

**PolsonHiggs**  
BUSINESS ADVISORS

  
**McCULLOCH**  
AND PARTNERS  
CHARTERED ACCOUNTANTS & BUSINESS ADVISERS

# Survey of South Island Business Leaders

August 2009

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## Contents

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1.	Introduction .....	1
2.	Expectations .....	2
3.	Investment Behaviour and Intentions .....	5
4.	Economic Environment .....	7
5.	Environmental Issues.....	8
6.	Challenges.....	10
7.	Talent Management.....	11
8.	Employee Behaviour.....	12
9.	Survey Methods.....	13

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## 1. Introduction

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In August 2007, two of the South Island's leading Chartered Accountancy firms – Polson Higgs and McCulloch & Partners combined to jointly undertake a survey of South Island business leaders.

We launched the survey because we believe there is a need for better information on the issues facing South Island business leaders and the strategies they are using to address those issues.

Our previous surveys have focussed on challenges associated with leadership, organisational culture, employee recruitment and retention, environmental issues and managing in a recession.

Our most recent survey, undertaken in July 2009, has continued our focus on managing in a recession, and includes new questions on investment intentions and employee responses to working in a recession.

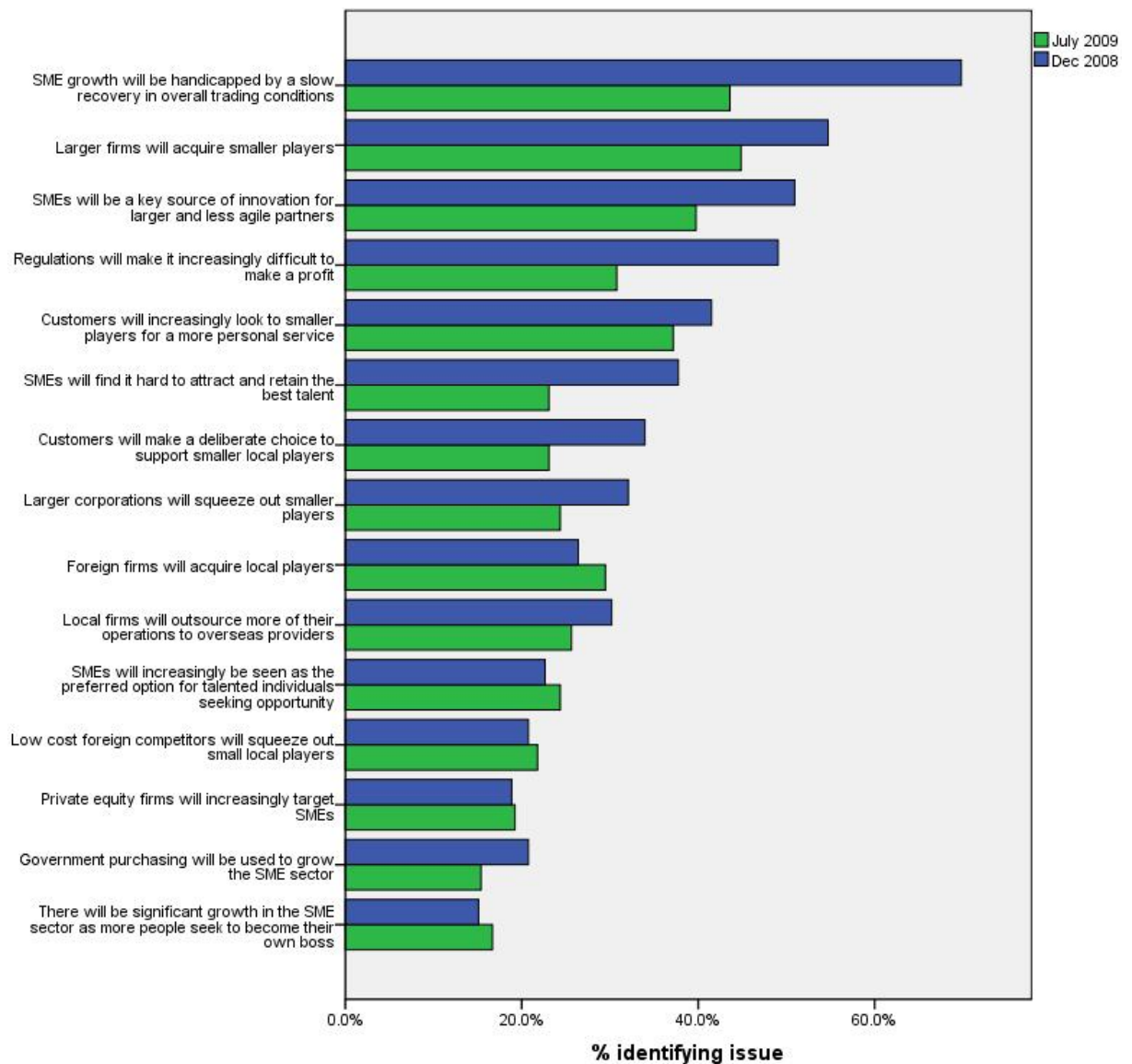
This report presents the results of this survey and, where appropriate, compares those with the results of the previous surveys.

