

From Risk to Reward: The Business Perspective

Introduction

From Risk to Reward: The Business Perspective presents the findings of a quantitative survey undertaken by UMR Research in February 2017. Commissioned by Suncorp New Zealand, the purpose of the research was to explore and gain insight into what is important to New Zealand businesses in 2017, what might be holding them back, how they feel about risk and how they see their businesses evolving over the next five years. The quantitative survey was preceded by a qualitative stage which comprised 20 depth interviews with business leaders from a range of industries. A summary of the findings are presented here along with the inaugural Suncorp New Zealand Business Success Index.

Overview

New Zealand businesses tend to be moderate risk takers but some risk is clearly seen as a requirement to unlock the true potential of a business. Top of mind risks are customer and competitor behaviour, the financial position of the company, the economic and political climate, and compliance costs.

“It’s all about managed risk. You’ve got to take risk but it’s eating the elephant a bite at a time. Taking on as much risk as you can manage if it goes badly.”

People are key to business success and growth with staff and leadership skills rating highest on the Suncorp New Zealand Business Success Index, followed closely by management processes, and funding.

Around two-thirds of businesses claim to either be growing or looking to grow, while around a third wish to remain the current size. There are reservations around purely seeking growth, with a majority viewing work-life balance as important as growth, and growth sometimes making it difficult to retain innovation and company culture.

“To me it comes down to three ingredients, leadership, ambition and capability. And ambition is a really critical one for me because if you are without ambition then you are kind of without hope.”

When looking at external factors that are hindering growth – businesses pointed to levels of regulation, supply constraints, competitor activity, local government red tape, and import/supplier costs. Key issues include access to funding, connecting with the right people and finding people with the right skills. Some are also critical of multinationals and the market behaviour of monopolies and duopolies.

Business outlook

A majority of businesses are positive about the current business environment in New Zealand, however, there is a reasonable level of uncertainty. In the qualitative stage this uncertainty is mainly attributable to the political uncertainty around the upcoming 2017 General Election.

More businesses express optimism about their own business situation, evidence they believe their business can beat the odds or are relatively immune to outside influences.

Concern is more evident when considering the macro environment with significant uncertainty around the state of the global economy. Small businesses are less optimistic across all three indicators.

Global Business Environment



NZ Business Environment



Own Business Situation



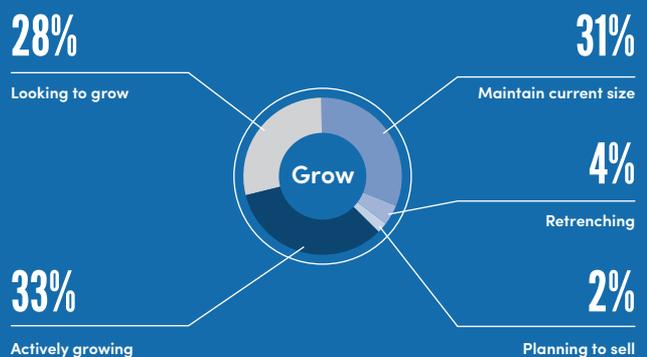
Attitudes to growth

Nearly two-thirds of businesses have a goal to grow their businesses but around a third are happy to remain at the current level while a small number are looking to downsize.

Attitudes towards growth indicate that there are conflicting goals within many businesses with a majority viewing work-life balance as important as growing a business. Likewise, there is a preference to focus on productivity and efficiency rather than growth. There are also a number of perceived downsides to growth, including loss of innovation/increased bureaucracy and ability to retain the company culture.

A lack of ambition across New Zealand businesses was also raised in the quantitative stage, with around a quarter of businesses surveyed stating New Zealand businesses lack ambition.

Businesses that are actively growing or looking to grow are more likely to be mid-to-larger sized businesses while businesses that want to maintain the current size are more likely to be small. These businesses are more likely to believe access to funding, having a good strategy, and having a desire to grow are important to achieving business success.



