Making headway in a volatile world
The challenges of achieving sustainable growth
About this survey
In September 2011, the Economist Intelligence Unit on behalf of Ernst & Young surveyed 247 Chief Financial Officers (CFOs) and Finance Directors (FDs) from a broad range of sectors across fifteen countries in Asia Pacific. Over half have regional or enterprise/global scope in their role, while 36% of participants operate at the country level.

CFOs in Australia and New Zealand make up 45% of the survey, with 28% from Australia and 17% from New Zealand. The rest are located in 13 countries in Asia, with 15% in India, 9% in both China and Singapore and 5% in Hong Kong. Smaller numbers come from Indonesia, Malaysia, South Korea, Thailand, Taiwan, Vietnam, Sri Lanka, Japan, and the Philippines.

The companies represented differ greatly in size and scale; 40% are privately owned, 20% are multinational subsidiaries and 19% are listed. The remaining 21% of companies include government departments, government owned enterprises, private equity backed companies, mutual societies and partnerships. At the time, 43% had global revenues of less than USD$100 million and 20% had global revenues in the range of USD$100 million to USD$999.9 million. Twenty eight percent had global revenues of over USD$1 billion, with 9% generating USD$20 billion or more.

Our thanks to all survey participants and, in particular to those finance leaders who shared their insights in a series of interviews:

Paul Anderson
Chief Financial Officer
Ten Network Limited

Shayne Bryant
Chief Financial Officer
ASB Bank Limited

Andrew Seaton
Chief Financial Officer
Santos Limited

Lawrie Tremaine
Chief Financial Officer
Woodside Energy Ltd

Richard Murray
Chief Financial Officer
JB Hi-Fi Limited

Mark Joiner
Executive Director
Finance
National Australia Bank Limited

Noel Meehan
Executive Director
Finance
Orica Limited

Nessa O’Sullivan
Group Chief Financial Officer
Coca-Cola Amatil Limited
Introduction

In an increasingly uncertain and competitive business environment, Asia Pacific’s CFOs are taking on far more strategic roles in steering their organisations safely through tight credit markets, complex regulation and dynamic trading conditions.

Based on survey data from 247 of the region’s top CFOs and FDs, this report examines their macro concerns about the global economy and the resulting challenges for business.

It also reveals how finance executives are responding to market volatility – with a laser focus on cost control, cash flow and risk management – and their views about the best opportunities for organisations to deliver sustainable growth in these challenging times.

Drawing on the opinions of these senior finance executives, this report offers practical advice to help executive teams navigate a safe course through what are expected to be turbulent waters.

In the overwhelming opinion of the region’s CFOs, for at least the next six months, achieving growth will be the number one challenge for most businesses.

We hope the following insights and ideas support you in meeting this challenge.

Rob McLeod
Oceania Managing Partner and CEO
“Life as it is for all Australian businesses – tough retail conditions, challenging economy, high Australian dollar, high labour cost market.”

Nessa O’Sullivan, Group CFO, Coca-Cola Amatil Limited
From their perspective, Europe’s sovereign debt issues and the on-going debt crisis in the US are reducing demand for Asian exports to other parts of the world – a trend that is likely to continue given the extremely low growth forecasts coming out of the UK, US, Europe and Japan. Moreover, the shaky US dollar is making export markets even less attractive, based on currency exchange. As a result, even in Asia’s rapid growth economies, market confidence, consumer purchasing and risk appetite are all weakening.

 Asked to rank their top three challenges for business in general, the region’s CFOs nominated:

1. **Sluggish consumer demand in Europe and the US** – demonstrating the region’s vulnerability to the economic crises playing out in the rest of the world.

2. **High commodity prices** – increasing the cost of manufacturing inputs. In countries where manufacturing demand has stabilised or fallen, companies are looking to maintain or decrease output, pointing to the potential for manufacturing facility closures and redundancies.

3. **Human resource issues** – particularly hiring, retention and wage inflation. In Asia’s growth markets, businesses are struggling to find executives with the right mix of skills, who also speak the local language, know the culture and understand the market.

