggest looking at the emerging complexity problems, particularly those around disruption, from three angles.

1. Customer requirements

Many changes that are commonly clustered under the broad term 'disruption' are due to rapidly increasing customer expectations. The answer? A much stronger focus on true customer centricity, including customer sensing, human centred design, and customer analytics. Only when an organisation has the capability to truly understand – and, ideally, is able to predict – customer requirements, will it be able to maintain an edge over the increasing number of new small and medium sized competitors that are successful because they've been able to spot these trends early.

2. Accelerating product and process innovation

These types of innovation have been part and parcel of most industries globally for decades. The difference? The increasing pace at which innovations now hit the market. To be able to compete companies need to go back to basics.

This includes asking:

- How do we identify and source products and / or process innovations, and manage the pipeline of possibilities?
- How do we initiate, capture, adjust or mature it so it becomes useful for our offerings and internal processes?
- How do we commercialise the selected innovations?

Technology and innovation management concepts have been available for a long time. It may be time to dust them off and invest in this differentiating capability.

3. Analysis of emerging competing business models.

A critical capability will be to anticipate (early) what's going on, what elements of the value chain are being disrupted, and what's changed to the value proposition for the customer. It's unlikely the entire value chain has been impacted. CEOs need to be able to anticipate, or at minimum, be able to react, so as to be able to leverage the business model innovation for their own purpose and stay ahead of the game.

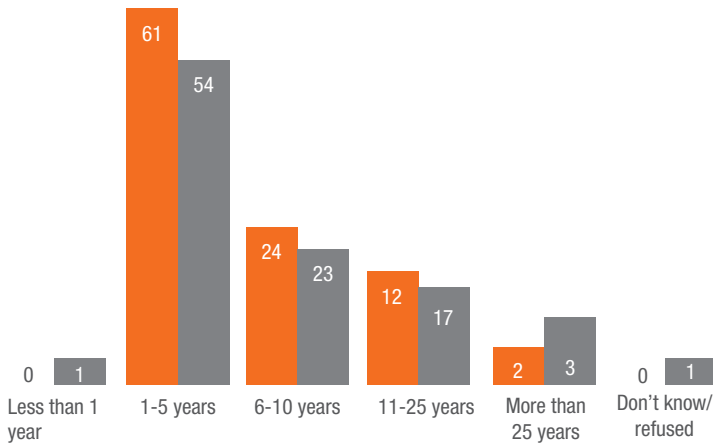
This **strategic agility**, including the willingness to act quickly and decisively, is their third key capability required to win in the future.

These three capabilities will be critical for Australian CEOs to consider and build, as their global counterparts are already well on their way to embedding this thinking into their everyday way of life.

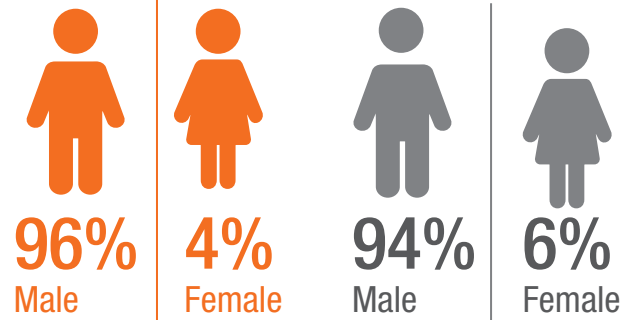


Profiling the Participants

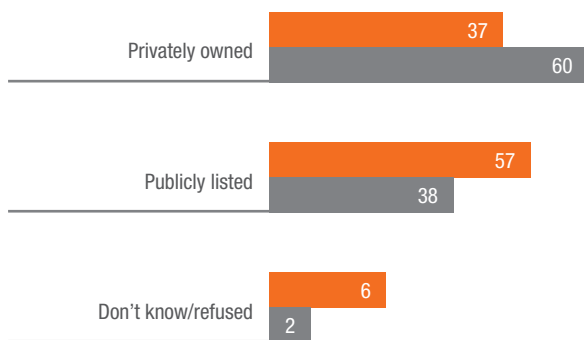
Tenure



Gender



Ownership of firm (%)



Base: All respondents (Australia = 49; Global = 1,409)