## 2. Expectations

Business leaders were given a list of 15 possible trends and asked to identify those that they thought most likely to apply to New Zealand businesses over the next five years. Figure 1 shows their most frequently identified themes, and compares them to the results of the December 2008 survey.

The most notable result is that, while many businesses are still concerned that their growth will be handicapped by a slow recovery in overall trading conditions, businesses are significantly more optimistic about their growth prospects than they were in December 2008. This suggests that many are beginning to see the light at the end of the tunnel, although their optimism is tempered with caution.

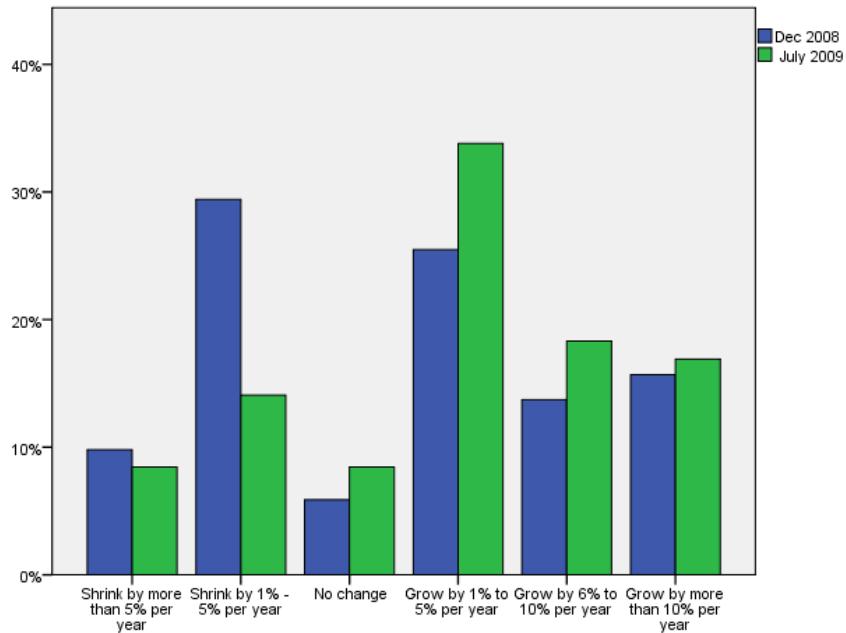
**Figure 1. How do you see the future of NZ businesses over the next five years?**



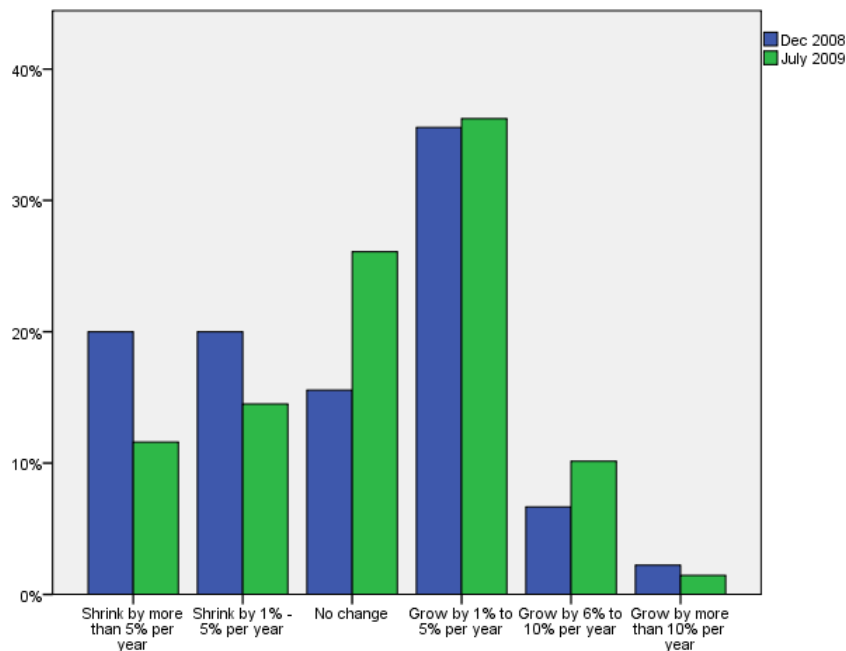
## Short Term Growth Prospects

Figures 2 and 3 reinforce the view that business optimism is returning. Whereas in December 2008 40% of business leaders expected their businesses to shrink over the next 2 years, this proportion halved to 20% in July 2009. The largest single group are now expecting modest (1% to 5%) growth over the next 2 years. Respondents are also more optimistic about the short term growth prospects for their market in general.