### What do you think the top challenges are for business in general over the next few years?

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<td>Sluggish consumer demand in the EU and US</td>
<td>High commodity prices</td>
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<td>2</td>
<td>High commodity prices</td>
<td>Human resource issues: hiring, retention, wage inflation</td>
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<td>3</td>
<td>Human resource issues: hiring, retention, wage inflation</td>
<td>Sluggish consumer demand in the EU and US</td>
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Base: All (246) ANZ (111) Asia (135)
“The economy and consumer sentiment is the most immediate challenge for our business. In a strong market we are booked out months in advance, in a weak market this is reduced to weeks. This leads to discounting during tough times.”

Paul Anderson, CFO, Ten Network Limited

In ANZ, CFOs are also concerned about the availability of credit, given the ANZ banking systems’ heavy dependence on offshore funding. Further, 62% of ANZ CFOs surveyed cited cash flow as the most important priority and the key to take advantage of business opportunities.

Depending on their industry, other ANZ challenges cited include: tough retail conditions, the uncertainty plaguing consumer sentiment, the high Australian dollar and the cost of labour.

In Asia, rapid growth market issues including rising competition and sluggish consumer demand were cited as key concerns, after the top three challenges of sluggish consumer demand in the EU and US, high commodity prices and HR issues. This reflects the importance and potential impact of rapid growth markets on Asia-based organisations’ regional business strategy.

How much of a priority is cash flow compared to three years ago?

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<th>Priority</th>
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<tr>
<td>More of a priority</td>
<td>56%</td>
<td>62%</td>
<td>51%</td>
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Base: All (246) ANZ (111) Asia (135)

While an issue across the region, cash flow is more of an issue for ANZ-based CFOs. Sixty-two percent see it as more of a priority for their organisation than three years ago, compared to 51% of Asia-based CFOs, indicating a more conservative approach to cash flow management in ANZ companies compared to Asia.
Focus areas

Across the region, CFOs highlighted four key focus areas to address in order to respond to the macro-economic environment and ensuing challenges for business. According to the survey, CFOs are addressing the growth challenge, attracting and retaining talent, managing risk and ensuring that the business transforms to achieve competitive advantage.

Achieving growth

In their greatest leadership challenge to date, CFOs must deliver growth strategies in an environment where this is becoming increasingly challenging.

Despite 67% of their companies achieving growth from earnings before interest, taxes, depreciation and amortisation (EBITDA) in the last 12 months – 35% at more than 10% – the region's CFOs are increasingly concerned about the difficulties of continuing to deliver such results. Over 60% cited achieving growth as the biggest challenge facing their business.

“In a low-growth environment, with unstable financial markets, and a lack of confidence as firms and individuals deleverage, how do we achieve growth?” Shayne Bryant, CFO, ASB Bank Limited

How has your EBITDA changed over the past 12 months?

Over 81% of Asia-based companies surveyed achieved EBITDA growth in the last 12 months, with 49% achieving more than 10% growth and 20% achieving over 20% growth. While Asia-based companies experienced strong growth in some sectors over the past 12 months, there is increasing concern about sustaining growth at these levels going forward.

Clearly, for respondents whose organisations are global, growth is being impeded by worsening economic conditions in other countries and in some cases resources are being diverted from Asia Pacific subsidiaries to support the business in other markets. Conversely, respondents still believe there are growth opportunities – particularly in rapid growth markets. Asia-based CFOs cited organic growth in rapid growth markets as a key opportunity to leverage over the next few years.

“The biggest challenges are achieving growth and increasing shareholder value.” Lawrie Tremaine, CFO, Woodside Energy Ltd

The extreme volatility of global markets – with their knee-jerk responses to corporate announcements – is creating an unnecessarily conservative approach to investment. Companies are shelving higher risk growth strategies that might appear too aggressive in the hopes of placating the markets with a more moderate approach. Yet, at the same time, boards, shareholders and market analysts are seeking evidence of forward cash flows that match the aggressive 5-10 year growth rates achieved before the global financial crisis.

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“A key aspect of my role is enhancing management credibility in the eyes of the market.”

Mark Joiner, Executive Director Finance, National Australia Bank Limited

Despite abundant evidence to the contrary, stakeholders have yet to accept that uncertainty is the new norm. Keen to see growth, after two decades of solid supply, they are punishing companies that fail to deliver on long-term plans made in radically different currency, credit and consumer market conditions.

It’s difficult to imagine how companies can replicate the pre-2008 growth the stakeholders want to see. Yet this does not mean these businesses are intrinsically less valuable. Those sufficiently nimble to switch from top line focus with flat costs to a cost focus with flat revenue will continue to grow profits – if not revenues.