Attitudes to risk

New Zealand businesses tend to take a conservative approach to risk – with 42% saying they have taken on moderate risk and a small minority larger risks (11%) when making business decisions. Larger businesses are more likely to declare that they have taken on large risks.

There is also evidence of relatively soft confidence in making good decisions around risk with 43% saying they are confident in making risk decisions and 48% having a reasonable amount of confidence. Declared confidence is no higher for larger businesses.

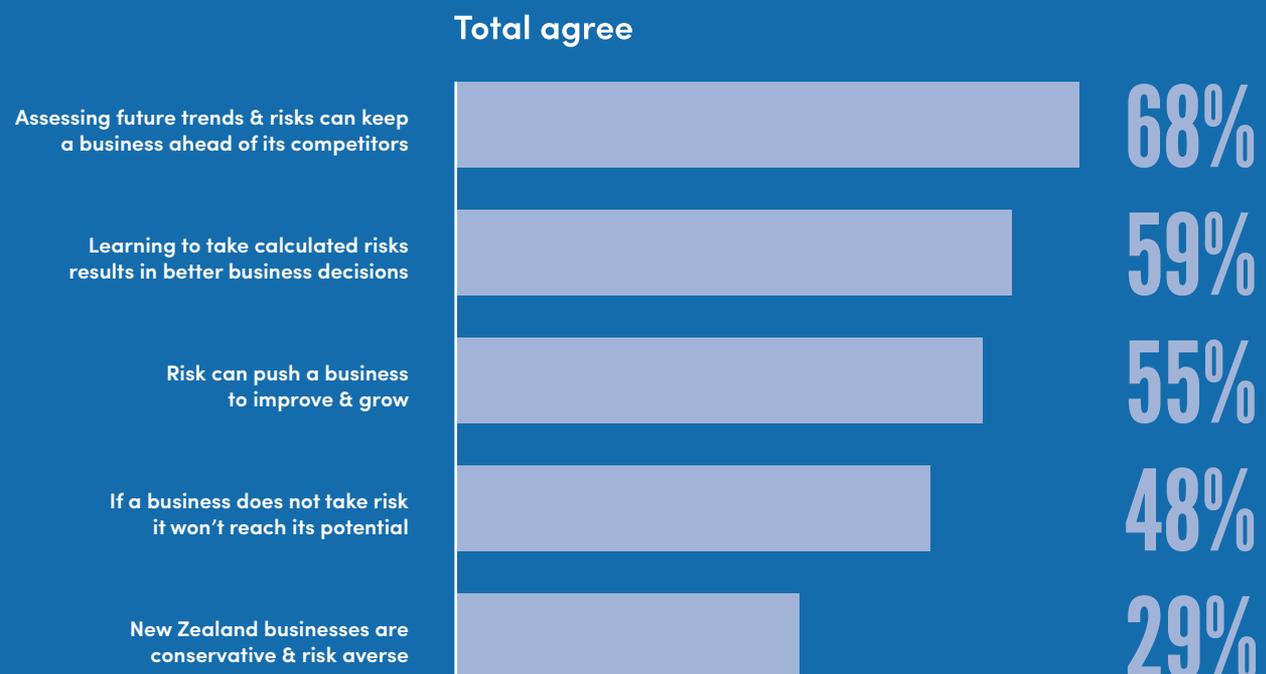
However, most acknowledge that growth and success are linked with a certain level of risk and that without taking some risk, rewards will be limited. Larger businesses are more likely to believe that a business won't reach its full potential if it does not take on risk.

Key risks facing businesses revolve around internal factors such as customer and competitive behaviour,

and their current financial position, or external factors such as the economic climate, political stability, and regulation and compliance costs.

On a prompted basis, main risks are seen to be rising input costs, compliance costs, market manipulation by some players, competitor activity, cyber-crime, and debt.