**Figure 2. How do you expect your business to perform over the next 2 years?**



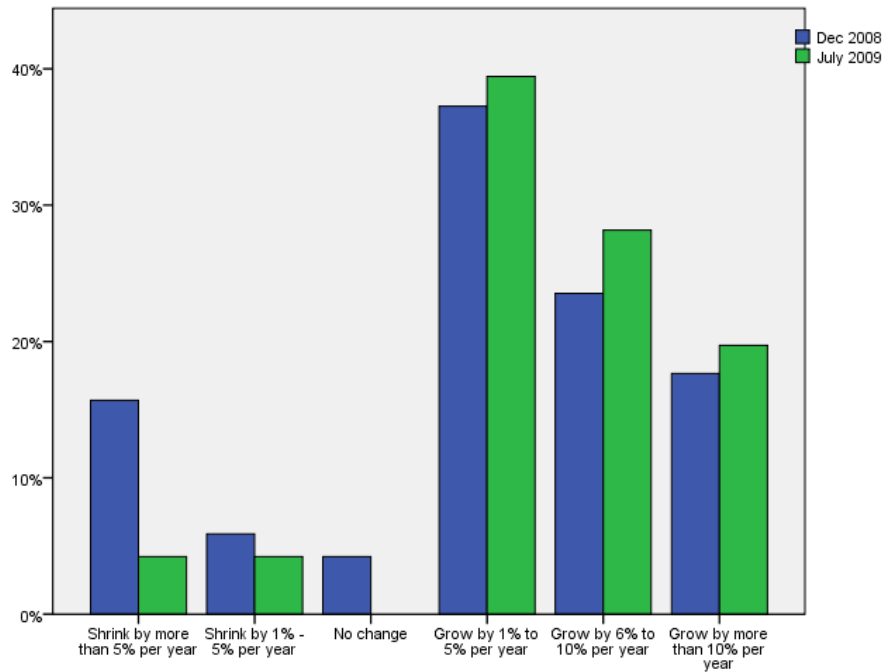
**Figure 3. How do you expect others in your market to perform over the next 2 years?**



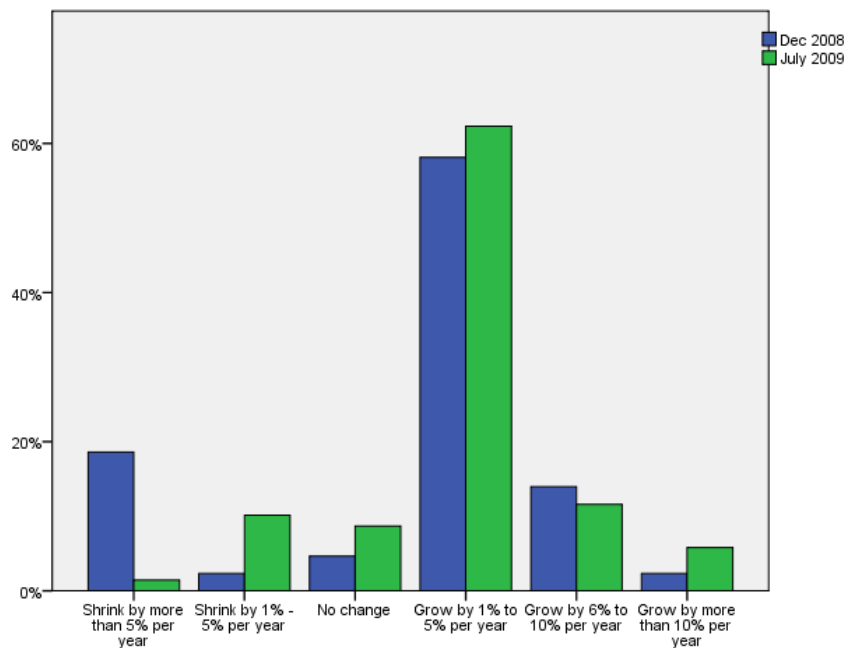
## Medium Term Growth Prospects

Looking further out, fewer than 10% of respondents expect their businesses or their market in general to shrink over the next 5 years. Figures 4 and 5 show that since December 2008 businesses have become more optimistic about their medium terms growth prospects.

**Figure 4. How do you expect your business to perform over the next 5 years?**



**Figure 5. How do you expect others in your market to perform over the next 5 years?**



### 3. Investment Behaviour and Intentions

Figures 6 and 7 below show the extent to which investment in six areas of businesses' operations has changed over the past 12 months and is projected to change over the next 12 months. Businesses that reported no change to an operational area have been omitted from the figures.

Figure 6 shows that over the past 12 months, businesses were most likely to have **increased** investment (albeit slightly in most cases) in the following areas:

- Sales and marketing
- IT infrastructure
- Staff training

In contrast, businesses were most likely to have **reduced** investments in:

- Plant and equipment
- Research and development

This suggests that businesses have been more focussed on improving their short term financial results through increased sales and efficiency gains that their longer term positions through investment in plant and R&D.