The danger with this approach is that organisations will become so focused on short-term cost reduction, that investment in long-term opportunities and innovation will cease, undermining the drivers of top line growth.

“As owners of cost reduction programs, CFOs must ensure short-term changes aren’t detrimental to an organisation’s long-term future. This will require the courage to take a balanced view and set up the right metrics to support strategy in the long-term and explain this to their board, management and to the market.” David Fincher, Partner, Advisory, Performance Improvement, Ernst & Young, Australia

“What are the biggest challenges facing your business?

- Achieving growth: 62%
- Attracting and retaining talent: 53%
- Managing risk: 51%
- Transforming the business to keep abreast of changing market dynamics: 42%
- Rising competition: 31%
- Managing corporate social responsibility targets/environmental impacts: 14%
- Other: 10%

Seventy-seven percent of Asia-based CFOs agreed or strongly agreed that the shift from focusing on financial performance to being able to manage a complex stakeholder universe is one of the most difficult challenges for financial managers.

“Coca-Cola Amatil’s long track record of growth is a challenge, as we need to ensure we continue to build the pipeline to sustain future growth. The challenge is to continue to be innovative and look at new ways to grow.” Nessa O’Sullivan, Group CFO, Coca-Cola Amatil Limited

Base: All (247) ANZ (111) Asia (136)
“Resourcing and people issues are a challenge. Talent management, particularly in the mining sector given scarcity and competition, is a major issue for business.”

Noel Meehan, Executive Director Finance, Orica Limited
Attracting and retaining talent

Smart CFOs are taking advantage of market uncertainty – picking off top talent to enhance the finance team’s ability to offer the business strategic advice.

One of the many tensions in the cost cutting environment is the continuing need to invest in attracting and retaining the right talent to support growth. Almost half of our respondents nominated this as their biggest challenge, with organisations struggling to find savvy, commercially astute individuals.

“Maintaining our culture and retaining talent is critical, particularly as the business grows.” Richard Murray, CFO, JB Hi-Fi Limited

A microcosm of this is in play in finance departments around the region, where uncertainty is changing the required skills set. CFOs need people with the commercial nous to support decision-making – not just technical financial skills. Good financial controllers are also essential, if the CFO is to step up as a strategic advisor to the rest of the business.

“Talent is out there. The issue is finding the right talent, the right attitude and fit – skills can be developed.” Paul Anderson, CFO, Ten Network Limited

When you’re under pressure to reduce costs, continuing to invest in talent can be challenging and generates debate at the management level. Yet, as CFOs are all too aware, the talent lifecycle is very expensive. Whenever people walk out the door, knowledge goes with them – and the replacement costs are significant. Many organisations are therefore opting to pay a premium to sustain their ‘employer of choice’ brand. This is particularly the case in the regional hubs of Hong Kong and Singapore, where competition for critical talent is strong.

The talent issue is compounded in countries with ageing populations, such as Australia, Japan and China, where CFOs are already worried about replacing the skills of retirees – a situation that will only get worse. According to the United Nations, the global 65+ population will double by 2030. More than a quarter of this growth in the 65+ age range will occur in China.

In this environment, organisations will need to address their immediate talent shortage as well as develop longer term strategies to address the supply gap. Organisations will need to develop innovative approaches to securing and developing talent. Strategies may include optimising the ability to develop and retain current workforce, such as offering more flexible work arrangements and gradual retirement. Employers will need to tap the broader national talent pool and build the capacity to draw on and integrate critical skills from the global market.

Across the region, 46% of respondents cited attracting and retaining talent as a challenge for business. In Asia, this sentiment was heightened, with over half (53%) expressing this concern.
“Speed to market is critical to business success. Our risk management approach is dictated by the size and nature of the project.”

Richard Murray, CFO, JB Hi-Fi Limited

Managing risk

Uncertainty is driving demand for higher quality risk information. Yet CFOs may struggle to make a compelling business case for investing in this often intangible outcome.

On a par with talent management, 46% of CFOs also cited managing risk as one of the biggest challenges facing their business. Expanding on this, they noted a number of factors contributing to a heightened risk agenda, including market volatility and the increasingly complex regulatory environment.

