



Confidence Index
QUARTER 3, 2017



Executive Summary

Instinct: it's ingrained in the DNA of all successful business leaders. In fact, instinct is so valuable to leaders that it is a critical part of the decision-making process.

However, to tackle challenging business decisions, instinct must be balanced with insight. That's the key observation from the Quarter 3, 2017 *Confidence Index* by The Executive Connection.

Last quarter, we identified staffing pressures as the biggest challenge currently facing business leaders across Australia. As the war for talent looks to re-surge, this quarter's Index examined those pressures in more depth. What we found was that attracting and retaining qualified and experienced talent hasn't become any easier than it was a year ago, and many are relying on instinct to guide how they tackle the problem.

While some business leaders support their attraction and retention processes with financial benefits, other CEOs are focused on training and career development. Regardless of tactic, what's clear is that people are the engine room of any business, and understanding what makes them tick plays a significant role in a business's ability to remain competitive in today's environment.

As leaders, it's our responsibility to face these challenges head on, and when we do, it's important to remember that some of the best decisions we make are when insights are applied. Validating a 'hunch' with further supporting evidence expands perspectives and improves judgement.

As our members continue to navigate their way through a contracting talent pool, The Executive Connection remains dedicated to supporting CEOs in making decisions that positively impact the business in the short and long term

Stephanie Christopher

About the Index

The Executive Connection *Confidence Index* is a quarterly survey measuring the confidence of Australian business leaders of small-to-medium enterprises. The results provide insight

into the challenges and opportunities faced by leaders and their confidence in the Australian business environment. The Executive Connection members are CEOs

and business leaders of predominantly small-to-medium enterprises (SMEs) with up to 200 employees and annual revenue of between \$2 million and \$100+ million per year.

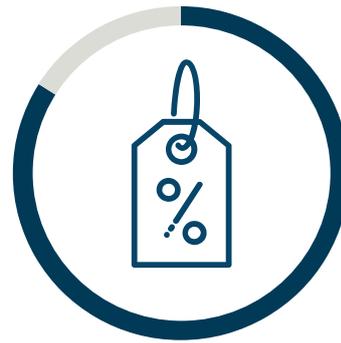
The Executive Connection *Confidence Index* Quarter 3, 2017 was conducted in October 2017 and includes 128 responses from Chief Executives and business owners around the country.

Australian SME Outlook: Confidence Index Highlights



72%

Eye on the prize:
Increase in profitability in the next 12 months



84%

Strong sales:
Increase in sales in the next 12 months



86%

Positive outlook:
Confident economic conditions will remain the same or improve over the next 12 months

“Right now the opportunities are endless; it’s a very exciting time. For us, we are seeing a lot of consolidation in the market, which means fewer competitors bidding for the same government tenders or larger accounts. This means that overall, we have more opportunities nationally for profit and sales. However, the one thing holding us back from even greater growth is having the right talent in place who can help sell the C-suite.”

Paul Freeman, Executive Chairman E-BisGlobal

CEOs eye increase in profitability

Australian CEOs of small-to-medium enterprises have profitability and sales revenue increases in their sights, as their confidence in the economy grows.

Business leaders across Australia have not let megatrends such as climate change or shifts in global economic power¹ impact their outlook, with 86 per cent confident economic conditions will remain the same or improve over the next 12 months, up three per cent on the quarter.

With the book now closed on FY2017 reporting season, CEOs are optimistic about the future. Up 9 per cent since Q2; 72 per cent of leaders are expecting an increase in profitability in the next 12 months.

At the same time, 84 per cent believe sales revenues will increase during that same 12-month period.

Despite the lift in anticipated profitability, there is no planned shift in prices on the horizon; with only one in three (39 per cent) CEOs planning to put their prices up during the next 12 months.

These findings echo the sentiment faced by large businesses in Australia², and come as business conditions continue their solid run. According to the NAB Monthly Business Survey, August 2017³, business conditions rose to their highest level for the series since early 2008.

The *Confidence Index* findings suggest that CEOs are focused inwardly on growing their business, and won’t let external mega and micro factors impact their ability to achieve growth.

Paying the price for talent

As the search for qualified candidates becomes harder, Australian CEOs looking to hire new talent believe increasing wages is the answer.

More than one in three CEOs (38 per cent) believe hiring experienced and qualified candidates is more difficult compared with a year ago. Increasing wages (23 per cent) is the most cited tactic to attracting new talent, followed closely by social and online channels (18 per cent) and adding more benefits (17 per cent) to a prospective candidate's remuneration package.

