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PERSPECTIVES

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A photograph of Uluru, a large sandstone rock formation in Australia, under a dramatic, cloudy sky. The foreground is filled with tall, golden grass. The title 'AUSTRALIA IN CRISIS' is overlaid in large white letters at the bottom.

AUSTRALIA IN CRISIS



Australia is in crisis. Not economically – despite slowing growth, the domestic outlook is still one to which nearly all other major economies can only aspire. As one senior diplomat put it last week, “Australian growth is slowing to a pace that we are still striving to achieve”. Whether judged by economic growth, or the budget position, or debt to GDP, Australia is enormously more resilient than many other major nations. Of course this is no cause for complacency – it remains important to bring the budget back into balance in due course. But when it comes to the country’s mindset, it is surely time to hit the reboot button.

Just like the ramp up in volatility that often signals impending meltdown in financial markets, volatility in domestic politics has reached unprecedented levels. Kevin Rudd was elected in 2007 on the back of a populist wave support, only to be dethroned after barely three years. Julia Gillard, to her credit, took the country to an immediate election, seeking her own mandate. She retained power, albeit in minority government. The atmosphere was, however, highly fractious, not least due to Labor’s failure explain properly why a leadership change had been made in the first place given the public popularity of Kevin Rudd.

Then Abbott was elected in a landslide victory, which delivered one of the larger majorities in Federal Government of the last 50 years. And yet within a few months, the new leader’s popularity had begun to wane, rapidly reaching the weakest position recorded in opinion polls for a new leader since polling began. Subsequently, Victoria has seen a one term government ejected from power, and Queensland has seen a huge Government majority evaporate in a manner that appears to have surprised even

the smartest electoral predictive statisticians. Thus these dramatic reversals have affected both the left and right of politics. It is easy to blame this on the ever-shortening media cycle, but I believe much darker forces are at work.

In parallel, many of Australia’s largest businesses have sat on the sidelines and squandered the largest competitive advantage ever seen in Australian corporate history. For seven years of financial feast, these organisations have benefited from the strongest domestic economic conditions of any major developed country, and an exchange rate against the US Dollar, Pound and Euro higher than seen at any time since the Australian Dollar was originally floated over thirty years ago. Put simply, this has been the best window of opportunity for corporations to export capital and invest offshore to secure longer-lasting and more diversified opportunities for growth. M&A bankers have been sorely disappointed.

Through this period, many corporate leaders have remained preoccupied by what they have perceived as extraordinarily tough challenges in their home market. As one

simple example, whilst domestic retailers have complained of high labour costs and unaffordable rents, leading global retailers such as Aldi, Costco, H&M and Zara have outbid domestic competitors for retail space, seeing a huge opportunity for profitable growth. Locals have clamoured for GST to be added to low cost imports from offshore, as if a 10% increase in prices will have any material impact in the face of a 70% cost saving: “Sorry, we now have to charge you Australian GST – our products are only 67% cheaper”. Indeed the myopia has been so extreme and the complaints so loud that offshore corporate Australia is earning a reputation as being home to the whinging poms of the 21st century.

These are strong words, so they are not written lightly. Over the last two months, I have spoken with numerous leaders of large companies in North America and Europe. Their organisations all operate in old economies facing enormous structural problems, including very high levels of national debt and in some cases extreme unemployment. All of these economies have been through recessions, and market

conditions have been dramatically more challenging than the economic aromatherapy room of Australia. Think of Spain, which still faces unemployment of 23.7%, and youth employment of over 50%. Its debt is 93.9% of GDP and is still rising. Yet its leading corporations are confident, and they are expanding offshore.

Thus despite tremendous domestic challenges, leading businesses in North America and Europe have been investing, innovating and reaching out for the next phase of growth and opportunity. They are playing their cards with purpose and a sense of opportunity. At a deeper level, they are embracing the complexity inherent in the world they face, welcoming change and waving goodbye to the status quo. This mindset has seen extraordinary value created, even in the face of the worst financial meltdown in a century. Whether it is new economy companies such as Uber and AirBnB, tech leaders such as Google, old economy innovators such as Tesla, or much older companies like Apple (remember, the iPhone launched in 2007 and the iPad in 2010), these organisations have thrived over the last seven years.

In contrast to this, there is now an increasing sense that Australia has somehow lost the plot. So recently a poster child for personal positivity and corporate success, offshore observers ask how a country with such a positive domestic outlook could be home to so many businesses that are so extraordinarily cautious.

To put this into context, name a major Australian business that has successfully differentiated itself from its domestic peers over the last decade or two? In many sectors, there have been occasional periods of modest outperformance (or underperformance), but over the long term, few have achieved transformational growth.

So, although Australia's leading companies remain disproportionately large (in market value terms, compared to the size of the economy), their reach into offshore markets remains very limited in most cases. As a nation, Australia punches massively above its weight in areas such as scientific research and innovation, but rarely does this trickle through into corporate success and value creation.

In short, Australia needs to reboot. This is delightfully easy to say, but the message for boards and political leaders is that – with determination – it is also entirely within their grasp.

Firstly, Australia must shake off its collective propensity to favour the status

quo. We need to look up and out from what has worked before, and set a clear long term destination that transcends the recent focus on resources. As Einstein once said, “We can’t solve problems by using the same kind of thinking we used when we created them”. There are many opportunities to do so – whether in agriculture or tourism or education or financial services, the country has very high potential. And looking forward, Australia will have amongst the cheapest power of any major Western nation, thanks to high solar intensity and ongoing reductions in the cost of solar PV (and battery storage).

