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Foreword

Agility is a term that's bandied around a lot these days, but do you really know what it means, and why it's important for success?

We know that VUCA (volatility, uncertainty, complexity and ambiguity) is upon us – but are we as a business community doing enough to keep up?

To answer this question, we surveyed Australian and New Zealand business leaders to ask them about their plans and views on the future.

The results show that Australian and New Zealand businesses that are more agile are enjoying faster revenue growth. Here at Chartered Accountants Australia and New Zealand, we exist to help our members and their clients leap into the future, and this research piece supports our mantra that adapting to changing conditions will help businesses to prosper.

This report shares secrets of success, presenting insights into digital and customer engagement strategies that businesses are using to return higher profits, and how strategies vary according to business size and owner aspirations.

It's a must read for small to medium sized businesses, their advising accountants, and those who advocate for or make policy changes to help businesses become more productive and competitive.

The report breaks down agility to five elements of flexibility, speed, leanness, learning and responsiveness, adapting a model by Qumer and Henderson-Sellers, to help us consider how agility can be incorporated into business plans in a tangible way. For one business, it may mean introducing artificial intelligence into a logistics and supply chain, for another, it might mean a greater focus on corporate social responsibility.

No matter the approach, what's important is that it is fit for purpose, as we know that those who fail to embrace new opportunities risk missing out.

If you'd like to turn the age of uncertainty into the age of prosperity, this report is for you.



Rick Ellis
CEO, Chartered Accountants Australia and New Zealand

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Executive Summary

Businesses are increasingly the subject of the national conversation. They remain integral to our economy – responsible for around 70% of gross value added and over 85% of employment.¹

However, due to large-scale global shifts – from climate to technology to community expectations – businesses are facing unprecedented levels of uncertainty and competition. **Two in five (39%) businesses surveyed say that maintaining profit margins is more difficult today than it was five years ago.** A range of broader macroeconomic factors are at play, including a pick-up in global growth, but over time businesses will continue to have to battle for their profit dollars.

While competition is not new, the tools for success are changing rapidly. How are Australian and New Zealand businesses placed to keep up?

Digital engagement and adoption amongst businesses has increased rapidly, and most now recognise its benefits. However, with the next wave of technology requiring more investment, businesses face an ongoing challenge in harnessing the new opportunities these technologies bring. **Two in five (42%) businesses surveyed do not expect to have taken up any of the next wave of ‘exponential’ technologies in five years’ time.**

In coming years, automation, combined with economic and social factors will cause changes to an estimated 40-60% of all jobs.² Yet the majority of businesses surveyed forecast no change in their employment structure over the next five years. Businesses that have not yet considered and planned for the changing face of work could face a significant transition.

It is increasingly important that businesses be mindful of their broader responsibility in order to attract and retain customers. **Today, 87% of businesses are involved in at least one action to build their social responsibility profile, and in five years' time, this is expected to grow to 94%.**

This aligns with the broader purpose of many businesses. **Two in three businesses said that their business was established with a non-financial primary goal**, such as to provide work-life balance for the owner or a social purpose. Moreover, while many business owners invested in ensuring that they are financially successful, this might mean different things depending on the business. For example, two thirds of small businesses are not aiming to grow in employment terms.

Businesses most likely to succeed are resilient and able to act and react quickly to meet the needs of their customers. Agile businesses surveyed were more than three times more likely to report having above average revenue growth. However, **this does not necessarily mean that small businesses will have the upper hand.**

No matter what the goals are of course, not all businesses will succeed. It is natural that some will prosper, while others will flounder. It is easy to blame this on external factors such as macroeconomic conditions, industry trends or red tape. However, while these factors are important, ultimately a business's success is largely in its own hands. Regardless of the balance between internal and external factors, **three quarters of businesses are positive about their outlook over the next five years.** By being proactive, seizing opportunities and looking forward, business owners are best placed to secure their own prosperity.



1. Introduction

Businesses are essential to economic prosperity. They produce and distribute food, provide services, and employ people. However, they are increasingly in the spotlight – accountability is higher today than it has been in the past. Consumers hold businesses to a high ethical standard, and governments have strict conduct rules in place.

Digital advance has accelerated this trend – a business can easily promote its ethical conduct, but there is also nowhere to hide for businesses not meeting community expectations.

Longer-term forces – like globalisation, digital disruption, shifting demographics and climate concerns – are well documented. However, questions about how they will affect business continue to evolve. What type of investments should businesses make in emerging technologies, and how will this impact employment? How should governments tax global organisations that deliver digitally? Will shifting consumer preferences require more businesses to consider their environmental impact?

Regardless of how these trends play out, it is clear that businesses are, and will continue to be, the engine room of the economy. For instance, in Australia businesses are responsible for around 70% of gross value added.³ So what will the successful businesses of the future look like?



Figure 1.1: Megatrends shaping the future

This paper builds on previous work in the *future[inc]* series. *Risk-wise and a Fair Go?* discussed the need for businesses to take informed risks. *The Future of Work* looked at how technology change would influence future employment, and the skills that workers would need to support future businesses, while *The Future of Talent* considered employment from an employer's perspective. *The Future of Trade* looked at how businesses could prosper in a more global, digitally connected age, while *The Future of Offshoring* considered globalisation in the context of talent.

Analysing historical data and trends provides a useful starting point. It can help to uncover shifts in employment, trends in value added and changes in the industry landscape. However, in discussing the future of business, it is also important to consider what businesses themselves think.

To understand the aspirations of businesses, their plans and views on the future, Chartered Accountants Australia and New Zealand (CA ANZ) conducted a survey of over 1,500 business leaders in Australia and New Zealand. The results of this survey are presented in this document, and compared with other sources. A summary of the survey methodology is provided opposite.

SURVEY METHODOLOGY

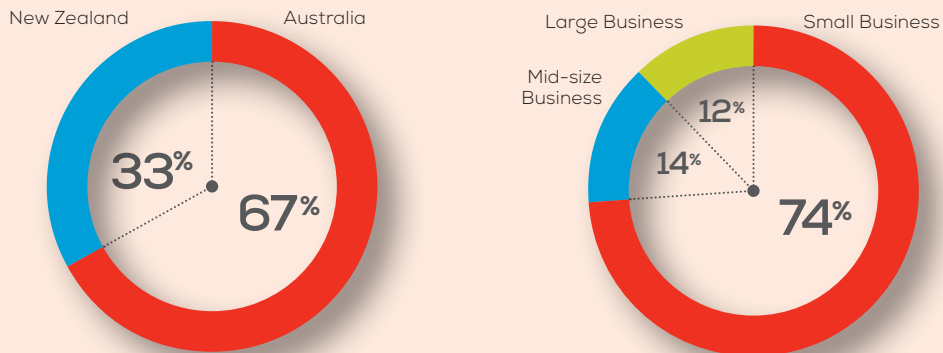
Chartered Accountants Australia and New Zealand conducted a survey of Australian and New Zealand businesses. Respondents were asked a number of questions in an effort to understand the characteristics and aspirations of businesses, and their perceptions about how businesses have, and will continue to change. Research Now fielded the survey in November and December 2017.

Survey participants were senior staff members and business owners across a range of industries, and a range of ages over 18. Over 1,500 responses were collected and used for this report, two thirds of which were from Australia, and one third from New Zealand.

We captured views from all 19 ANZSIC-defined industries,⁴ and the sample is nationally representative along state and territory/region lines in Australia and New Zealand respectively.

Around three quarters of businesses surveyed employed fewer than 20 people (small businesses), 14% employed between 20 and 100 people (mid-sized) and 12% had more than 100 employees (large businesses).

This split underweights small business by business count (which make up around 97% of businesses in Australia⁵ and 97% of businesses in New Zealand⁶ respectively), but overweights them by value added (small businesses make up 34% of industry value added in Australia,⁷ and 28% of GDP in New Zealand⁸). The aim with this work however, is to assess perceptions among businesses rather than gauge market performance. Therefore, the distribution of business sizes is not as important as other characteristics, such as seniority of respondent, and survey findings are still relevant.



02

The impact of uncertainty

Businesses today are facing increasing levels of uncertainty. Chief Financial Officers (CFOs) across 40 countries report that uncertainty in the business environment has been on the rise for the last two years.⁹ In addition, there is increasing political and social instability, with nationalist sentiment in Europe, geopolitical instability in Asia, a recent government shutdown in the US, trade wars and the phenomenon of 'fake news' all contributing.





On top of this, businesses are facing increasing competition, driven in part by globalisation and digital disruption. Two in five (39%) businesses say that maintaining profit margins is more difficult today than it was five years ago, compared to just 8% who say it has become easier.

THE AGE OF UNCERTAINTY

Increased volatility in economies and politics, and disruptive technologies have been features of the global economy for well over a decade, particularly since the 2008-09 Global Financial Crisis.

Uncertainty has shaken the confidence of leaders and businesses alike. Faced with this uncertainty, businesses are choosing to be cautious, which while understandable, may lead to missed opportunities.