These results come at a time when wage growth remains at a record low of under 2 per cent. The Federal Treasury also reported in September that less than 10 per cent of workers have experienced wage growth of 4 per cent or more, compared with 40 per cent a decade ago⁴.

Despite the struggle for new talent, the majority of leaders do not have a formalised talent management process in place. Fifty-five per cent of leaders have a somewhat formalised process, while 25 per cent have a mostly informal process.

Businesses with less than 25 employees are more likely to have a mostly informal talent management

process (32 per cent) compared with those with 25 or more employees (21 per cent).

Interestingly, leaders of organisations with less than 25 employees are also more likely to increase wages for a new hire (15 per cent), compared with 6 per cent in organisations with a headcount of 25-200 employees and 0 per cent for those with 200+.

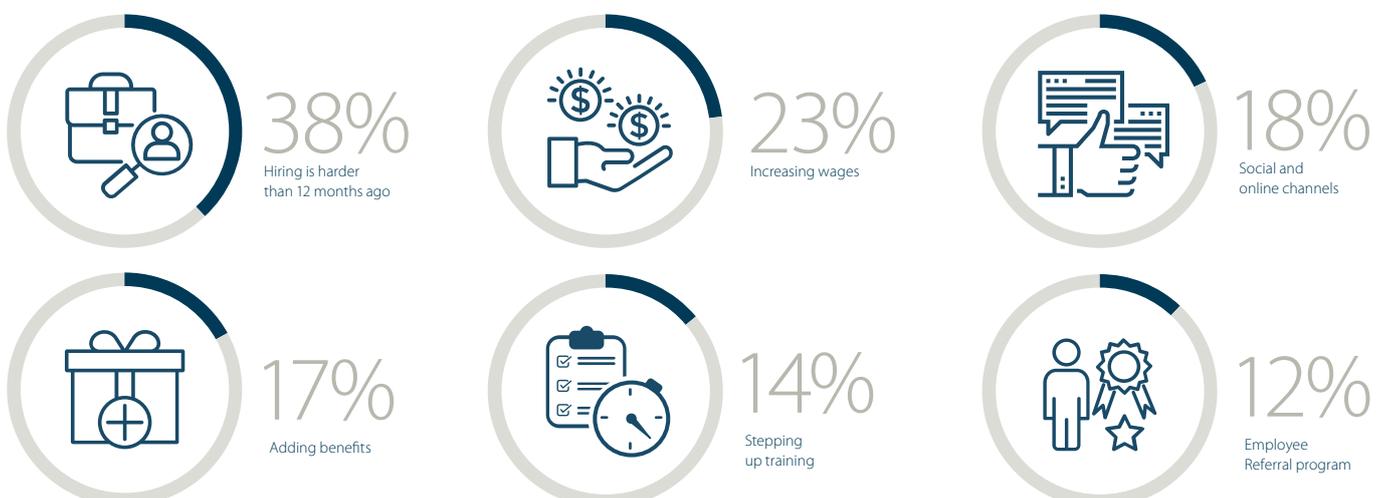
This suggests that businesses with a smaller headcount may be throwing money at the problem, and may not have the sophisticated metrics in place to identify other methods to improve their talent attraction program, to ensure they have the talent to remain competitive in today's business environment.

The war for quality candidates is getting harder and business leaders are willing to do what it takes to ensure they have the talent to remain competitive in today's business environment.

While increasing wages may instinctively seem like the right decision, more could be done to provide more structured recruitment and talent management processes to uncover true talent insights that inform business decisions.

"As a regional-based business, we can't compete with metro competitors when it comes to offering increased financial rewards as part of the recruitment process. Instead, we have been recruiting from a demographic who perhaps can't go to university, training them up and giving them all the skills they'll need to succeed, in a cultural environment they've grown up in. We find that they love this approach and will stay with us for longer because of it."

Mitchel Hanlon, Managing Director, Mitchel Hanlon Consulting Pty Ltd



Keeping employees happy

Thirty-two per cent of Australian business leaders believe retaining employees is more difficult than this time last year.

Those looking to improve retention have pointed to stepping up training (33 per cent), adding benefits (32 per cent) and increasing wages (17 per cent) as solutions to slow down staff exits.

Whether leaders are using insight or instinct to drive their decisions on retaining employees, their methods for tackling their challenges are in line with leading market research.