**Figure 6. Changes in investment over the past 12 months**

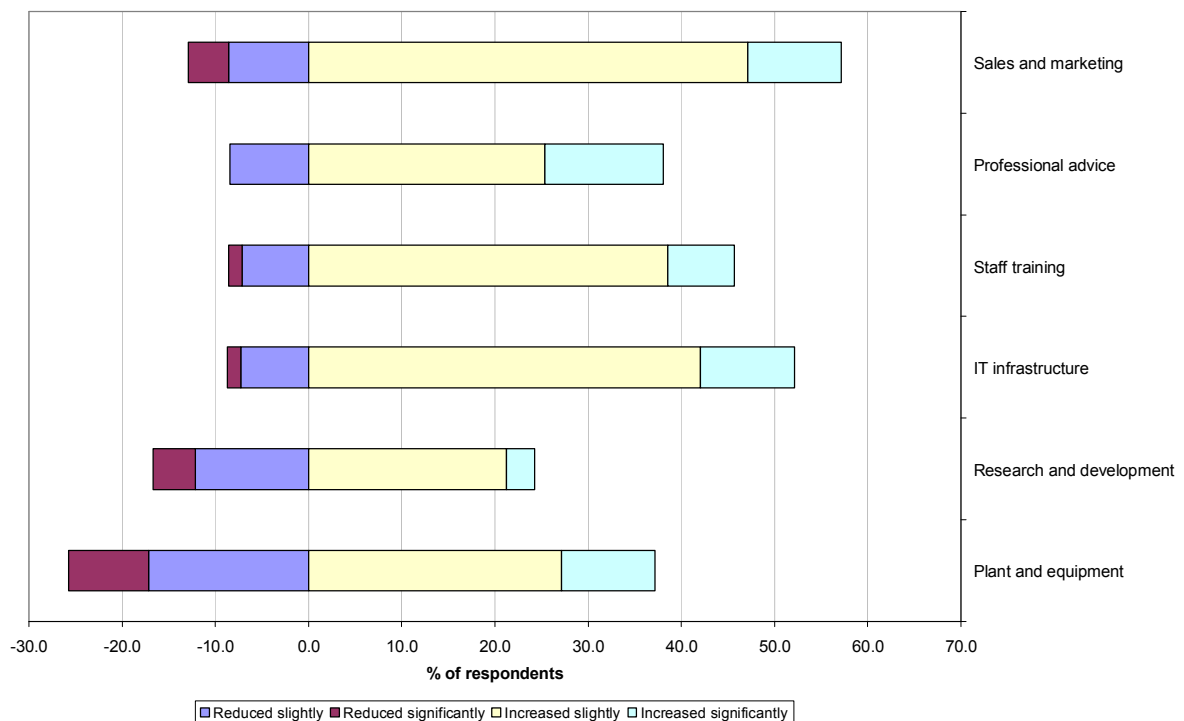
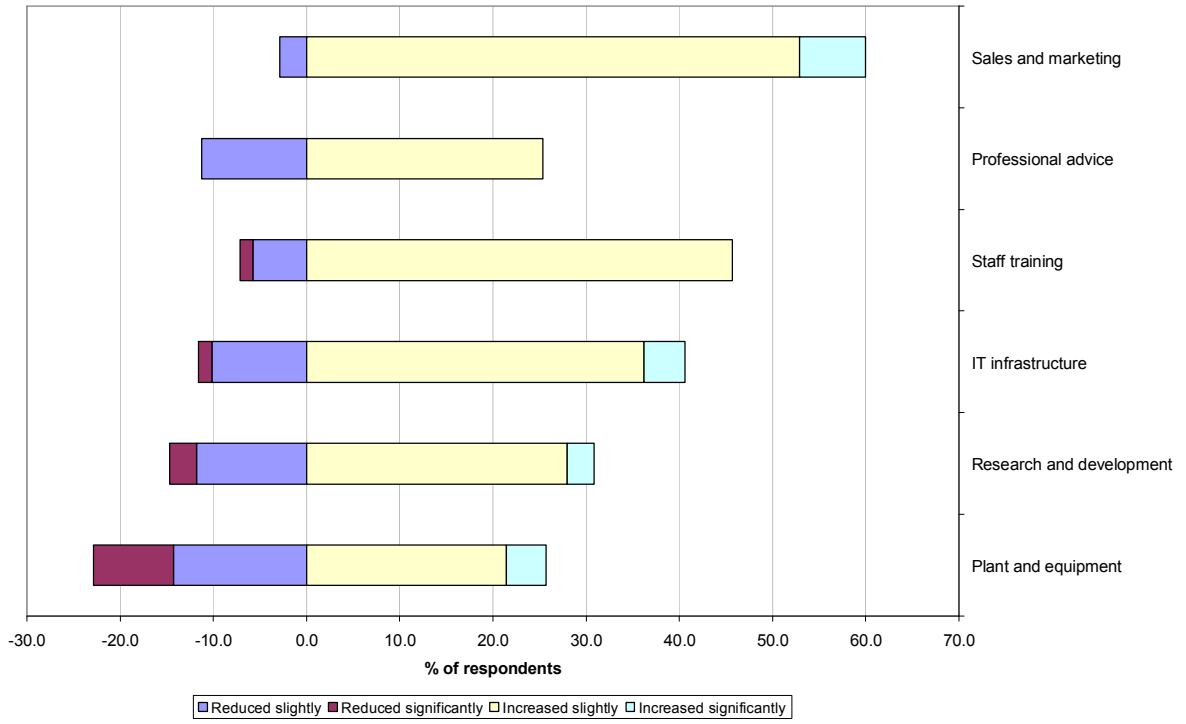