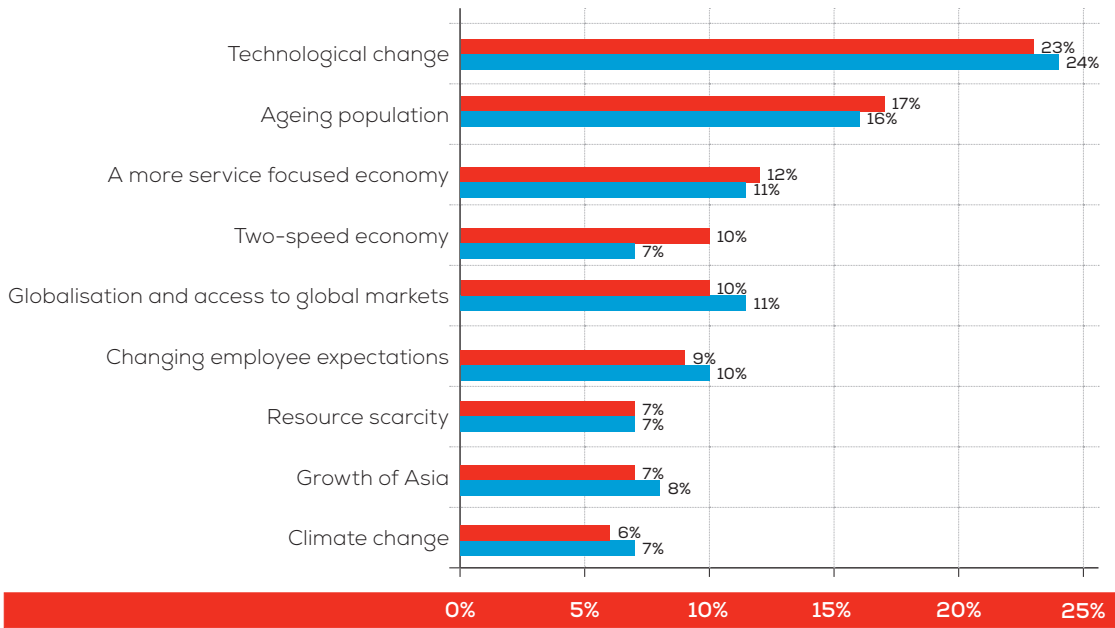
Deloitte's sixth edition of 'Building the Lucky Country', explored the possible, rather than the probable. This helps business leaders plan for the future, by considering the potential impact of a range of scenarios on businesses. For example:

- What would happen if China (a major trading partner for both Australia and New Zealand) were to have a recession?
- On the other hand, what would happen if Asia's growth were to accelerate? What would this mean for trade and exports?
- If cyber-security became more of a priority for governments and businesses internationally, which businesses would be best placed to take advantage of the opportunity?

"All organisations face a future of uncertainty. Those that continually adapt to new disruptive forces and sense, shape and seize on new possibilities will become tomorrow's leaders"
– Building the Lucky Country #6, Deloitte.

Regardless of the scenario, agility is key to business success. In this age of uncertainty businesses need to be able to adapt quickly, shifting to the new environment surrounding them.

Despite this, Australian and New Zealand businesses seem more concerned with local forces than large global ones. As Chart 2.1 shows, they expect technological and demographic change to have more of an impact on their operations than the rise of Asia, the changing climate and the globalised world.



■ Australia ■ New Zealand n=1,034 (Aus), 508 (NZ); charts present weighted responses

Chart 2.1: Megatrends having the most impact on businesses

Nevertheless, uncertainty and competition are impacting businesses. Business investment is sluggish – the official cash rate has been at the historic low of 1.5 percent¹⁰ and 1.75 percent¹¹ in Australia and New Zealand respectively for over a year. And inflation is forecast to remain below its long-term average until at least 2019-20.¹²

LOOKING FORWARD..

The concept of global uncertainty is not going anywhere. If anything, the next few years will see an increase, with a new wave of exponential technologies being adopted. Though uncertainty is not comfortable for most businesses, waiting for it to tide over is not an option. Businesses need to be prioritising agility and adaptability – not just in products and processes, but in business models too.

There is no 'one-size-fits-all' answer for businesses. For some, a more flexible workforce will be important – 80% of large companies globally are planning to substantially increase their use of flexible workers in the next decade.¹³ For others, product offerings will need to evolve – for example, eBay introduced a new service in Australia in 2016 called 'Parcel Drop-Off'. The service allows sellers to drop their goods at local Woolworths stores where the buyer can either collect it personally or have it shipped by courier, rather than the seller having to personally arrange shipment.¹⁴

For some, even organisational structures will need to change – only 14% of executives in workplaces with traditional hierarchical structures think that they are highly effective.¹⁵

In this increasingly global and digital marketplace, competition will remain fierce; with local markets continuing to grow at a slower pace (forecast GDP growth of 2.7% and 3.0% for 2019 in Australia and New Zealand respectively).¹⁶ This may force businesses to look further afield for opportunities to grow – the booming Asian market would be a good place to start.

Global trade agreements could also represent opportunities for business expansion. For example, the amended Comprehensive and Progressive Agreement for Trans-Pacific partnership (CPTPP) signed in March 2018 by 11 countries could assist businesses looking to begin exporting, and the Australia – New Zealand Science, Research and Innovation Cooperation Agreement signed by Australia and New Zealand in 2017 presents growth opportunities for business in the scientific and technical space.

QUESTIONS FOR BUSINESSES:

- Are you making the most of access to global customers, particularly in Asia?
- How agile is your business – are you planning for what you think is likely to be the future?
How about for scenarios which are not the most probable, but are possible?
- How can you ensure you are balancing your risk exposure to limit the potential downside but not impose unnecessary compliance costs or limit innovation and creativity?

QUESTIONS FOR POLICY MAKERS:

- How can you encourage businesses to be more involved in the global economy?
- Are you consulting businesses at the early stages of an intended policy change to ensure they are able to prepare effectively?

03

Business needs to act quickly

Business agility is often conflated with business size – large businesses are too weighed down by bureaucratic systems to respond to change, and small businesses are free from such processes, making them agile and innovative. In reality, agility is far more complex than this dichotomy. And while there is a subset of small businesses that are particularly innovative (see High Growth Firms on page 16), large businesses are actually more likely to be innovative than small businesses.¹⁷





HIGH GROWTH FIRMS

High growth firms (HGF) are businesses that grow by more than 20% annually over three years in either (or both) revenue or employment terms.¹⁸ And they are rare – they make up only 9% of businesses with five or more employees in Australia,¹⁹ and 3% of those with more than 10 employees in New Zealand.²⁰

These businesses are very important to the economy. In Australia for instance, HGFs are responsible for “...46% of net positive employment growth between 2004-05 and 2011-12.”²¹ They are likely to have ‘creative approaches’ that grow their market share and are highly innovative.

Most HGFs are small and medium sized businesses. In Australia, 46% of HGFs have fewer than 20 employees, and only 4% have more than 200 employees.²² In New Zealand, 86% of HGFs have fewer than 20 employees.²³ However, after controlling for age there is little correlation between business size and likelihood of being an HGF.

The Deloitte Fast 50 is an annual list of New Zealand’s fastest growing businesses. Timely, a scheduling assistant used by spas and salons in Australia and New Zealand, featured on the 2017 list for achieving 379% revenue growth.²⁴

A ‘unicorn’ is a business that is performing better than even a HGF. They are start-ups worth more than US\$1 billion. These businesses are even less common; one estimate puts the global count at 276 in January 2018.²⁵ ‘Canva’ – an Australian tech start up, is one of them. Canva is a graphic design platform built for people with little design experience. Launched in 2012, it now has over 10 million users.²⁶ Australia’s only other unicorn is Atlassian, a global software business.²⁷

There are many different elements to business agility, including response time, utilisation of resources and constant learning. Agile businesses, processes and teams emphasise being adaptive and iterative to enable rapid, flexible responses to change.²⁸

Originally popularised in software development, today the concept is at its most popular,²⁹ and not just for business.

“The Australia of the future has to be a nation that is agile, that is innovative, that is creative.”³⁰ – Australian Prime Minister Malcolm Turnbull

In a rapidly changing and uncertain environment, businesses need to continually adapt to be successful, even just to survive. A recent survey of 165

companies around the world found that **the most agile organisations are also the most healthy and profitable.**³¹ Another study of 200 organisations in a competitive environment consistently outperform those that are rigid, in either their strategic choices, their business model or their organisational structures.³²

There is also a clear correlation between agility and revenue growth. In our survey, 55% of businesses who reported being above average in terms of agility were also experiencing above-average revenue growth. By contrast, as shown in Chart 3.1, of those who rated themselves as below-average agility, just 16% say they are growing faster than average.