According to a survey of workers by the Australian Institute of Management, limited career advancement opportunities and financial

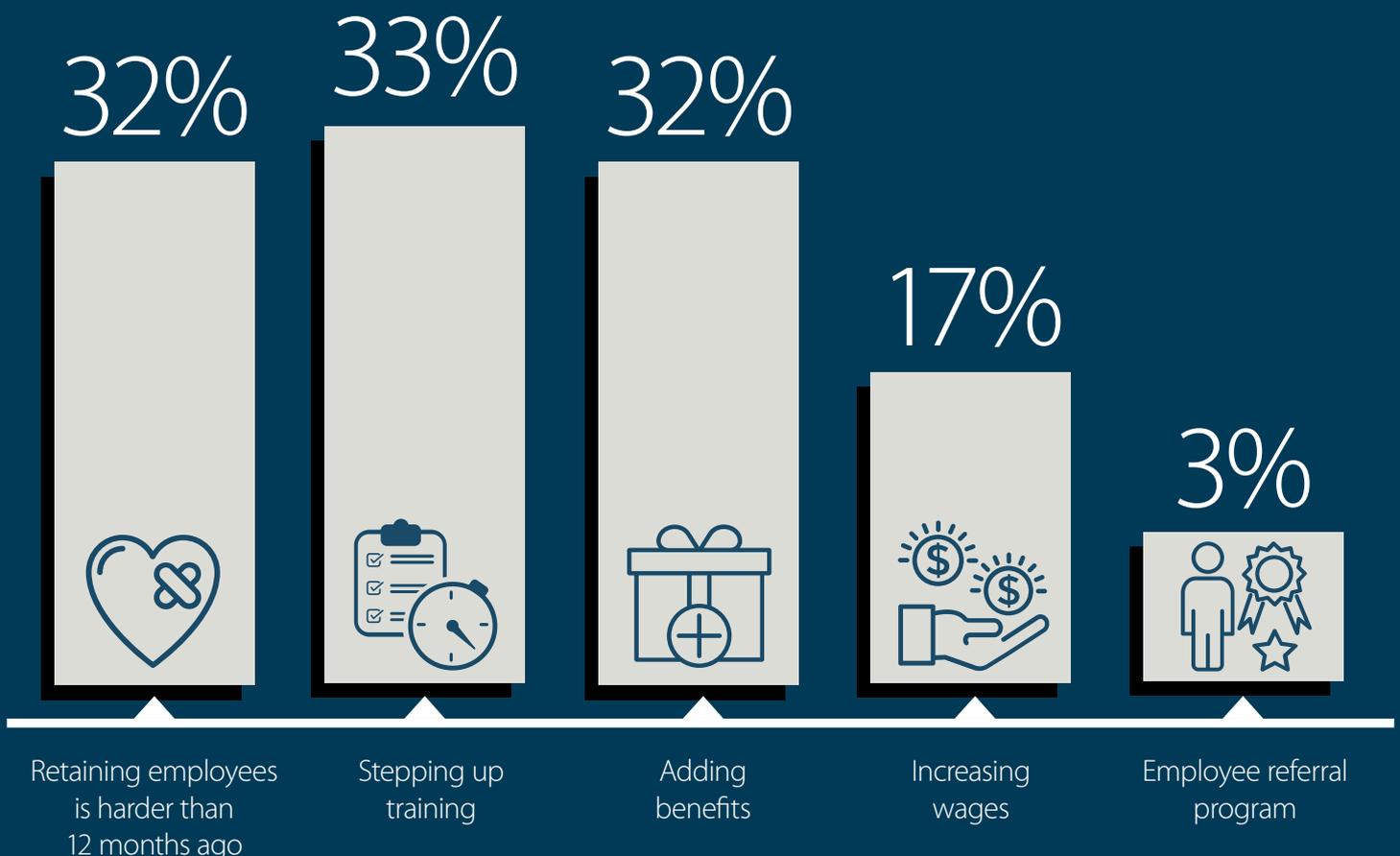
rewards were seen as key reasons to seek new opportunities elsewhere.

Perhaps not surprisingly, leaders of organisations with a headcount of 200+ were more likely to increase wages to retain staff whereas leaders of smaller organisations (less than 200+ employees) were more like to focus their efforts on stepping up training.

Financial reward, career development, ability to innovate and culture can all be key drivers behind why employees choose to stay, or leave, a company; combining instinct with insight could transform talent retention programs and uncover untapped opportunity for employee engagement.

“While it’s obviously very important to maintain salaries at market level, for us staff development is critical to retention. We find that if we train staff, develop their skills and offer them new opportunities, they respond well and really love it.”

Erica Westbury, Managing Director, Norwest Recruitment



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1. Megatrends, PWC 2017 2. NAB Quarterly Business Survey, September 2017 3. NAB Monthly Business Survey, August 2017 4. Scott Morrison, addressing the Business Council of Australia, September 2017

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