Risk management is heightened in the CFO’s mind, because it is top of mind for the board and other governance committees. Is the company’s risk management agile enough to predict the situation in six to twelve months time? Boards want risk management to be embedded in the business and in the corporate culture/psyche of the organisation.

In times of uncertainty, the danger is that organisations will focus on minimising risk and fail to take advantage of market opportunities. CFOs have a leadership role to play in addressing this balance, by explicitly focusing on the upside, not just the downside.

Optimising risk data

In fact, it seems this heightened risk environment may galvanise organisations to address the issue of risk data. The school of thought that risk and finance should come together has been around for over a decade. Yet, in many organisations, asking the CRO and CFO for the same information will still yield two very different answers. Ultimately, this comes down to the vital issue of data definitions. Clearly, if you are using a common taxonomy and common set of standards, you should come to the same answer. If you are using different definitions with data run through different systems, of course the answer will be different.

CFOs need to create an environment where people are able to take quick decisions based on quality, risk-based information from a single source. Yet, establishing common data definitions across all of an enterprise’s different risk categories will require investment. Typically, where organisations have failed to invest in information infrastructure they now lack the data standards, technology and analytics skills required to properly support decision-making and ultimately growth.

Boards want risk management to be embedded in the business and in the culture of the organisation. Some sectors are investing in better systems to support enterprise risk management. After its near death experience in 2008, the property industry is finding the funding for multi-million dollar back office programs, fundamentally changing core systems and processes to enhance decision support. As well as helping these companies to navigate the current uncertainty, this investment will support fast movers when the next wave of growth opportunities emerges.

Improving risk management is more of a priority than three years ago?

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<td>54%</td>
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Base: All (246) ANZ (111) Asia (135)

In Asia, 60% of CFOs said that improving risk management was more of a priority than three years ago. One Asia-based CFO cited the challenges of mitigating risk and being better prepared for it while continuing to perform at the highest levels and continuing to be an industry leader. While challenging, improving risk management will remain a high priority on the CFO’s agenda because it will continue to be high on the board’s agenda.

Not surprisingly, 48% of CFOs in ANZ have a greater focus on risk management than they did three years ago. The risk environment has heightened, with economic weakening, industry restructuring and regulatory complexity at the top of the CFO list of concerns. Some believe their current risk management processes will not cope with the rate of change in business conditions.

“When the confidence index is low, the risk radar is heightened.”

Jenny Parker, Partner, Ernst & Young Oceania Risk Leader and Managing Partner Queensland, Ernst & Young, Australia
In response, CFOs are focusing their attention on treasury, ensuring the right financial risks and drivers are reported to support better decision-making. Their specific areas of focus include:

- Cash forecasting, liquidity and working capital
- Stress testing impacts on cash flow at risk and hedged and non-hedged positions
- Control and governance framework over financial reporting of treasury activities

As a result, CFOs are better aligning treasury risks with the risk appetite of the board and senior management, contributing to effective risk management and stronger governance and controls.

However, concerns remain over whether existing risk management systems are sufficiently agile to predict situations in 6 or 12 months time. To achieve this, risk management must be embedded deep in the culture of the business – a state few organisations have yet to achieve. This is why many boards are demanding risk management systems are stress-tested to ensure they are considering all scenarios and options.

Boards are also requiring more regular risk reporting – in the current environment, quarterly updates are no longer sufficient. CFOs must be proactive in ensuring that current and rapid growth and contraction risks are on the board’s agenda every month. This is likely to require greater dialogue between the board and the CFO.

**Transformation**

CFOs need to spearhead business model transformation to help their companies adapt to changing market dynamics.

The other common challenge, highlighted by 45% of CFOs, is responding to volatility and structural industry change through business transformation. Some industry sectors, including retail, technology, telecommunications and media entered the current period of uncertainty already in transition. An example of this is seen in the media industry with the shift from print to online advertising driving dramatic business model changes. In these sectors, companies persisting with old business models will fail. But even in more stable markets, those adopting more agile structures will drive considerable competitive advantage.
Key opportunities

Despite the volatility, the region’s CFOs believe there remain opportunities in rapid growth markets, cost reduction and better use of technology.

**Organic and transformational growth in rapid growth markets**

Asked about the key opportunities for businesses in general over the next few years, CFOs rated growth in, or expansion into, rapid growth markets very highly. This is an area where Australian organisations have traditionally been slow to identify, understand or act on the growth opportunities available, particularly in China.