Figure 7 below shows that a similar situation is expected over the next 12 months with, if anything, a greater focus on increasing investments in sales and marketing and less focus on investment in plant and equipment.

**Figure 7. Expected changes in investment over the next 12 months**



## 4. Economic Environment

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The survey investigated how businesses are planning for, and dealing with, the current economic environment.

Figure 8 shows that almost all responding businesses are adopting some initiatives in response to the current economic environment – fewer than 5% said they had not adopted any initiatives.

Comparing December 2008 and July 2009 results shows there has been some evolution in the responses that businesses are making to the current business environment.

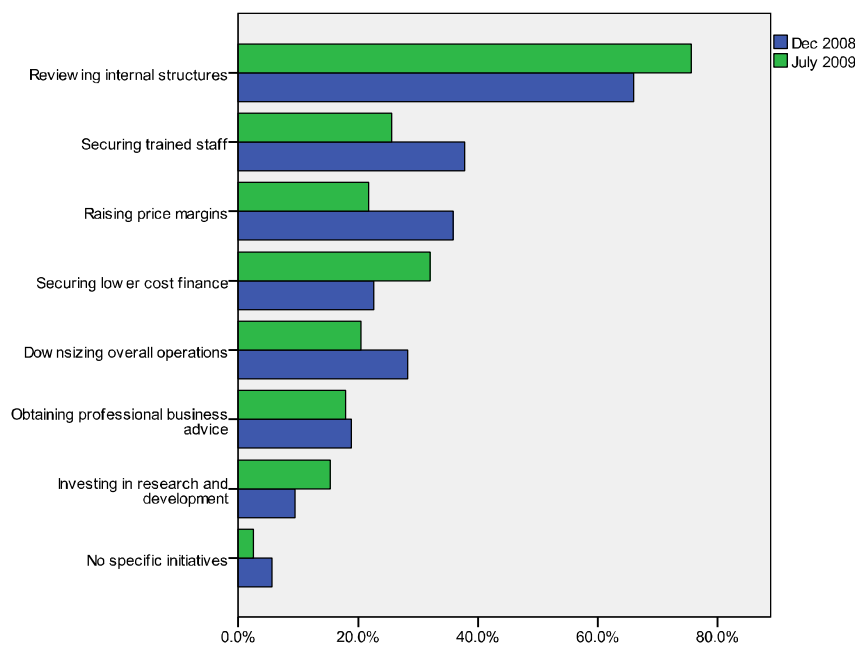
In July 2009, **more** businesses were:

- reviewing their internal structures
- securing lower cost finances (as interest rates have fallen)

In contrast, **fewer** businesses were:

- seeking to raise price margins (difficult in the current market)
- securing trained staff (reflecting lower staff turnover and a soft labour market)

**Figure 8. Which, if any, of the following initiatives are being adopted by your organisation in response to the current economic environment?**



## 5. Environmental Issues

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As in previous surveys, business leaders were asked about the significance of environmental issues for their businesses, and the motivations driving environmental issues in their businesses.

Figure 9 shows that, as economic conditions deteriorated in late 2008, there was a significant drop in the proportion of businesses reporting that environment issues were significant to their business. However, as a degree of optimism has returned, environmental issues have assumed greater significance again, although not to the extent reported in May 2008.