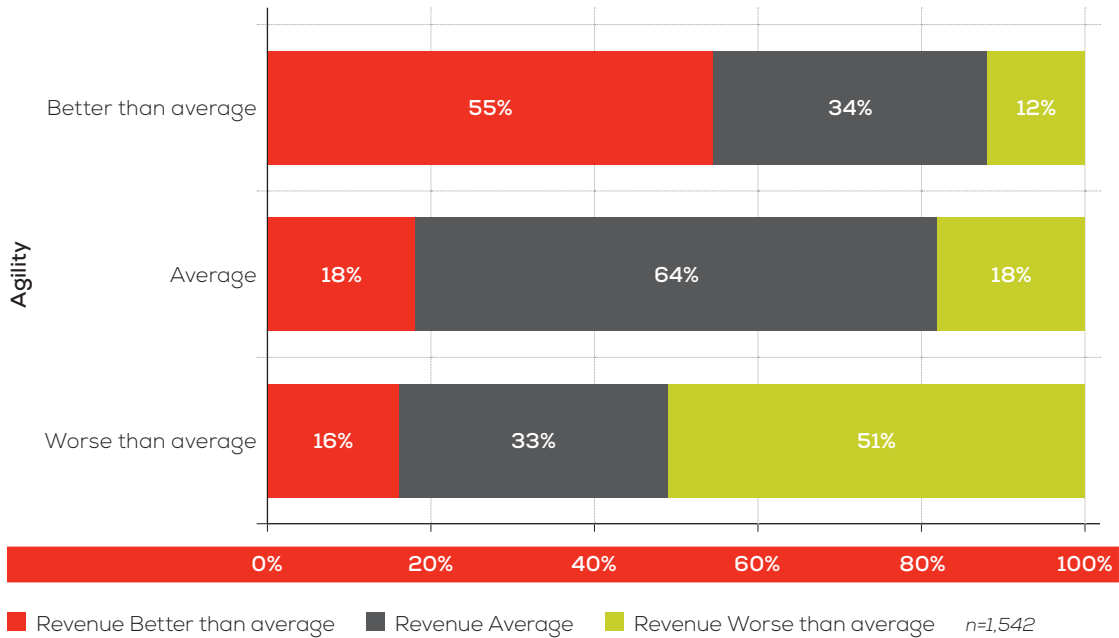


Chart 3.1: Business performance across revenue growth and agility

So, are businesses in Australia and New Zealand able to adapt quickly to changing circumstances?

Despite the focus on agility, there is limited evidence on how it can be measured and assessed. Determining what makes a business agile is a challenge, but we have attempted to put some structure around it by adapting a model put forward by Qumer and Henderson-Sellers (2006), considering five elements:³³

1. Flexibility (ability to accommodate unexpected change)
2. Speed (response time)
3. Leanness (extent of wastage/underutilised resources)
4. Learning (applying knowledge and experience to further change)
5. Responsiveness (sensitivity to the changing environment)

We asked businesses to rate themselves in each of these five dimensions, as shown in Chart 3.2. Overall, businesses consider they are relatively agile, the one exception being leanness. More than two in five (42%) businesses say there have underutilised resources, compared to 7% that say they are fully utilising their resources. By contrast, over two-thirds (67%) of businesses say they are able to respond to expected change (learning) well.

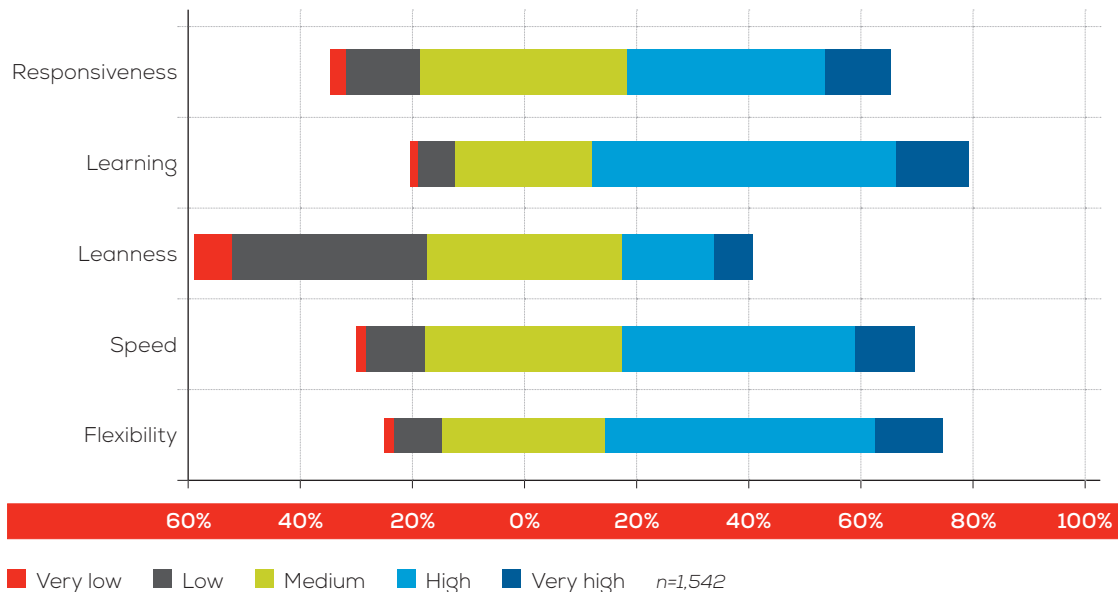


Chart 3.2: Business agility

The size of a business can affect its agility. In our survey, business leaders consider small businesses faster to adapt to change.

This perception is confirmed elsewhere in our survey. Looking across the five dimensions, small businesses (and particularly non-employing businesses) were more likely to report being agile than large ones. In particular, small businesses performed well in the speed and leanness dimensions, and similar to large businesses on some other elements such as learning and flexibility.

Some of this agility may be due, in part, to a lack of formal processes in smaller businesses. **One in four of the small businesses surveyed said that they did not have policies in place** around their business model, employee entitlements, marketing methods or IT arrangements.

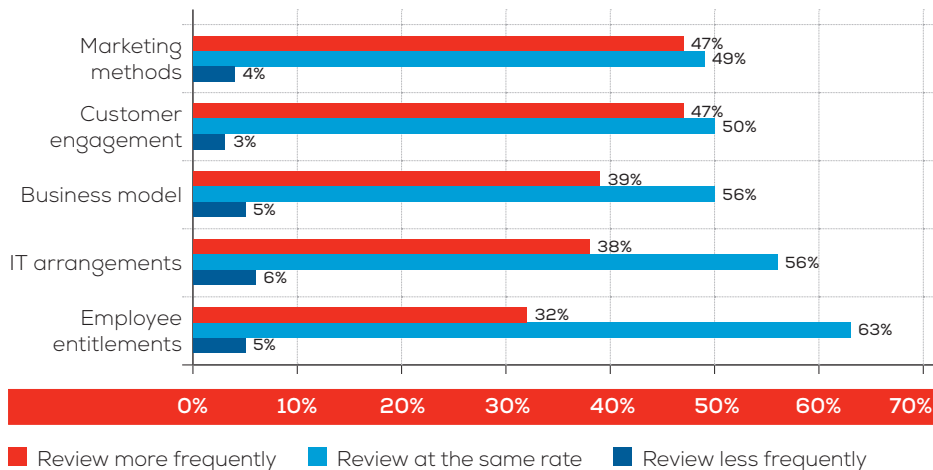
As a comparison, less than 5% of medium and large sized businesses did not have any of the aforementioned policies. Also, internal processes can be burdensome – a 2014 report suggests that complying with self-imposed rules costs the private sector \$155 billion annually in Australia alone.³⁴

Of course, not everything in a business should change. Research has found that the most successful businesses have designed their organisations with a base of stable elements, but left room for innovation and dynamic response to change.³⁵ Here, larger businesses may have an advantage.

Balancing stability and adaptability across organisational structure, governance and processes, is key to being agile. This will look different for every business.

LOOKING FORWARD...

Businesses are expecting to become more flexible and proactive over time – ‘redesigning our organisation to be more digital and responsive’ is now the number one human capital trend around the world.³⁶ Two in five (39%) businesses in our survey with a business model plan expect to review it more frequently in the future.



n=1,542; options do not sum to 100% as some businesses do not have a policy

Chart 3.3: Proportion of businesses that expect to review policies more frequently in the future

Globalisation of markets and technological progression mean that big shifts are happening more quickly than ever – businesses in the future will not have long to respond.

While agility might come more naturally to small businesses (given they do not face the same inertia as large businesses), large businesses tend to have bigger buffers, allowing them to be more resilient, and better able to maintain order when faced with change.

All businesses will have to work at balancing the dynamic and stable elements of their organisation to respond to the changing environment.

QUESTIONS FOR BUSINESSES:

- Do you have a business plan? Should you be reviewing it more frequently?
- Which of the five elements of agility – flexibility, speed, leanness, learning or responsiveness – could your organisation improve?
- How quickly could your business react to a big change, like losing your largest customer?
- How well does your business balance stability and adaptability across its organisational structure, governance and processes?

04

Digital tools enable growth

Across a range of metrics, digitally advanced businesses outperform businesses with little digital engagement. They are more likely to be growing in revenue and better able to communicate with customers.³⁷ As technology advances and digital continues to disrupt every corner of the economy, this will only become truer.





However, with the next wave of technology requiring more investment, businesses face an ongoing challenge of staying up to date. Small business in particular may not have the capability to engage with the latest technologies. They risk being left behind if they cannot find a way to get involved.

Digital tools are continuing to transform the way businesses operate – from internal processes to serving customers. Almost all (96%) New Zealand businesses use the internet, and half use it to receive orders for goods or services.³⁸ In Australia, 95% of businesses have internet access, and the value of orders placed online in 2015-16 was estimated at \$320 billion.³⁹

In fact, businesses nominate technological change as the most impactful of all wider megatrends – more so than the ageing population and increasing focus on services in the economy. And they think that digital will still be the most impactful driver for them in five years' time.