When it comes to tapping consumer demand in rapid growth markets, the CFO has an important – and often unique – line of sight across the business. CFOs should be proactively providing insights to decision-makers. Through integrating customer data, external data and financial information, finance can help to identify areas where consumers will trade down for value or up for a premium.

Ultimately, CFOs should be strategic advisors to the CEO, with a strong point of view about the markets the business should be in, based on the appropriate analysis.

What do you think the key opportunities are for business in general over the next few years?

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<td>Organic growth in rapid growth markets</td>
<td>Organic growth in rapid growth markets</td>
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<tr>
<td>Tapping consumer demand in rapid growth markets</td>
<td>Improving profitability through cost-cutting, including business process outsourcing</td>
<td>Tapping consumer demand in rapid growth markets</td>
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<td>Better branding: Improving brand equity of existing product line</td>
<td>Better branding: Improving brand equity of existing product line</td>
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“Exposure to rapid growth markets is a key opportunity. The risk needle moves if you invest more in rapid growth markets, but if you work hard enough on assessing the risk, you can come out on the right side.” Noel Meehan, Executive Director Finance, Orica Limited

**Improving profitability through cost-cutting**

Despite the dangers of cutting too deep, the region’s CFOs see cost cutting – including business-process outsourcing – as all important to improving profitability. The key to making the most of this opportunity is for the CFO to own the cost agenda, rather than leaving it to individual business units, who will both wait to see what other units are doing and cut according to their own siloed agendas.

From our experience from working with clients, those businesses that form an executive committee with the CFO providing insight and data to address the cost agenda have more effective programs to achieve an enterprise-wide cost reduction program. The CFO can use benchmarking to help this committee understand where the ‘fat’ really lies – rather than relying on gut feel, which inevitably results in cuts being made in the wrong areas.

CFOs across Asia Pacific cited organic growth in rapid growth markets as the number one opportunity for business in general over the next few years. In addition, Asia-based respondents see tapping consumer demand in rapid growth markets as a key opportunity.
Agility – and therefore the capability to take advantage of opportunity – will depend on organisations getting their information platforms right and investing in analytics. CFOs want to arm executives with critical information that will give their organisations an edge, allowing them to respond more quickly to changing markets. Yet, many organisations have grossly underinvested in the systems that support finance. As a result, menial tasks are still often performed by hand which is not conducive to agility or informed decision-making.

While the CFO has a role as an information integrator, leveraging technology requires a partnership with the CIO. Such alliances can be powerful catalysts for organisations harnessing technology to change their business model and channels to market. Organisations need a multi-discipline team to evaluate major investments like this, including incubating and proving the new technology, then deploying it quickly.

“When you haven’t got accurate, complete, timely data, then finance spends its time chasing reports rather than being in the position of providing insights based on timely, enterprise-wide information.” Steve Watson, Partner, Advisory, Performance Improvement, Ernst & Young, Australia

Many CFOs believe additional value can be generated by using technology as an enabler for differentiation. This might include: investing in packaging automation; innovating distribution by reaching consumers through social networking; or leveraging new technology to simplify supply chain management.

“If we are smarter and better at the aspects of our business linked to productivity, this will drive competitive advantage. We need to invest in innovation to uncover these opportunities.” Noel Meehan, Executive Director Finance, Orica Limited

However, even where such projects support the organisation’s strategic intent, CFOs often find it hard to build the business case, especially where outcomes aren’t directly related to increased revenue or decreased costs. Right now, most companies struggle to put a dollar value on ‘cross selling’ or ‘increasing share of wallet’. CFOs have to decide whether to take a leap of faith and support investment, or put the brakes on these projects.

“(Australian businesses) need a framework to encourage better innovation.” CFO, State Government Department
“To drive our low cost culture, we have embraced simple and effective technology solutions across the business and done this more quickly than our competitors. Technology is a key part of our business and our heritage.”

Richard Murray, CFO, JB Hi-Fi Limited
Priorities

The market may be uncertain, but some things never change. Constant issues on the CFO’s agenda include financial reporting and capital management, with 65% of respondents citing these two areas as receiving the same priority and resources as three years ago. Clearly, control and reporting are lines that cannot be crossed, no matter how volatile the business environment. CFOs must fulfill their fiduciary responsibilities to control and manage the financial aspects of the business.