**Figure 9. How significant are environmental issues for your business?**

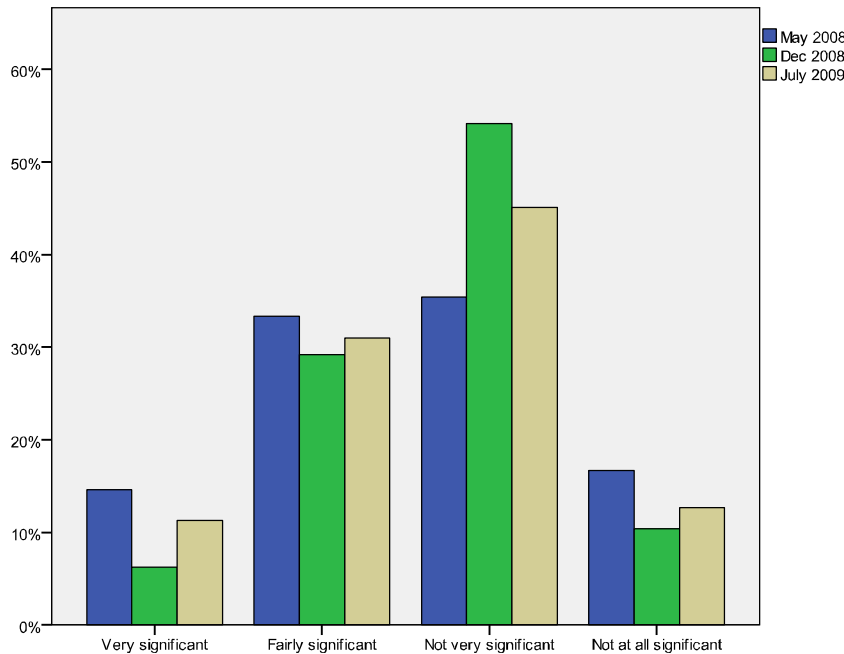
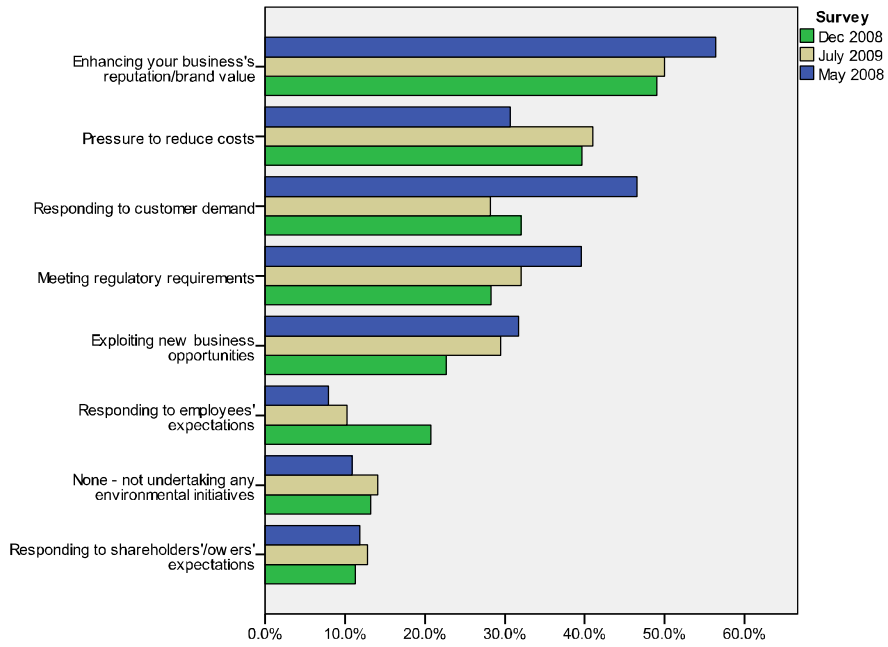


Figure 10 shows that, as in previous surveys, the main motivations driving environmental issues are enhancing brand reputation, reducing costs and responding to customer demand. In essence, they are adopting pragmatic responses to external or internal pressures rather than initiating changes simply because they are seen as intrinsically worthwhile.

**Figure 10. Which of the following motivations are most important in driving the environmental initiatives being undertaken by your organisation?**



## 6. Challenges

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As in previous surveys, business leaders were asked to identify the three main challenges facing their businesses over the next five years. In July 2009, the most commonly identified challenges reflected businesses' focus on consolidating their position in the market through:

1. controlling their costs
2. improving their efficiency
3. finding new customers

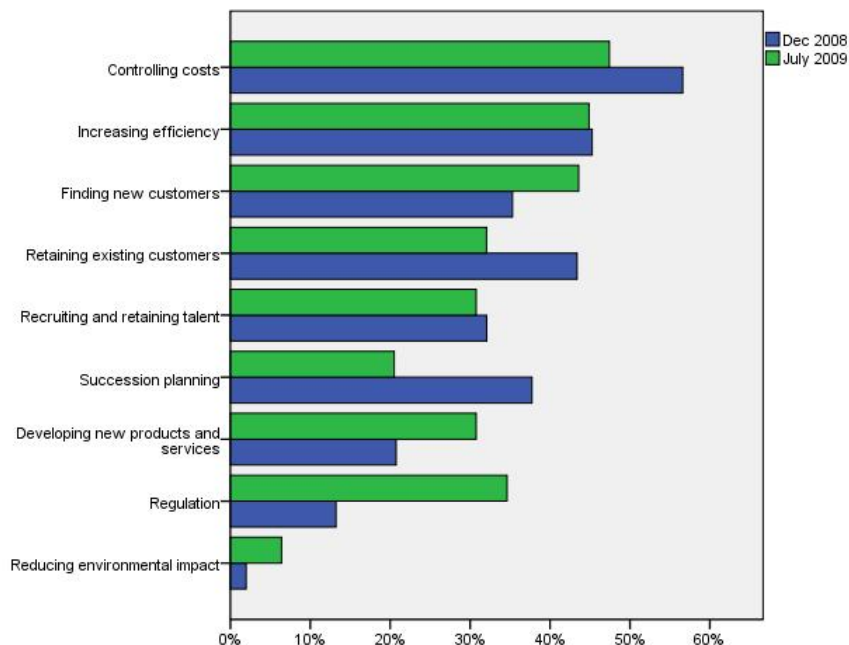
It is interesting to note that, compared to December 2008, **fewer** business leaders reported facing business challenges relating to:

- retaining existing customers (their focus has shifted to securing new customers)
- succession planning (as voluntary staff turnover has dropped)
- controlling costs (still a challenge for many, but less frequently cited than previously as cost reduction initiatives have begun to take effect)

At the same time, **more** businesses leaders reported facing business challenges relating to:

- developing new products and services
- finding new customers (as the spend of their existing customers has dropped)
- dealing with regulation (perhaps the expectations that a new government would quickly deal with red tape have not been realised)

**Figure 11. What are the biggest challenges facing your business over the next five years?**



## 7. Talent Management

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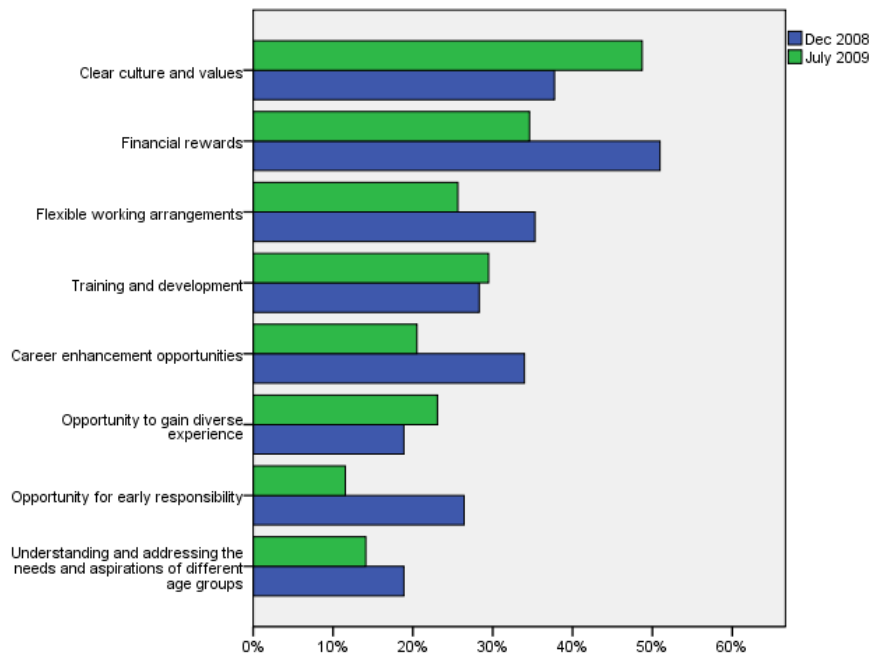
As the employment market has softened, recruiting and retaining talent has become less of an issue for businesses than it was even in December 2008, as shown by Figure 12.

Compared to December 2008, **fewer** businesses leaders reported using direct rewards to attract and retain talent, such as:

- increased financial rewards
- flexible working arrangements
- career enhancement opportunities
- early opportunities for responsibility

At the same time, and perhaps reflecting the challenges arising from internal restructuring initiatives, more businesses are focusing on the less tangible challenge of promoting a clear culture and values.