More than **four in every five** (86%) businesses surveyed said they **use at least one digital tool to engage with their customers** today – be it email, social media, blogs, search engines or others, compared to 77% five years ago.⁴⁰

But each tool has its own strengths. Some tools are more successful in helping businesses engage with a particular type of customer. For example, of the businesses surveyed, those whose primary customers are households are more likely to use Facebook (56%) and Google maps (33%), whereas LinkedIn and Twitter are more commonly used by businesses who serve other businesses (with 34% and 16% of B2B businesses using these tools respectively).⁴¹

Digitally engaged small businesses perform better financially. In 2017, **small-to-medium sized businesses with advanced levels of digital engagement were 50% more likely to be growing their revenue**, and earned 60% more revenue per employee, relative to businesses with lower levels of digital engagement.⁴²

CONNECTED SMALL BUSINESSES⁴³

Deloitte Access Economics conducts a regular survey of small businesses in Australia, and their engagement with digital technology. The survey shows that small businesses are becoming more digitally engaged every year, but improvement is still possible.

The annual report classifies small businesses into digital engagement bands from 'basic' to 'advanced'. In 2017 just 11% of small businesses fell into the 'basic' category, down from 23% in 2016, and similar drops for the previous three years.

The research finds clear financial benefits associated with higher levels of digital engagement. Relative to businesses in the 'basic' category, businesses with advanced digital engagement were over eight times more likely to be creating jobs, seven times more likely to be exporting, and 14 times more likely to be innovating.

Businesses say that the main barriers they face when taking up digital tools are data security and privacy concerns, suggesting a role for government in enabling more investment in cyber security.

Digital engagement is equally important for large businesses. In 2017, seven of the 10 largest companies in the world by market capitalisation were technology companies.⁴⁴

Table 4.1: Largest companies globally, by market capitalisation, 2017

1. Apple Inc.
2. Alphabet Inc.
3. Microsoft
4. Amazon.com
5. Facebook
6. Tencent
7. Berkshire Hathaway
8. Alibaba Group
9. Johnson & Johnson
10. JPMorgan Chase

Source: *Financial Times* (2018)

In addition to the digital tools in widespread use today – email, social media, Google Maps etc., a new wave of 'exponential' technologies are emerging. These technologies – including driverless cars, virtual reality, the internet of things and artificial intelligence – are already in use in some businesses. In a survey of IT business decision makers from large companies in seven different countries, 72% said that they had already at least partially deployed artificial intelligence.⁴⁵ Gartner forecasts that businesses will use 4.1 billion connected devices in 2018.⁴⁶

More than half (58%) of businesses in our survey do not currently use any exponential technologies.⁴⁷ Our research shows that larger firms are more likely to have taken up exponential technologies, and to say that they will adopt them in the future. This may be because they have a greater awareness of new technologies, or because they have more capital and capability to invest in adoption.

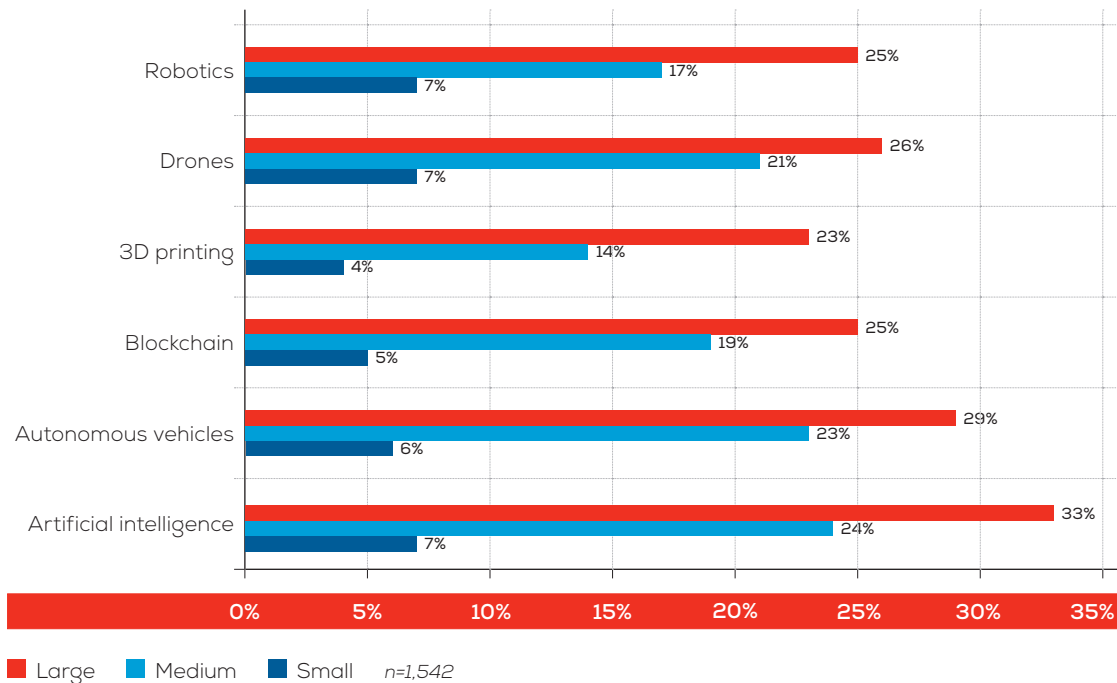


Chart 4.1: Which of the following ‘exponential technologies’ does your business expect to be using in the next five years? Selected options, by business size⁴⁸

Of course, these technologies are not applicable or accessible to all businesses. Robotics, for example, is unlikely to be useful in some service industries. **Still, the low level of take-up, particularly among small businesses, could be a missed opportunity for those who risk falling behind.**

LOOKING FORWARD...

In the future, digital technology is going to be even more central to business operations than it is today. It will improve the efficiency of processes, and create new products and services, even new industries. By 2020, digital technologies will contribute \$139 billion to the Australian economy – 7% of GDP.⁴⁹ Businesses consider that technology will continue to be a more significant force than the ageing population, globalisation and climate change.

By 2020 there will be an estimated 6 billion smartphones in the world,⁵⁰ and between 2017 and 2021 global retail e-commerce sales are expected to have almost doubled to US\$4.5 trillion⁵¹ – there is no stopping digital disruption.

Yet two in five (42%) surveyed businesses do not expect to have taken up any of the next wave of 'exponential' technologies in five years' time. If these businesses do not adjust their expectations, they risk missing out – digitally advanced businesses perform better on a range of financial metrics.

This will also have broader economic consequences. For example, in New Zealand, greater adoption of internet of things (IOT) applications was estimated to be worth an additional \$2.2 billion in GDP over the next ten years; in the last year alone, the number of 'things' connected to the internet worldwide grew 31% to 8.4 billion, and is forecast to reach 20.4 billion by 2020.⁵² Despite this, only 14% of New Zealand enterprises have deployed an IOT solution today.⁵³

Government can assist by continuously updating and improving the regulatory environment. A recent Deloitte Access Economics report into the digital economy nominated 13 steps that government could take to facilitate digitally led growth. For instance, supporting small businesses, start-ups and innovation in government procurement, providing adequate access to digital infrastructure for regional businesses, and strengthening cyber security capabilities.⁵⁴

QUESTIONS FOR BUSINESSES:

- How could you incorporate exponential technologies into your operations in order to improve processes and better access markets?
- If money is a barrier to your adoption, are there other ways that you can get access (for instance, rent it, as with cloud technology)?
- Are you staying up to date with what technology is available so that you can begin using it when it becomes accessible?

QUESTIONS FOR POLICY MAKERS:

- How can you help small businesses to access new technologies?
- How can you improve the regulatory environment in the digital economy to facilitate higher take-up among businesses?
- Can you better invest in cyber security so that businesses feel safe when using these new technologies?

05

A diverse business landscape

It is easy to assume that when a business is established the ultimate aim is to grow – to create returns for owners, hire more people, and become a major market player. Small family businesses that grew into global empires frequently feature as success stories in the media.



STREET FOOD

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COMIDA
DE LOS

WE
LOVE



PRUEBA NUESTROS

→ PAN DE QUESO - 3,5€

Bon

Profit!!

Political leaders are often heard affirming the importance of small business for growth:

“The most important engine for economic growth, investment and employment is business and, in particular, small and medium businesses, overwhelmingly owned and operated by Australian families.”⁵⁵
– Australian Prime Minister Malcolm Turnbull

“In large part, our small and medium enterprises – well over 40 per cent of our new jobs – are coming from our SMEs. I want to do all I can to work in partnership with them.”⁵⁶
– New Zealand Prime Minister Jacinda Ardern

While businesses and their owners are of course invested in ensuring that they are financially successful, it turns out that for many this is not the only – or even the main – goal.

Our survey figures show that while 80% of businesses see financial metrics (like getting a steady stream of income or making profits) as one of the reasons that their business was established, just **37% said that financial outcomes** (such as making a profit or having a steady stream of income) were the primary reason for their establishment.⁵⁷ This is only slightly higher than the **34%** of businesses that were established to **support owner-related outcomes** (like better work-life balance or the ability to be your own boss).⁵⁸

Smaller businesses are more likely to have been established to support outcomes for owners, and larger businesses tend to have been established to support outcomes for owners, and large businesses were established to serve a customer need or a social purpose.⁵⁹

This gap could be symptomatic of a fundamental difference in goals (with small businesses preferring to stay small in order to continue to ensure work-life balance) or could simply show that as businesses evolve and grow, their purpose becomes broader.

This is supported by other research – for example, Walker and Brown (2004) found that for small-business managers in Australia “personal satisfaction and achievement, pride in the job and a flexible lifestyle are generally valued higher than wealth creation”.⁶⁰

As a result, many small businesses are small by design, and are not looking to grow – at least in employment terms. They are worried that growth comes at the cost of work-life balance.⁶¹

This may be a misconception. A properly managed growth strategy need not be accompanied by a loss of work-life balance.⁶² Regardless, it is clearly impacting the aspirations of small businesses.