Regulatory compliance and investor relations also remain constant priorities, with 61% of CFOs seeing no resourcing shift for these activities. That said, 32% said regulatory compliance required far more time and resources. Typically, this response was skewed by industry. For example, many respondents in the finance industry are having to fund expensive, mandatory, regulatory-driven projects.

However, across the region, the biggest shift in CFO priorities is to cost management, cash flow and better risk management, which CFOs see as key to building a sustainable business model.

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<th>Priority area</th>
<th>More of a priority than three years ago</th>
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<tr>
<td>Cost management</td>
<td>63%</td>
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<tr>
<td>Cash flow management</td>
<td>56%</td>
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<tr>
<td>Better risk management</td>
<td>54%</td>
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Mergers, acquisitions and other funding priorities

Interestingly, while 59% of CFOs are giving M&A deals the same priority as they did three years ago, across the region, 24% have put deals on the back burner. There are some regional differences when it comes to increased focus on deal activity with only 9% of ANZ-based companies prioritising more deals, compared with 25% of Asia-based companies. This reflects appetite for growth through acquisitive strategies in Asia, compared to a more conservative approach by ANZ boards and management, who are shifting their focus from investing and optimising capital to preserving relatively high levels of cash.

In financial services and the property sectors in ANZ, the appetite for deals is low due to reduced confidence caused by volatility in the share market and the difficulty in pricing an acquisition accurately, causing a wait-and-see attitude. This is also compounded by the need to conserve cash, making organic growth a more viable and less risky option and an easier position for boards and management to sell to shareholders and the market. However, companies with confidence in their longer term strategy and the courage to make prudent purchases may well find this an ideal time to act and get ahead of the competition, while competitors wait for more certainty.

How much of a priority are M&A deals compared to three years ago?

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<th>Priority area</th>
<th>Less of a priority</th>
<th>Same priority</th>
<th>More of a priority</th>
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<tr>
<td>All</td>
<td>24%</td>
<td>59%</td>
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<td>ANZ</td>
<td>21%</td>
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<td>Asia</td>
<td>27%</td>
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Base: All (245) ANZ (111) Asia (134)
“Delivering mega projects on schedule and budget in an environment of skills shortages and escalating costs is a key challenge – not only for our company but for the resources sector in general.”

Andrew Seaton, CFO, Santos Limited

Refinancing efforts during the global financial crisis have consistently left balance sheets stronger, with a quarter of CFOs reporting fewer resources being directed towards fund-raising. Yet, with banks routinely taking at least 12 months to approve re-financing, many companies with large debts will start this process again now.

Cost management
CFOs must help their organisations make hard choices between short-term cuts and long-term value.

“Currency fluctuations make it more difficult to fund growth. If this is the new paradigm, then it’s now more difficult to manage.” Lawrie Tremaine, CFO, Woodside Energy Ltd

With growth levels flagging, cost efficiencies are now an imperative. Many CFOs are planning another raft of enterprise wide cost-cutting, to remove excess costs that exist after the post-global financial crisis round of belt tightening. Arguably, the organisations that survive this process will emerge as leaner, nimbler and more sustainable. Inevitably, reducing head count will be among the cost cutting strategies considered.

At the finance department level, the pressure to reduce costs is going beyond shared services, to the point where boards must make ‘fork in the road’ decisions about the future role of finance. Will they downgrade finance by paring back spending to an absolute base minimum, or continue to invest in the skills and technology to enable CFOs to retain their role as business advisors?

“As a finance team we have put a lot of effort in working on the business strategy, not just the numbers. Our input is extremely valued.” Noel Meehan, Executive Director Finance, Orica Limited

Clearly, if finance is down-sized to a control and compliance function, valuable business and analytical skills will be lost. One of the dangers of cutting finance back too aggressively is the resulting increase in shadow finance organisations. The moment individual business units start doing their own financial reporting, the organisation begins to operate with two or more sets of reporting. This is both inefficient and undermines corporate strategy. Business units will make decisions with ‘their’ numbers, resulting in confusion and, often, a failure to deploy resources effectively to meet organisational goals.

Such choices – between paring to the bone or sustaining value – will abound through the organisation. Organisations need to be very sure they aren’t cutting too much.
Cash flow

Hoarding cash is not a long-term solution. Without investment, businesses will lose their capacity for growth.