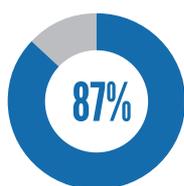
Most businesses take some action to minimise risk, including growth, having insurance, planning, diversifying locations, having good processes and systems in place, conducting market intelligence, and having the right staff.



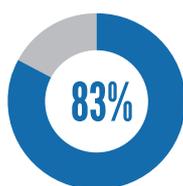
Growth and success

People are key to business growth and success. Both on an unprompted and prompted basis, factors around leadership and staff are seen as either supporting or hindering success and growth.

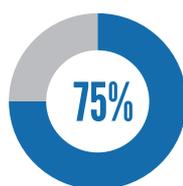
Top seven factors in business growth & success



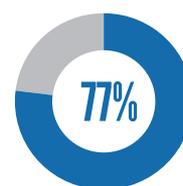
Staff - with right skill sets



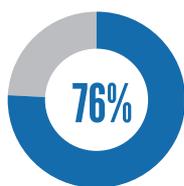
Staff - quality & reliability



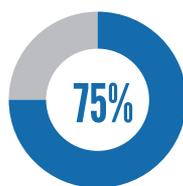
Staff - in tune with company culture



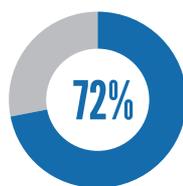
Leadership team - self belief & confidence



Leadership team - retention of adequate management skills/expertise



Other - retention of supportive clients & suppliers



Other - having good processes & systems in place

Total important %
Base: All respondents (n=415)

Larger businesses are also more likely to value access to management training, access to good advisors, funding for R&D, and access to specific skills/knowledge. A desire or preference for measured growth is also valued more by larger businesses, along with external factors such as a good legislative framework and staff being able to access affordable housing.

Key unprompted factors for success are seen to be brand reputation, having high quality staff with the right skill sets, a solid client base, and delivery of quality products and services. Hindrances include, competitor activity, lack of quality staff, access to funding, and economic stability.

In the qualitative stage, additional factors were highlighted as key to success including, appetite

for growth, leadership skills, and access to expert advisors or mentors. In quantitative testing, the importance of staff and the leadership team is reinforced.

To push through to the next level, again requires the right staff, along with funding, larger customer base, and marketing.

Businesses want help to connect with the right people, access to appropriate talent, access to technology, and support with capital raising. Larger businesses place more emphasis on access to talent, technology, business advice, improved leadership skills, and ability to undertake more R&D.

The Suncorp New Zealand Business Success Index

The Suncorp New Zealand Business Success Index has been established as a monitor of how New Zealand businesses are tracking based on the business aspects identified in this research.

The Success Index is based on respondents' perceptions of 23 business aspects and their importance in driving business success and growth. Multivariate analysis condensed the 23 aspects into eight key factors. In the current results staff, leadership, management processes and funding are the key success factors. These create a benchmark for the establishment of this Index.

Success Index*

*Average scores across related attributes



External factors limiting growth

Around a quarter of businesses feel that external factors such as the actions of other businesses, suppliers, regulators, or infrastructure issues – are limiting the growth of their business.

The main factors are around the level of regulation, supply issues, competitor activity, local government red tape, and importation/supplier costs. These constraints are seen to result in higher costs to their business, difficulty competing, customer dissatisfaction due to under-delivery, and reduced productivity.

There are no particular sectors put under the spotlight in the quantitative survey, however, the