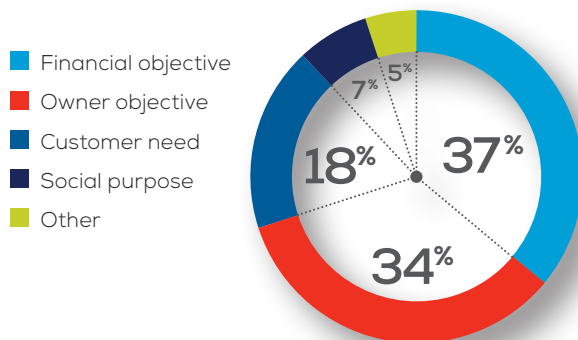
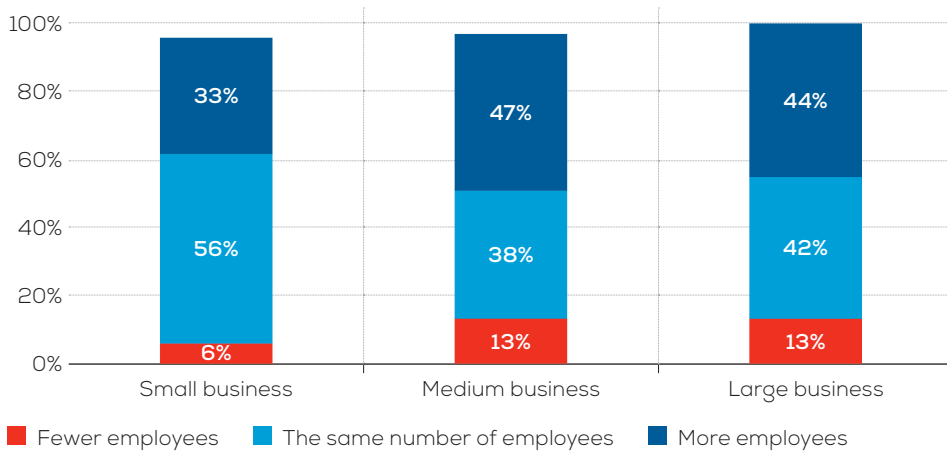


Chart 5.1: Primary reasons businesses are established
n=1,542; chart shows businesses first responses only; options have been grouped



n=1,542; options do not sum to 100% because some businesses selected 'unsure'

Chart 5.2: Ideally, would you want your workplace to be larger, smaller, or about the same? By business size⁶³

In our survey, **two in three small businesses want to stay small** in employment terms. Only one quarter of small businesses are aiming to hire more people in the future.

Of course, this is not to say that small businesses are not looking to grow in revenue terms, or seeking to widen their profit margins. They are simply not looking to hire more staff.

Is this the right decision? In a changing business environment, does it pay to be big, or are small businesses the future? How do the benefits of agility afforded by a smaller size weigh up against scale?

A range of factors, including business model and industry, can determine a business's optimal size. For example, industries that require significant capital

and have high barriers to entry, like mining and electricity, continue to be dominated by larger firms because of the savings they generate through economies of scale.⁶⁴

The literature is mixed on the effect of firm size on key metrics. Some studies have found a positive relationship between firm size and key financials – for instance Dogan (2013) found that large businesses have higher return on assets than small businesses,⁶⁵ whereas other studies have found no correlation between firm size and performance.⁶⁶

In our survey, around **two in five businesses think that, in general, small and large businesses perform about the same on key metrics**, like revenue growth, profit margins, innovating and attracting talent.⁶⁷

However, in some areas businesses perceive that size affects performance. For example, small and large businesses both think that **larger businesses perform**

better on accessing capital, monitoring risk, and brand development. On the other side, **small businesses are seen to be better with employees and customers.**⁶⁸

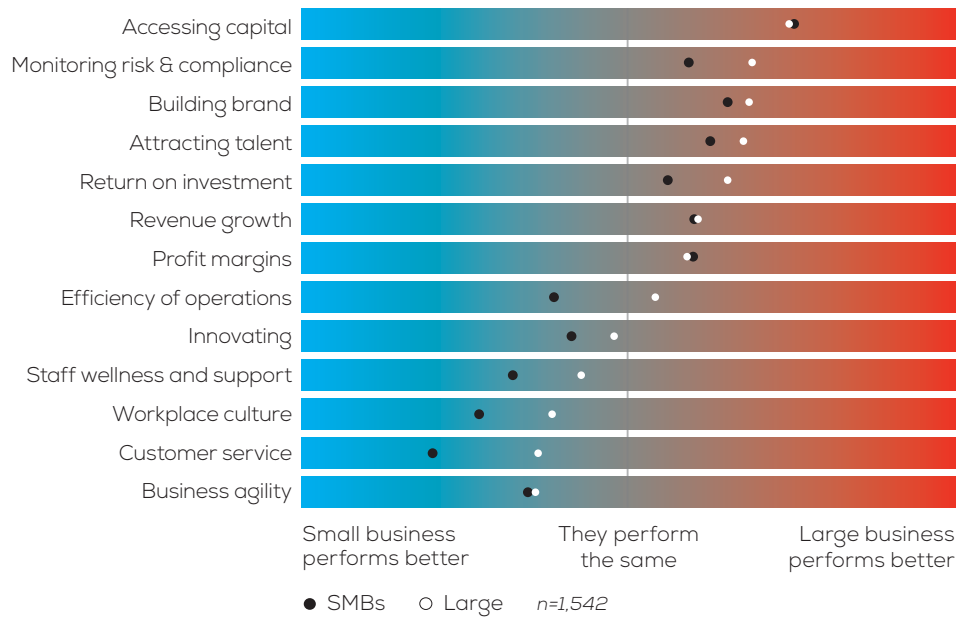


Chart 5.3: In general terms, who do you think performs better at each of the following? By business size⁶⁹

However, perceptions do not always match reality. Both large (74%) and small (80%) businesses thought that small businesses performed the same or better at innovation than large businesses.⁷⁰ Innovation is complex, but national statistics show that large businesses are much more likely to be innovation active, both in Australia and New Zealand.

Ultimately, it is possible to succeed regardless of size. In our survey, 72% of small businesses were positive about their chances of success in the future, as were 85% of large businesses. Regardless of size, less than 5% of businesses felt negative about their future.⁷¹ Small business should not be afraid to grow – work-life balance can be maintained, but they also need to recognise that there are advantages to staying small (such as agility, customer service and workplace culture).

LOOKING FORWARD...

The business ecosystem of the future will continue to host a range of different sized businesses. Small and large businesses have different strengths, so to lose one group would represent a loss to the economy. We will need the agility and customer service in which many small businesses excel at, as well as the financial and economic power, in which many large businesses specialise.

Small business will continue to make up the vast majority of the business count (currently 97% of businesses in Australia⁷² and New Zealand⁷³). Flexible working arrangements are on the rise – international surveys have shown that more than 80% of large companies are planning to substantially increase their use of flexible workers.⁷⁴ This, along with the growth of the collaborative economy means that we can expect more people to be engaged in owning and operating small businesses in the future.

So how will businesses be successful in this diverse landscape? Our survey reveals that what businesses need to do is dependent on their size. Chart 5.4 shows that for large business, the priorities for achieving their goals are increasing customer satisfaction and investing in digital. By contrast, small businesses are much more likely to say they will be focused on improving cash flows and marketing methods. So while big businesses are aiming to make their customers happy in order to keep them, small business is focusing on finding new ones.

Looking Forward continued

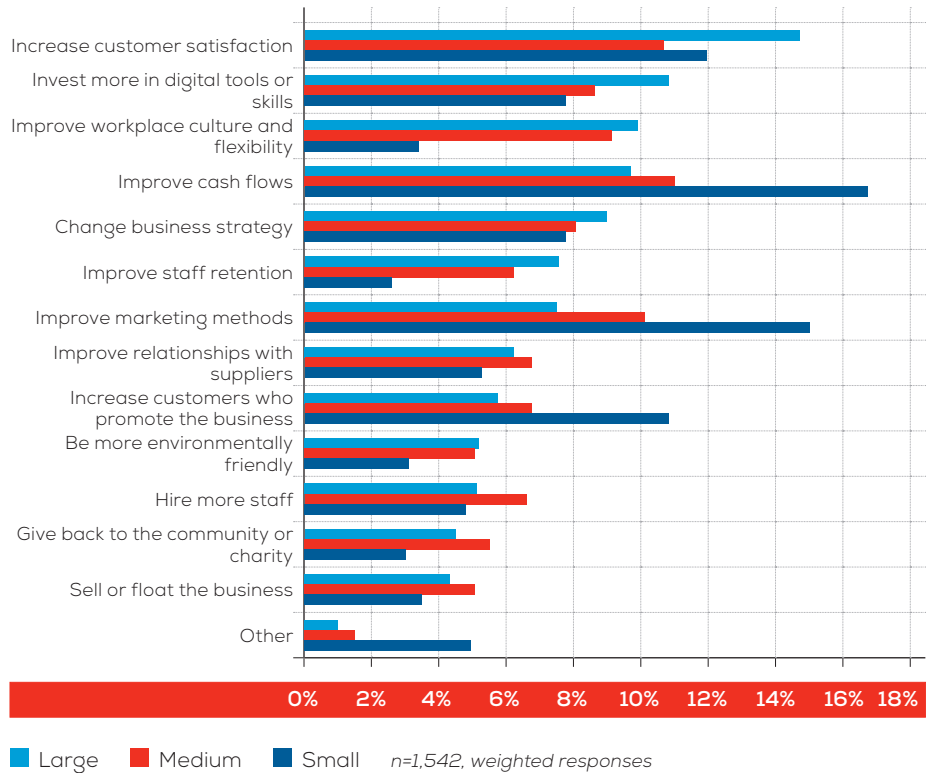


Chart 5.4: What businesses need to do in order to achieve their financial goals.