Cash is king, with 56% of the region’s CFOs seeing cash flow as an increasing priority. Aware that cash flow is the first thing to suffer as economic conditions deteriorate, many see cash as the key to taking advantage of business opportunities and keeping the business moving forward.

However, CFOs know they still have to generate cash through fundamentals, not short-term fixes. Their focus on capital management has not changed. They are looking for longer-term opportunities to generate sustainable cash flow — not just one-off wins from great capital management discipline.

This is in sharp contrast to the period during and immediately post-global financial crisis, when most companies were focused on improving balance sheet strength to demonstrate their ability to weather the storm.

Today, the market’s excitement over balance sheet strength is waning. The new heroes are liquidity and cash. Under acute pressure to demonstrate forward cash flows, companies are holding on to cash until the outlook becomes more certain, rather than using it to invest in growth. Consistent with the sentiments of the surveyed CFOs, Ernst & Young’s bi-annual Capital Confidence Barometer, released in October 2011 found 30% of Australian corporates were focused on preserving capital. While this position is understandable, the downside may be missed opportunities.

“Through the global financial crisis, strong cashflow conversion and ongoing investment proved to be a big asset in the market place. CCA’s disciplined use of cash has helped us to maintain our credit ratings and raise funding at cheaper rates than the banks. This funding has enabled CCA to efficiently fund growth initiatives that continue to deliver strong returns for our shareholders.”

Nessa O’Sullivan, Group CFO, Coca-Cola Amatil Limited

Eventually, companies must invest in the projects that will help them grow their business. However, this will take some bold moves by leaders who have good relationships with their banks or are prepared to back their own investments.
Conclusion

CFOs have a key role to play in helping companies achieve sustainable growth.

Despite the current uncertainty and unforgiving market sentiment, organisations must find a path back to a position where investment in innovation and top line growth is once more acceptable. Business fundamentals have not changed. Companies with strong balance sheets, quality products and services and a compelling value proposition can find ways to grow, especially in the expanding consumer markets of Asia.

While cost reduction should be on the agenda, it has to be well managed. CFOs are under enormous pressure to reduce costs, but they must do this without fundamentally damaging their business or the finance function. This is the moment for CFOs to defend enterprise projects vital to long-term growth and their role as business advisor.

Contrary to popular belief, the current uncertainty hasn’t changed the CFO’s fundamental purpose. Corporate strategy may have changed, but the CFO’s role is still to enable that strategy.

To this end, CFOs must help to keep their boards and executive teams from losing sight of the long-term growth agenda. They must show boards the bigger picture to support considered decision-making around proposed short-term measures.

And they must actively foster innovation. CFOs are critical players in the innovation process, helping the business to understand the appropriate levels of funding for growth projects, and putting in place and monitoring the right sort of long-term innovation measures and reward structures.

Most importantly, CFOs must be able to communicate this growth story to the market, demonstrating the benefits of their organisation continuing to invest in growth, rather than being paralysed by uncertainty.

Before companies start to stagnate, CFOs must apply their leadership, insight and commonsense to galvanise boards and executives into action – and defend this to the market.
Glossary of terms

<table>
<thead>
<tr>
<th>Asia</th>
<th>References to Asia or Asia-based respondents refer to the thirteen countries in Asia included in the report. These countries are: China, Hong Kong, Taiwan, India, Japan, Singapore, South Korea, Sri Lanka, Indonesia, Malaysia, Thailand, Vietnam and the Philippines.</th>
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<tbody>
<tr>
<td>Asia Pacific region</td>
<td>References to Asia Pacific or the region refer to the thirteen Asia-based countries (listed above) and Australia and New Zealand.</td>
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<tr>
<td>ANZ</td>
<td>Refers to Australia and New Zealand.</td>
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| Rapid growth markets | Ernst & Young defines rapid growth markets based on three key criteria:  
  ▶ Proven strong growth and future potential  
  ▶ Size of the economy and population  
  ▶ Strategic importance for business  
  Globally, the largest rapid growth markets are: Brazil, Russia, India and China. In addition to China and India, rapid growth markets in Asia Pacific, based on the criteria outlined above also include: Indonesia, Malaysia, Thailand, Vietnam and Korea.  
  Rapid growth markets are also widely referred to as emerging markets or fast growth markets. |
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SCORE No. AUNZ00000250

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