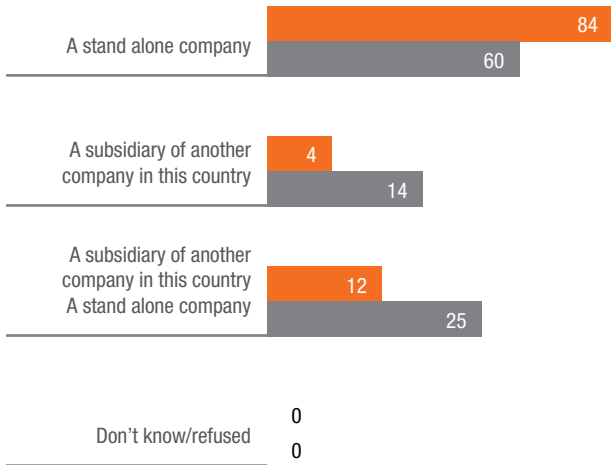
Base: All 'privately owned' respondents (Australia = 18; Global = 848)

■ Australia ■ Global

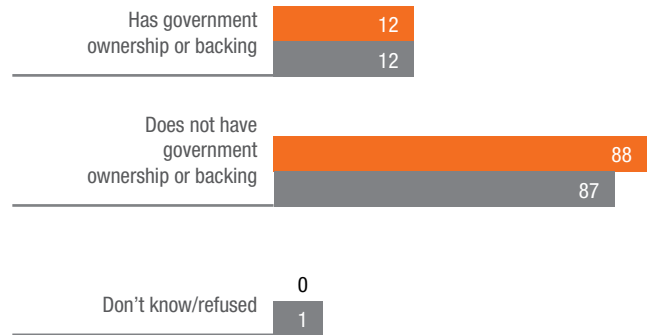
Profiling the Participants



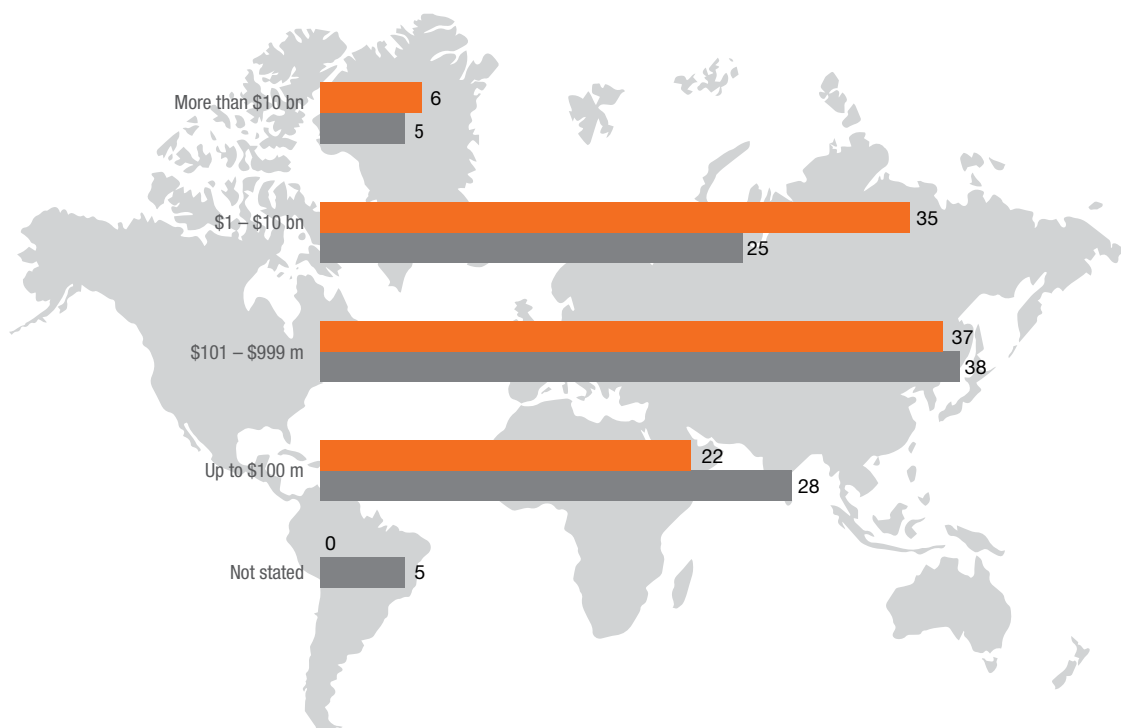
Type of Company (%)