It may not be the core purpose, or primary goal of small businesses to grow, but it is an option. Increasing access to global markets and technological advancements mean that the future holds more opportunities for small business to think bigger and maybe adjust their aspirations. ‘Unicorn’ high growth firms like Canva and Atlassian demonstrate how small businesses with good ideas can grow into global ones.

QUESTIONS FOR BUSINESSES:

- Should you be aiming to grow? Given the perceived strengths of different business sizes, are you better suited to being large or small?
- Have you considered collaborating with businesses of different sizes to leverage their strengths?
- How can you develop a growth strategy that helps you maintain your work-life balance?

QUESTIONS FOR POLICY MAKERS:

- Are the current regulatory and tax treatments for different sized businesses appropriate?
- How can you facilitate collaboration between businesses of all sizes, and between businesses and government?

06

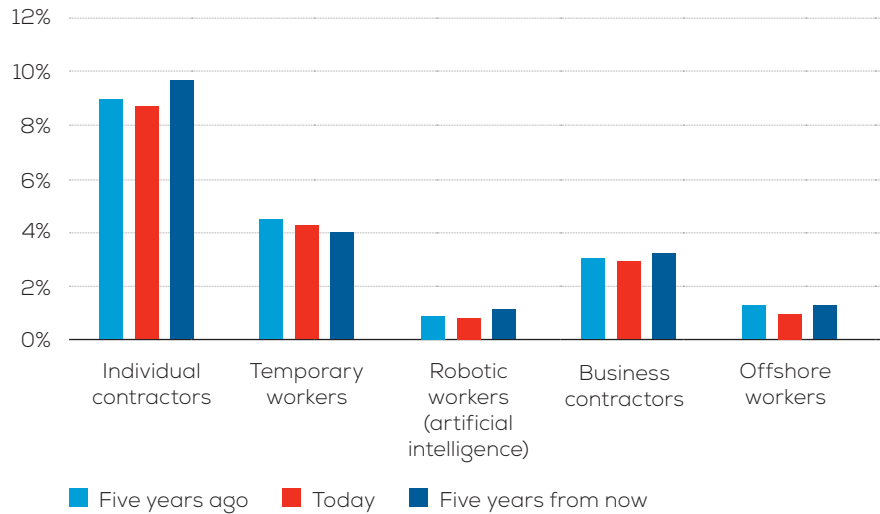
Employment in business in the future

Many argue that technology will eliminate jobs in the future. Widely touted estimates in the US, for example, hypothesise that over 47% of current jobs will be replaced.⁷⁵ In NSW alone, the number of people generating income on collaborative economy platforms doubled between 2015 and 2016.⁷⁶ With these sweeping changes predicted for the labour force, it would be reasonable to expect that businesses would be well advanced in preparing for a changed workplace environment.





Yet most businesses are not even expecting this change, let alone preparing. Businesses in our survey do not expect their workforces to change, and are not predicting an increase in the use of contractors or robotic workers. Whether it be 2013 or 2023, businesses think that over 80% of their workforce will be traditional employees, working part- or full-time. This suggests that there is a transition coming, not just for employees, but for businesses too.



n=1,542; options do not add to 100% because remaining workers are full or part-time

Chart 6.1: Business use of non-traditional forms of labour over time, proportion of total workforce

While these headlines of major job losses may be overhyped, it is equally unrealistic not to expect any change in the workforce. The nature of employment has already changed, and will continue to evolve. Non-traditional employment is on the rise. In New Zealand, more than **18% of those who are employed are either self-employed or employ people in their own business**, a total of more than 450,000 New Zealanders.⁷⁷ In Australia, part-time workers have been steadily on the rise over decades, and now account for almost one-third of total employment.⁷⁸

This rise is driven largely by employee preferences – two-thirds of part-time employees do so to accommodate study, out of a preference for part-time work, or to care for children.⁷⁹

Technology will continue to create new jobs as it destroys others. As discussed in the *Future of Work*, though more manual and routine tasks will be susceptible to automation, there are many more jobs in new fields, from technology to personal services.⁸⁰ And as established in the *Future of Talent*, there will always be a need for people in work. Organisations

rate skills such as communication, problem solving and adaptability – skills that are less able to be replaced by technology – as more important than technical skills.⁸¹

Businesses must better understand that staff play an important role in achieving financial success. **Just one in ten businesses surveyed say that the most important thing that they need to do relates to their staff** – whether it be through hiring, increasing retention or improving workplace culture and flexibility.

THE IMPORTANCE OF DIVERSITY⁸²

Another element of workforce change that businesses need to think about is diversity; being inclusive of employees regardless of age, ethnicity and gender. Deloitte Access Economics recently modelled the impact of achieving gender parity in business leadership and found it to represent a AUD\$10.8 billion and AUD\$1.0 billion opportunity in Australia and New Zealand respectively.

The report found that gender diverse businesses perform better financially and that significant financial returns are available to businesses that increase the proportion of female leadership. On average, increasing women in leadership to parity results in a 2.1 percentage point increase in annual return on assets for Australian businesses, and 1.5 percentage points for New Zealand businesses.

Additionally, businesses with more women in management positions have lower rates of absenteeism; more engaged female customers and better teamwork. In the increasingly competitive business environment, these advantages could make the difference between a business's success or failure.

The report found that the best ways to get more women into leadership positions were to have a gender policy and measure against it, establish mentoring programs, and offer flexible working arrangements.

Of course, employees are not the whole story. Having effective leadership is essential to a successful business. Previous modelling has estimated that if the gap between the quality of leadership in Australian businesses and the best in the world could be halved, GDP would be boosted by \$70 billion – more significant than the estimated productivity benefit of the internet.⁸³

By analysing LinkedIn data, the report found four key features of good leaders: fit for purpose education, a set of core skills (particularly management and strategy), international experience and connectivity. Businesses should not underestimate the importance of good leadership, and consider these qualities when looking for new leaders in the future.

LOOKING FORWARD..

Most businesses – particularly smaller businesses – face a significant transition period. It is certainly not true that all businesses will need to enact large-scale cutbacks – there will be new jobs in new categories to replace some jobs, which may become less common. For example, the World Economic Forum estimates that while there will be significant job losses in office and administrative roles, there will be growth in business and financial operations and management roles.⁸⁴

However, businesses will need to be mindful of other ways of employing people and using technology to be competitive and efficient. Workforce planning needs to stay on the agenda, and being open to more flexible work arrangements including part-time workers, contractors, robotic process automation and artificial intelligence could be the answer.

Employment changes can be controversial, and retrenchments can harm the reputation of a business. Maintaining reputation and meeting community expectations will be very important when managing this upcoming transition.

Estimates of the extent to which work will change vary, but conservative estimates say that the nature of over 60% of jobs will change in response to automation,⁸⁵ and businesses need to prepare for that. Our survey suggests that, currently, they are not doing so.

QUESTIONS FOR BUSINESSES:

- How can you leverage new forms of labour – for example Robotic Process Automation (used for automating clerical processes in industries such as accounting), AI and crowdsourcing – to achieve your goals?
- Is there a risk that changing your workforce would have a negative impact on your reputation? How can you manage the transition?
- How effective are your leaders? Would they benefit from additional training or support?
- Soft skills, such as communication and problem solving, will be essential in the workforce of the future. Are you measuring your employees' soft skill levels and identifying development needs?

QUESTIONS FOR POLICY MAKERS:

- How can you assist individuals to retrain in light of the changing nature of work?
- What are the implications of non-traditional forms of employment for industrial relations frameworks?

07

The corporate citizen

To be considered 'a success', businesses need to do more than make money. Increasingly, customers, shareholders and staff are demanding that businesses consider their broader role and impact on society.





Socially responsible business practices can generate tangible benefits for businesses when done properly – for instance reputational benefits or premium prices.

The bigger issue is the risk that businesses face if they do not behave responsibly. The cost of getting it wrong can be huge.

Social responsibility is no longer reserved for niche products; it has become a mainstream expectation for businesses, not just from customers but also from broader stakeholders.

Our survey showed that many businesses are actively practicing social responsibility.

In fact, 87% of businesses are currently practicing some form of corporate social responsibility.