**Figure 12. What will help you recruit and retain the best talent?**



## 8. Employee Behaviour

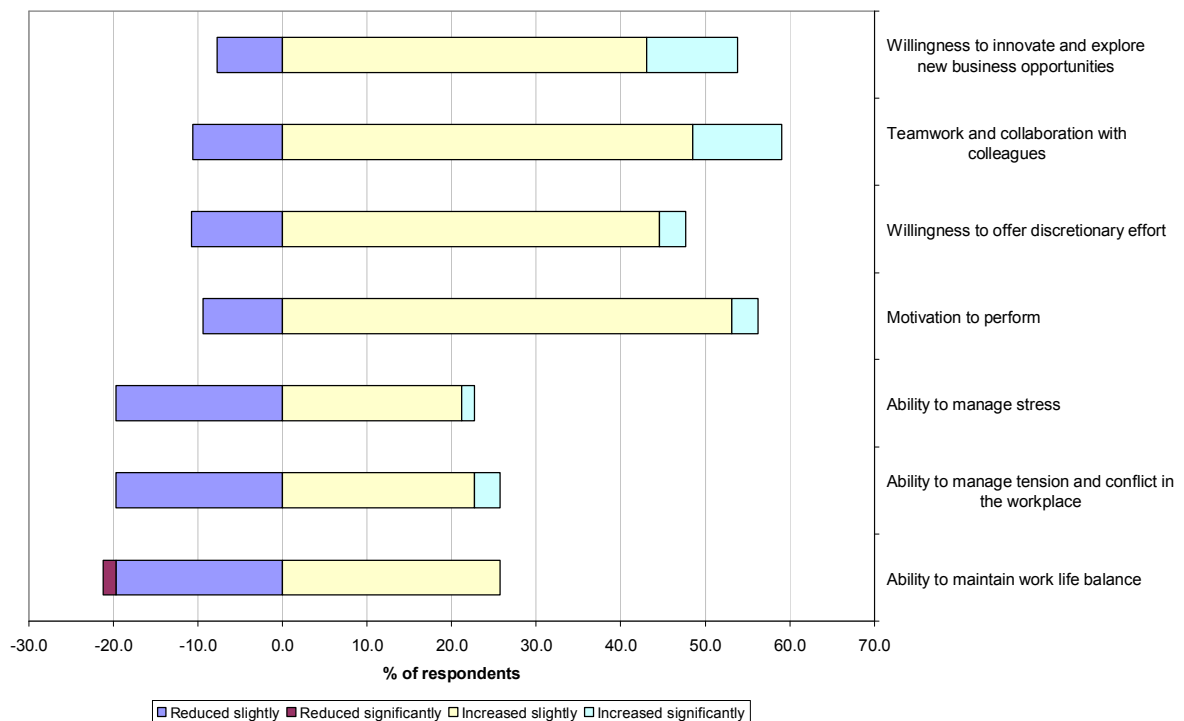
As Figure 12 has shown, more business leaders are reporting that they are focusing on establishing a clear culture and values in their organisations. This may be in response to the stresses that economic uncertainty and associated restructuring create within organisations. To obtain a better understanding of how employees are reacting to the current business environment, businesses were asked to indicate how they believed seven aspects of employee behaviour have changed in the past 12 months. Their responses are summarised in Figure 13.

Figure 13 shows the proportion of respondents who believe that the incidence of specific behaviours has increased or reduced over the past 12 months (those who reported no change in a behaviour have been omitted). Most respondents believe that the incidence of the following behaviours has increased:

- willingness to innovate and explore business opportunities
- teamwork and collaboration with colleagues
- willingness to offer discretionary effort
- employee motivation to perform

In contrast, business leaders are more divided about whether employees' ability to manage stress, manager tension and conflict in the workplace and maintain work life balance has increased or reduced.

**Figure 13. Changes in employee behaviour**



## 9. Survey Methods

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On 22 July 2009, a selection of leaders in 311 South Island businesses were invited to participate in an on-line survey.

The survey focussed on five main themes:

1. their expectations for their business, including investment intentions
2. how they are dealing with the current uncertain economic environment
3. how their employees are reacting to the current environment
4. the impact of environmental issues on their business
5. the challenges they face in their roles
6. their approach to managing talent in their businesses

Respondents were asked to provide their responses by 31 July 2009. At that time, completed questionnaires had been received from 78 respondents.

Where respondents were provided with lists of possible response options, the lists were randomised to eliminate response order bias.

Tables 1 to 5 below show the characteristics of the business leaders who responded to the survey.

**Table 1 Industry Sector**

	Percent
Agriculture, Forestry and Fishing	8.2
Arts, Entertainment and Recreation Services	3.3
Central and Local Government	1.6
Construction and Related Trades	8.2
Education and Training	3.3
Financial and Insurance Services	16.4
Health Care and Social Assistance	3.3
Information Media and Telecommunications	4.9
Manufacturing	8.2
Professional, Scientific and Technical Services	9.8
Rental, Hiring and Real Estate Services	6.6
Retail Trade	1.6
Tourism, Accommodation and Food Services	16.4
Transport, Postal and Warehousing	3.3
Wholesale Trade	3.3
Other	1.6
Total	100%

**Table 2 Turnover**

	Percent
Less than \$1 million	10.9
\$1m to \$5m	37.5
\$5m to \$10m	14.1
\$10m to \$50m	18.8
\$50m to \$100m	14.1
\$100m to \$500m	-
More than \$500m	4.7
Total	100%

**Table 3 Role in Organisation**

	Percent
Owner	34.4
Partner	15.6
Chairman	3.1
CEO/MD	34.4
Senior Manager	12.5
Other	-
Total	100%

**Table 4 Age Group**

	Percent
Under 25	-
25 to 40	13.6
41 to 60	69.7
Over 60	16.7
Total	100%

**Table 5 Gender**

	Percent
Male	95.5
Female	4.5
Total	100.0