Government ownership or backing (%)



Revenue (%)



Thank you

Thank you to the company leaders who shared their views with us. Their active and candid participation is the single greatest factor in the success of PwC's Annual Global CEO Survey. We greatly appreciate our respondent's willingness to take the time and make this survey as comprehensive and accurate as possible.

We're also especially appreciative of the five CEOs who sat down with us to hold deeper and more detailed conversations and whose comments appear throughout this report (more footage and insights can be found on our website www.pwc.com.au/ceosurvey2016)

Thank you all for providing us with such interesting perspectives.



Tim Fung
*Co-Founder & CEO
Airtasker*



Elmer Funke Kupper
*Managing Director & CEO,
ASX*



Susan Lloyd-Hurwitz
*CEO & Managing Director
Mirvac*



Nicole Sheffield
*CEO,
NewsLifeMedia*



Richard Goyder
*Managing Director,
Wesfarmers*

About the survey

PwC's Annual Global CEO Survey, now in its nineteenth year, aims to inform and stimulate the debate on how businesses are facing today's challenges. Over the years, thousands of CEOs around the world have taken the time to share their views with us.

For this Global CEO Survey, we conducted 1,409 interviews

with CEOs in over 83 countries between September and December 2015. By region, 476 interviews were conducted in Asia Pacific (including 49 in Australia), 314 for Western Europe, 146 in North America, 169 in Latin America, 170 in Central and Eastern Europe, and 134 in the Middle East and Africa.

The interviews were spread across a range of industries.

The lower threshold for inclusion in the top 10 countries (by GDP) was 500 employees or revenues of more than \$50million.

The threshold for inclusion in the next 20 countries was companies with more than 100 employees or revenues of more than \$10million.

Contacts



Luke Sayers
CEO, PwC Australia
Vice Chairman, PwC Asia
02 8266 0000
luke.sayers@pwc.com



John Riccio
National Digital Change
Leader
03 8603 4968
john.riccio@pwc.com



Jeremy Thorpe
Partner, Economics & Policy
02 8266 4611
jeremy.thorpe@pwc.com



Steve Billingham
Partner, Management
Consulting
02 8266 3417
steve.billingham@pwc.com



Sean Gregory
Managing Partner, Deals
02 8266 2253
sean.gregory@pwc.com



Chris Manning
Managing Director
Strategy & ANZSEA
02 9321 1900
chris.manning@strategyand.pwc.com



Tom Seymour
Managing Partner, Tax & Legal
07 3257 8623
tom.seymour@pwc.com



Andrew Parker
Partner, Asia Practice Leader
02 8266 0218
andrew.parker@pwc.com



Peter Wheeler
Partner, People & Organisation
03 8603 6504
peter.wheeler@pwc.com



Michael Happell
Chairman - Australian Firm
Board of Partners
03 8603 6016
michael.happell@pwc.com



Trent Lund
Partner, Innovation & Digital
Ventures
02 8266 0686
trent.lund@pwc.com



Mary Waldron
Managing Partner, Reputation,
Regulation & Risk
03 8603 2951
mary.waldron@pwc.com

© 2016 PricewaterhouseCoopers. All rights reserved.

PwC refers to the Australian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only, and should not be used as a substitute for consultation with your professional advisors.

Liability is limited by the Accountant's Scheme under the Professional Standards Legislation.

At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.au



Notes and sources

1. PwC, Global State of Information Security Survey, January 2016
2. Commonwealth of Australia, Intergenerational Report, March 2015
3. PwC, Transformational change leadership research, June 2015
4. PwC, 2015 Risk Culture and Conduct Benchmarking Report, September 2015
5. PwC, A corporate rate reduction: the case for and against, December 2015
6. PwC, A smart move: Future-proofing Australia's workforce by growing skills in science, technology, engineering and maths, April 2015