Our survey found that recycling is the most common social practice amongst businesses, followed by donations to charity (Chart 7.1). In 2015-16, Australian businesses donated a total of **\$17.5 billion** in the form of money, goods and services to the community.⁸⁶

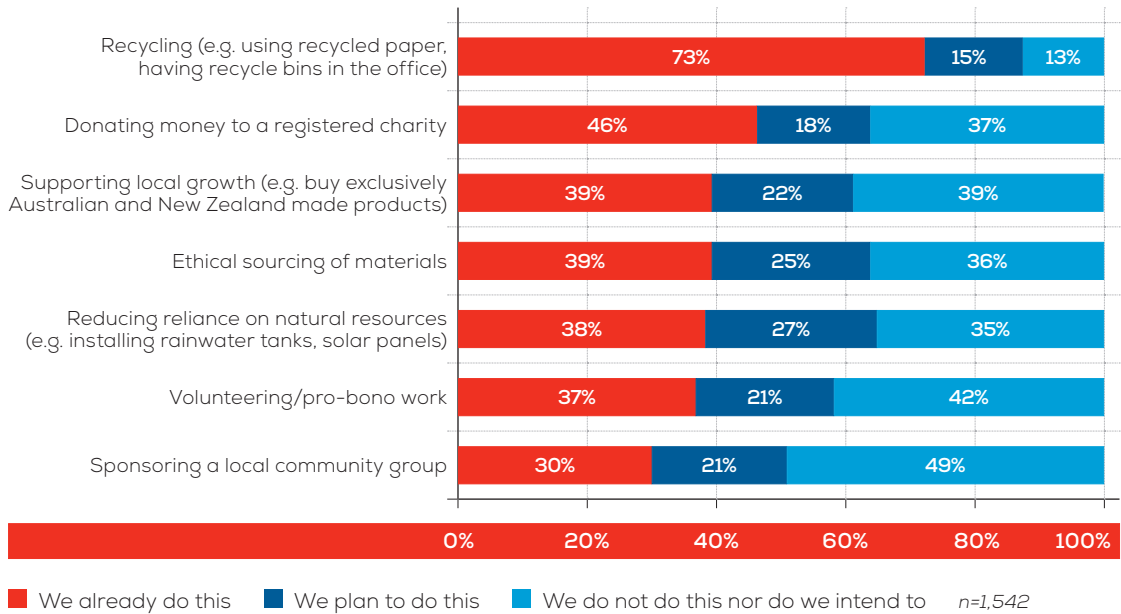


Chart 7.1: Social responsibility practices undertaken by business

Small businesses are more likely to recycle (75% recycle, relative to 66% of large businesses), while large businesses are more inclined to pro-bono work and sponsoring local groups.

For many of these businesses, social responsibility is not an add-on, it is their core purpose. That is, the business was established and operates for a specific social or environmental cause.

But even for businesses without social responsibility at their core, there is still a strong business case for considering broader impacts. Businesses that have a reputation for socially responsible behaviour can perform better in attracting talent⁸⁷ and growing revenue.⁸⁸

In 2017, 88% of Australian and New Zealand businesses reported that being socially responsible helped them to build their reputation, and 78% say it contributed to their brand positioning.⁸⁹ Previous research has shown that creating a culture of volunteerism within a business boosts morale, workplace atmosphere and brand perception – 89% of employees agree that companies who sponsor volunteer activities have a better working environment than those who do not.⁹⁰

In terms of financial benefits, a 2014 analysis of retail sales showed that brands with a demonstrated commitment to sustainability grew over 4% in revenue terms, while those without saw less than 1% growth.⁹¹

There is also a positive correlation between socially responsible behaviour and revenue growth in our survey. **Businesses that reported having above average revenue growth were more likely to be involved in social responsibility.** For example, 41% of businesses with high revenue growth support a local community, compared to 22% of low revenue growth businesses. Similarly, high growth businesses are 19% more likely to be using ethically sourced materials and 16% more likely to be donating money to charity than low growth businesses.⁹²

ETHICAL SOURCING

There has been growing demand for ethically sourced goods in Australia and New Zealand. Not-for-profit organisations such as Oxfam and Fairtrade have been calling for businesses to improve their sourcing habits for years and run programs to educate consumers.

Products with the Fairtrade logo are ethically produced – workers have been paid a fair wage for making them. These products are growing in popularity every year – in 2016 Australians and New Zealanders purchased \$377 million of Fairtrade products, up from \$300 million two years prior.⁹³ There are now 3,200 Fairtrade certified products found in Australia and New Zealand up from 2,100 five years ago.⁹⁴

Similarly, consumers are increasingly aware of where their clothing is made, and whether those making them are paid fairly. Oxfam runs a register so consumers can see which clothing brands are sourcing their garments ethically. Increasingly, Australian and New Zealand businesses are publishing information about the source of their garments, but there are still many businesses that do not do so.

The cost to business of moving to more ethical sourcing need not be high. A recent Deloitte Access Economics report for Oxfam calculated that to pay a living wage to those that make garments would increase the retail price of the garment by just 1%.⁹⁵

Certainly ethical sourcing is increasingly of interest to consumers, and businesses that respond to these concerns will extend their base of potential customers.⁹⁶

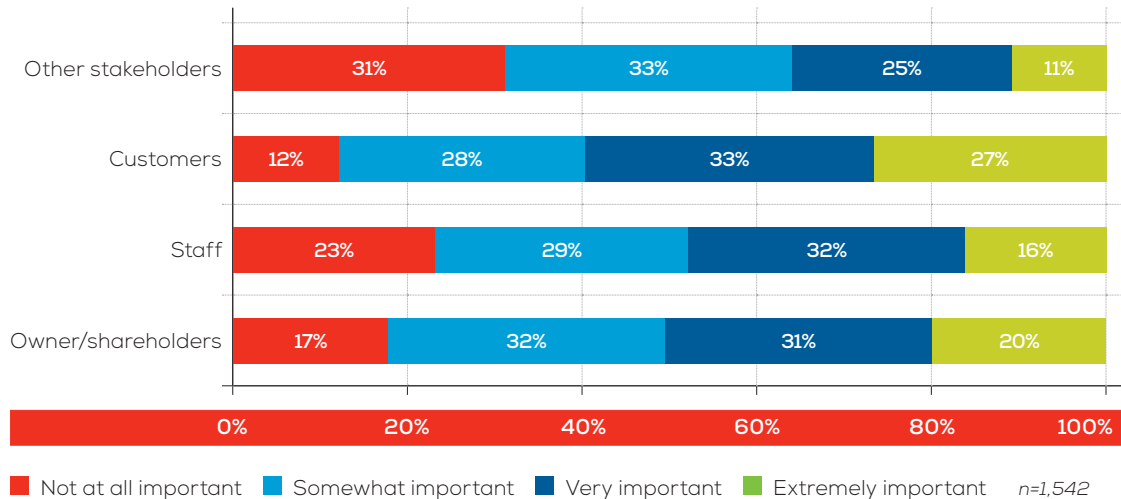


Chart 7.2: Importance of social responsibility to business stakeholders

The business leaders surveyed believe that social responsibility is important to all stakeholders, but is predominantly driven by customers (Chart 7.2).

In addition to demanding social responsibility, consumers –in particular Millennials – are willing to pay a premium price for ethically sourced products. In 2015, Nielson’s global survey found that 66% of consumers (and 75% of Millennials) were willing to pay a premium for sustainable goods – be they

ethically or environmentally focused – up from 50% in 2013.⁹⁷

Businesses should continue to think about ways to improve their social performance as this could have wide reaching benefits. A global study in 2015 found that 62% of people would prefer to work for a socially responsible company, even if their salary was lower, and 80% of consumers said they would buy a product from an unknown brand if it had strong social commitments.⁹⁸

LOOKING FORWARD...

Social responsibility is no longer an optional add-on for businesses. Instead, it will increasingly be a core component of business – driving customer demand, influencing employer brand and managing reputational risks.

Research shows that millennials are more ethically motivated than their older counterparts, meaning social responsibility will only become more important for businesses.

Our survey shows that many businesses are preparing for this – half of businesses that don't currently engage in social responsibility are planning to start within five years, meaning that 94% of businesses surveyed expect that they will be undertaking at least some socially responsible practices.

QUESTIONS FOR BUSINESSES:

- Do you know what your customers and/or staff are expecting from you in terms of social responsibility?
- What more can you do to be a better corporate citizen?
- What would be the cost to your business of reputational damage resulting from poor management of social responsibility?

QUESTIONS FOR POLICY MAKERS:

- Does government have a role in helping consumers to assess the products and services they buy?
- Are current environmental and ethical regulations effective in guiding business actions?
- How do you regulate the social conduct of multinationals?

08

Challenges faced by business

When it comes to business, there is a heavy focus on the impact external factors have on success. Certainly, in the media there are reports of red tape, trade agreements, macroeconomic conditions and their effect on businesses.





However, it is a misconception that businesses are solely at the mercy of external forces, much of what drives success comes from a business's own decisions. While economic and industry conditions do of course play a role, ultimately a business's success or failure largely is in its own hands.

So while there is certainly work that government can do to support business, action has to predominately come from businesses themselves. The number one challenge that surveyed businesses say

they are facing – both in weighted terms and ranked terms – is a lack of consumer demand. This is closely followed by government regulation and compliance as shown in Chart 8.1.

- Lack of customer demand
- Government regulations and compliance
- Cash flow problems
- High cost of inputs
- Need to lower profit margins to remain competitive
- Pace of technological change
- Lack of skilled persons within the labour market
- Other*

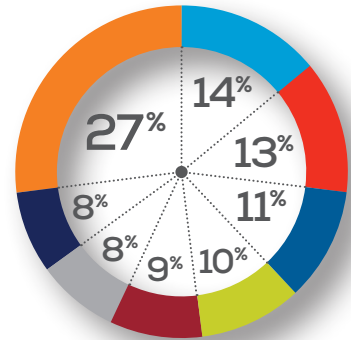


Chart 8.1: Weighted challenges faced by businesses

*n=1,542, * 'Other' includes environmental factors, lack of access to international markets, lack of access to funds, lack of skilled persons within the business, and other*

A lack of consumer demand could be a result of a number of factors. Consumers face income constraints – they can only purchase so much. Businesses have always had to compete for the finite purchasing power of consumers, and given that businesses in this survey say they are facing tougher competition, it could be that they are receiving a smaller share of consumer demand than

they have in the past. It could also be that technology is moving too quickly and businesses have not yet grasped how to use these new digital tools to reach consumers. Consumer confidence (which drives demand for businesses goods and services) has been increasing over the last two years,⁹⁹ so it is unlikely that overall demand is sluggish, rather that businesses are having trouble finding it.