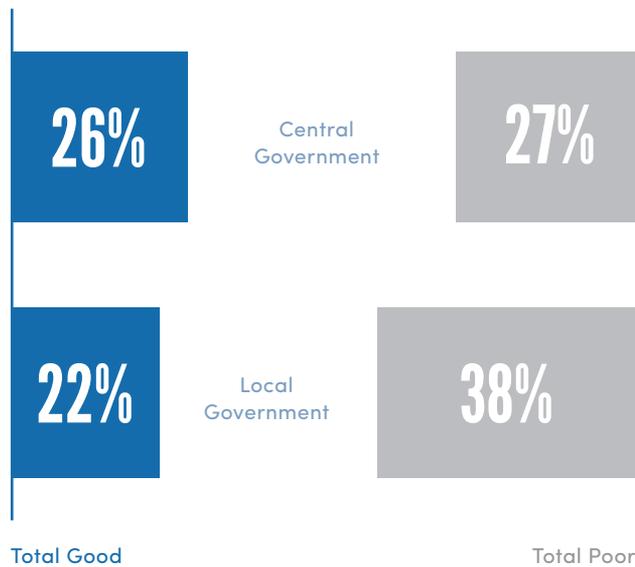
qualitative stage highlights a few sectors seen to be hindering growth which include the finance sector (that limits funding), education sector (not producing graduates/trainees with the right skill sets), and IT sector (New Zealand companies only have limited capability).

Issues around the behaviour of multinationals and monopolies/duopolies are also seen to impact on the ability of some businesses to grow and succeed.

Role of government

Businesses are polarised on the level of support shown by central government. Businesses want monetary support from central government mostly in the form of tax breaks and grants, followed by initiatives to support local/small businesses, and reduced compliance costs.

Local government is viewed poorly by the business community – with a majority rating them poorly. In the qualitative stage, this is based on the view that local government needs to address issues that are impacting business such as consent processes and infrastructure issues. Small businesses are more likely to perceive both central and local government more negatively.

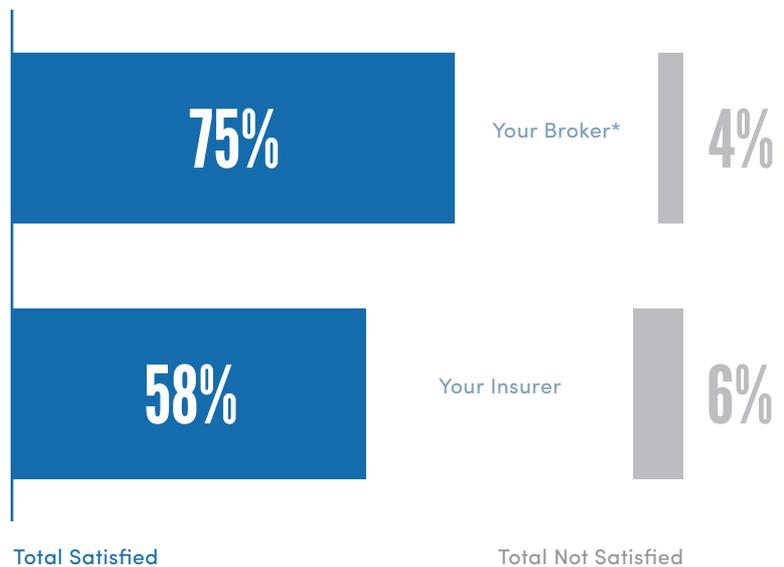


Base: All respondents (n=415)

View of insurers

A majority view insurers positively. This is higher across those who use a broker with three-quarters satisfied with their broker compared with 58% satisfied with their insurer generally.

Businesses are seeking insurers to provide solutions that mitigate risk in the most cost effective way, provide tailored products to meet the varied needs of businesses, and development of innovative products. To achieve this, they need a stronger relationship with business to understand their needs – and also conversely, better explain what is on offer and how insurers can support businesses.



Base: All respondents (n=415)

*Base: Respondents who stated they used an insurance broker (n=157)

Methodology:

This report is based on results from an online survey among New Zealand businesses (n=415). All respondents were responsible for or had input into strategic decisions in their organisation. Fieldwork was conducted from 7 to 14 February 2017. The margin of error for sample size of 415 for a 50% figure at the 95% confidence level is $\pm 4.8\%$. The sample over-represented larger businesses so that robust sub-samples by business size were achieved – the overall ‘all’ sample was reweighted to reflect the make-up of the New Zealand business population.

A prior qualitative stage of research was conducted which comprised of 20 depth interviews with a range of businesses.