Secondly, Australian leaders must be prepared to shut out the short term noise and focus on a long term agenda. If recent elections aren’t a blindingly obvious lesson in the perils of responding to a short term media cycle with short term tactical messaging, then I honestly don’t know what is. And for the corporate sector, the evidence of the last twenty years is that the increasing focus on quarterly or half yearly reporting cycles has led to strategic confusion and shorter CEO tenure. In short, short-termism simply doesn’t work.

Thirdly, Australia’s voters and shareholders simply must take control of their own destiny. There is an old adage that people get the politicians that they deserve – so voters must recognise that they too will do better by asking much more searching questions of their would-be political leaders and taking a longer term view. Current electoral volatility is a clear sign that this is already happening. Meanwhile businesses that refuse to comment on matters of policy importance, using the lame excuse that “we don’t get involved in politics” are abrogating their responsibilities to the community and shareholders alike. The truth is the policy debate is of critical importance to the nation, and individual and corporate citizens avoid it at their own peril.

There is plenty of evidence that a bolder, longer term approach works.

In business, the greatest successes of the last twenty years have come from companies that have thought well beyond the near term. As a certain Sergey Brin and Larry Page wrote in the Google IPO prospectus:

“As a private company, we have focussed on the long term, and this has served us well. As a public company, we will do the same. In our opinion, outside pressures often tempt companies to sacrifice long term opportunities to meet quarterly market expectations.”

Meanwhile, in contrast to so many political promises of short term results,

in his first speech after becoming NSW Premier, Mike Baird spoke of the long term transformation of NSW. Despite challenging circumstances in relation to ongoing enquiries into corruption in and around the NSW Government and Opposition, he has remained resolute in his focus on this objective. He has also had the confidence to reach beyond the confines of traditional party ideology, including powerful recent statements on immigration:

“[Australia should] open our arms to those around the world who are much less fortunate than us. ... NSW stands ready ... to take more than our fair share. Yes, we have strength in our finances but my strong sense is that means nothing, unless we offer help to those who are vulnerable amongst us.”

Baird’s long term approach appears to have paid dividends already – his popularity remains high, and he has been successful in framing a political agenda that remains largely focussed on long term objectives. In short, there appears to be much less short term static in NSW politics. The proof of this particular pudding will be seen on 28th March 2015 – a test both for the Baird administration, and the core arguments set out in my book *The Long Term Starts Tomorrow*.

Incumbent leaders in Australian business and politics face a clear choice. If they have the energy and stomach for this new, bolder approach, then they must step up, speak out, and put a new face on Australia. This will, of course, require courage, vision, and an ability to enunciate a very clear long term corporate or political strategic destination. Pottinger is thrilled to help leaders seeking to forge a new path like this, and we have had tremendous success in doing so.

Meanwhile, those that are not ready for the brave new world must stand aside, accept a vote of thanks, and quietly get out of the way. If they do not, there is every chance they will have the unenviable task of leading their organisations into at least seven years of financial or political famine.

Finally, boards and shareholders, not to mention party officials and voters and media commentators, must shoulder this responsibility too, celebrating and supporting those that are bold enough to look beyond today’s media cycle and show true leadership. **P**

Nigel Lake is CEO of Pottinger and author of *The Long Term Starts Tomorrow*. He has previously lived and worked in most of the world’s top thirty economies.

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How many dramatic industrial revolutions have you witnessed in your career? I'm not referring to something as simple as a category-killer new product. I mean innovations that have changed whole industries, or even created them. If you reflect on the amazing technological progress over the last fifty years, the truth is that we have all seen a surprising number of them.

<http://www.pottinger.com/bucket-list-20.html>

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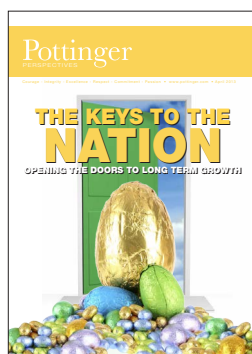
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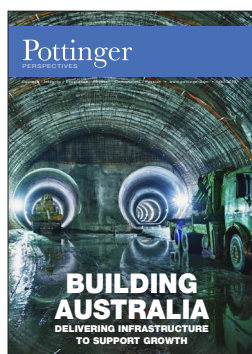
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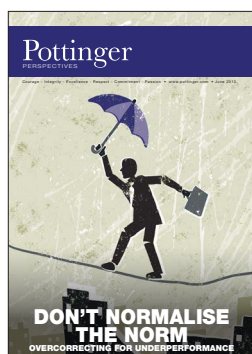
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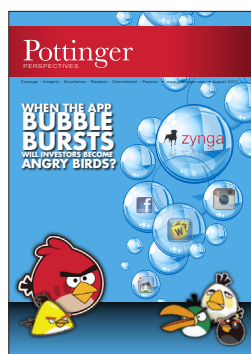
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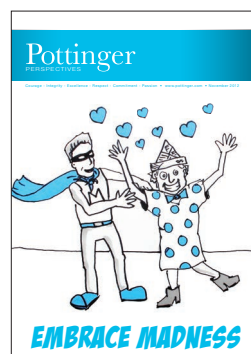
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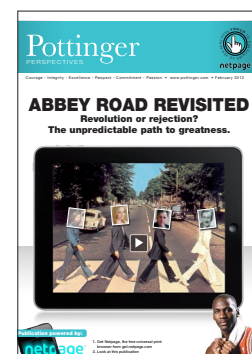
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