Government regulation and compliance has long been identified as a barrier to business, and clearly, this is not changing. In fact, among New Zealand businesses surveyed, government regulation actually outranked consumer demand as the top challenge faced. This is interesting considering how well New Zealand performs in global regulatory environment rankings. The World Bank ranks the regulatory environment of

each country annually in their 'ease of doing business' index, and New Zealand is ranked first globally.¹⁰⁰ Australia ranks 14th, held back by a low score in the 'trading across borders' and 'protecting minority investors' categories. But realistically, the business environment in Australia and New Zealand is in good shape by global standards.

THE IMPACT OF GOVERNMENT REGULATION¹⁰¹

Government regulation and compliance can be a burden to businesses. Deloitte Access Economics estimates the cost of regulation to Australian businesses is \$94 billion annually, and given New Zealand's similar governance arrangements the cost to businesses there would be comparable.

However, both countries rank very well by international standards. New Zealand ranks first in the world in the World Bank's Ease of Doing Business index, and Australia ranks 14th out of 190 countries. In particular, starting a business, dealing with construction permits and getting credit are simpler in Australia and New Zealand than most of the rest of the world.

In addition to the regulation imposed by government, businesses impose another \$155 billion in regulation on themselves, in self-imposed rules and compliance costs. Almost one million (980,000) Australian jobs are dedicated to regulation and compliance, both in the public and private sectors.¹⁰²

The combination of government and self-imposed regulation may be making it hard for business to be agile and innovative. Government is looking to cut red tape wherever possible, and businesses need to do the same.

This being said, a trustworthy government and strong regulatory environment are key attractive qualities of both Australia and New Zealand. Investors feel they are safe places to store money, and removing regulation for the sake of it would not be a win for business. A certain level of regulation and compliance burden is a necessary component of living in a prosperous society.

Ultimately, there needs to be a balance between overwhelming businesses with regulation and stifling their growth, and removing the protections that governments offer to citizens and businesses.

Given the significant percentage of small businesses in our sample, it also makes sense to look at challenges faced by businesses of different sizes. Unsurprisingly, the number one challenge for small business is a lack of customer demand, followed by government regulation and compliance.

However, the picture looks different for large and medium sized business. Among large businesses surveyed, a lack of demand was not even in the top five challenges cited. Instead, they say that government regulation and compliance is their largest challenge, followed by the

pace of technological change and the cost of inputs. Similarly, among medium businesses the cost of inputs and cash flow were front of mind, and lack of demand ranked almost at the bottom of the list.

Chart 8.2 shows the top challenge businesses are facing by industry, longer bars represent a higher portion of the industry selecting the challenge. The chart shows that eight different industries rank government regulation as their biggest challenge, compared to four industries more worried about a lack of demand.

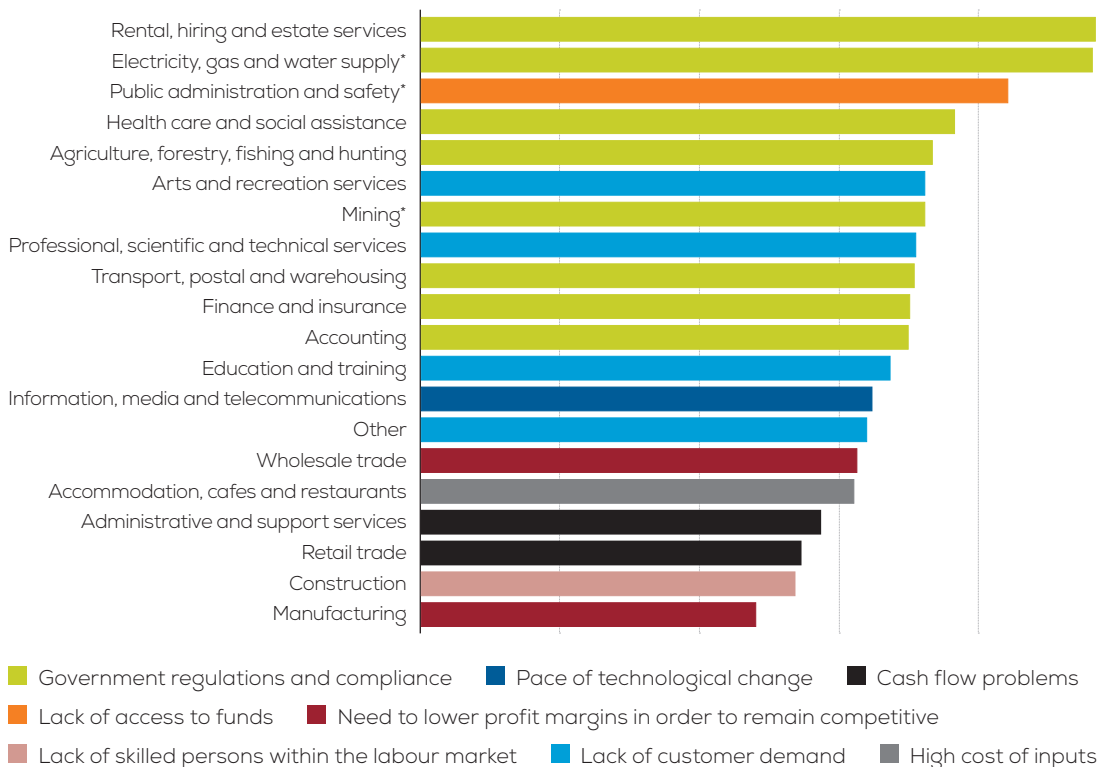


Chart 8.2: Top challenge faced by businesses, by industry

In our final survey question, we asked businesses whether they would prefer to exist in a different regulatory jurisdiction – whether interstate/inter-region or international. Almost three quarters (73%) of businesses said that they would not move, and would not have chosen another regulatory environment to establish themselves in – and only 6%

expressed interest in moving overseas. These findings were common across both countries, businesses of all sizes, and most industries. Therefore, while businesses in Australia and New Zealand do face barriers, they do not appear to be severe enough to cause businesses to consider leaving.

LOOKING FORWARD...

Success is possible in any industry, but in particular, Deloitte has identified future growth opportunities in the agribusiness, tourism and international education industries for businesses in Australia and New Zealand.¹⁰³ These are industries where Australia and New Zealand have a global competitive advantage, and are poised to capture global growth. In addition, there are opportunities for Australian businesses in the gas and wealth management sectors, and for New Zealand businesses in the food processing and advanced manufacturing sectors.

QUESTIONS FOR BUSINESSES:

- Could you simplify your internal business rules and reduce the compliance burden?
- How can you use new methods (for instance, engaging more with digital technologies) to reach more potential customers to address the lack of customer demand?
- Have you considered how you could use regtech innovations (such as data aggregation and risk modelling tools) to ease the compliance burden for your business?

QUESTIONS FOR POLICY MAKERS:

- How can you utilise new technologies – particularly regtech – to reduce the compliance burden on both the public and business sectors?
- Are government contracts equally accessible to small and large businesses?



Conclusion

Businesses are operating in an age of uncertainty. Global shifts have changed the way that businesses must operate in order to thrive.

Business owners need to consider **whether they are ready** for these changes.

What is the optimal size of your business?

Businesses can prosper at any size. Each size of business has its own strengths. For example, there is a perception that small businesses tend to be better at workplace culture and agility, while large businesses are perceived as being stronger at raising capital and building brand. What is the right size for your business model and industry?

How often do you update your business model?

Businesses who report being more agile are also three times more likely to report faster revenue growth. In an increasingly fast-paced and uncertain world, being able to adapt to changing conditions quickly will help your business to prosper.

How will digital, population change and globalisation affect your workforce composition?

Businesses in our survey are not expecting significant change in their workforce. This could be unrealistic. In NSW alone, the number of people generating income on collaborative economy platforms doubled between 2015 and 2016.¹⁰⁴ Businesses need to reconsider what this means for their workforce planning.

Do you have a technology plan?

Digital tools are important for business success. Digitally engaged businesses are more likely to experience overall revenue growth, and earn more revenue per employee.¹⁰⁵ However, our survey shows that two in five businesses do not plan to take-up exponential technologies such as artificial intelligence and robotics in the next five years. Not all solutions will be economically viable for all businesses. However, with these technologies becoming more mainstream, businesses should have a plan, remain informed and be ready to act.

Do you have a strategy in place to improve your social responsibility?

Businesses must be about more than just money. According to our survey, almost two-thirds of businesses were not established for financial reasons. In the future businesses will need to be increasingly aware of their social responsibility – consumers are increasingly expecting businesses to give back to the communities they operate in. Failing to engage means risking losing both reputation and customers.

Exactly what business will look like in the future will become clear over time. What is clear now is that businesses cannot wait – they must get ready now for the Future of Business.

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