



Agenda 2008. Growth, Productivity,
Competition, Sustainability, Skills

Delivering High Performance in Australia in an
increasingly complex global environment.

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Events over past months have demonstrated, more dramatically than ever before, that in 2008, Australian enterprises are fully integrated into the new global economic order. This is so for both multinational operations and those exclusively domestic in focus.

Despite a resilient domestic economic outlook, investors nervous about slowdowns in the USA, Europe and Japan have lowered the value of Australian stocks by more than 20 percent since the start of 2008. Volatility in global credit markets continues to claim high profile Australian organisations and means others have to continually justify their levels of debt. The investment in early 2008 of the Aluminium Corporation of China (CHINALCO) in mining giant Rio Tinto demonstrates how Australian companies and governments are faced with a new class of competitor and strategic investor. Finally, Australia's signing of the global Kyoto protocol and the associated introduction of mandatory carbon emission reduction targets are set to fundamentally change the economics of Australian businesses.

Research conducted by Accenture points to five immediate challenges faced by Australian business leaders as they strive for high performance in an environment of unprecedented global integration.

- **Targeting global growth.** Investors have realised that the peak of the domestic demand boom has been reached and are aggressively looking for organisations to identify new sources of growth.
- **Improving productivity to protect competitiveness.** As the competitiveness of Australian organisations is being reined in by a strong Australian dollar and a continuing decline in productivity growth, so productivity gains, efficiency improvement, and innovation in process, product and service, become critical.
- **Dealing with new competitors.** Competition from emerging-market multinationals, with their aggressive investment strategies, is now a reality.
- **Creating value in a carbon-constrained economy.** New consumer and stakeholder expectations are creating a green economic sector as Australia

prepares to commit to binding emission targets, and the need to integrate sustainability into the business operating model becomes more urgent.

- **Moving beyond the "war for talent" discussion.** A continued scarcity of skills in Australia, while somewhat alleviated through importing temporary and permanent skilled labour, remains unaddressed by organisations and governments in terms of education, training and work models.

This whitepaper outlines how Australian organisations will have to reevaluate their market positioning, build an expanded set of capabilities, and adopt a new approach to their people and values if they are to successfully meet these challenges and achieve high performance.

Targeting global growth

Challenges

Similar to the commodities demand-shock, which has benefited Australia, large increases in global consumer demand are also creating long-term opportunities for both large and niche Australian players. By 2030, the middle class in China is forecast to be 800 million consumers, India 600 million, Malaysia 20 million, Indonesia 50 million and Thailand 25 million.¹ To date, however, the oft-cited export boom to Asia's emerging economies continues to be largely limited to resources. Australia's other export success stories, tourism, education and agriculture, are well positioned to compete for emerging-market consumers but all have significant constraints on aggressive growth in the mid term. Australia's A\$23 billion inbound tourism sector² is hampered by a lack of capacity on international flights. In 2006, Australia was the fifth global international tertiary-student destination³ but few Australian universities want to significantly grow the proportion of international

students on their campuses. And, while Australia's A\$22 billion food export industry⁴ is starting to recover from the impact of the drought, existing commitments to major customers such as Japan, Korea and the USA will slow down its ability to achieve a leadership position in emerging markets.

Only recently have many industry leaders in the dominant Australian services sector finally started to seriously pursue emerging-market growth opportunities. Some examples are Flight Centre's A\$400 million in revenues from corporate travel services in India and China, ANZ Bank's recent announcement of a 20 percent revenue target from Asia for 2012, Insurance Australia Group's (IAG) investments in insurance companies in China, Malaysia and Thailand, Toll Group's investments in transport businesses in China and Singapore, and Leighton Holdings' investment in India and the Gulf. But while these initiatives suggest there is a new mindset in place with Australian companies

looking for growth overseas, for the majority of Australian businesses with global operations, foreign revenue contributions are usually low and often stagnant.

Implications

The key issue to building new growth businesses that target emerging market opportunities is how to rapidly move these to critical mass in a meaningful timeframe. Otherwise they will take up valuable management time and resources without contributing significantly to the bottom line. For businesses with existing global operations, a further challenge is balancing the scale and commitment to target new opportunities with that of existing markets. Finally, for businesses evaluating emerging-market expansion, they must be clear about the basis for competitive advantage and how to maintain it, as they will be competing with both the best established and emerging multinationals.

Improving productivity to protect competitiveness

Challenges

Growth in unit labour costs in Australia accelerated in 2007 as wage growth continued to outpace productivity growth, which has remained slow across all sectors since 2003. This has impacted the global competitiveness of Australian products and services. Recently, Australia's unit labour costs have increased at 2.5 times the Organisation for Economic Co-operation and Development (OECD) average⁵ while unit labour costs in a range of other developed economies, such as Japan and Korea, have fallen. Labour productivity growth in Australia in 2006 was 1.2 percent, just over half the developed-country average of 2.1 percent, compared to labour productivity growth in East Asia of 8.5 percent.⁶

Years of low levels of investment in infrastructure, plant, and information and communication technology (ICT), alongside stalled economic reform and neglect of education and training have all been identified as the culprits. While new programs such as the federal government's Infrastructure Australia initiative, planned investment into a national high speed broadband network and new education policies will likely start targeting some of these factors to increase productivity, these measures will take years to deliver any outcomes.

At the organisation level, the development of revenues per employee can be used as a proxy for productivity growth. Australia's 50 largest enterprises as a group outperformed their industries, increasing revenues per employee by an average of 12 percent annually between 2004 and 2007.⁷ However, one in five had negative annual growth in revenue per employee and a further one in ten grew annual revenues per employee by less than the increase in wages over the same period. Innovation is central to achieving sustainable productivity improvements. The most recent Australian Bureau of Statistics innovation survey shows however, that in 2004/05 only 35 percent of medium and large businesses engaged in innovative activities in relation to operations and only 40 percent innovated in relation to management processes.⁸ However, there were signs of leadership: 11 percent of surveyed businesses claimed they introduced operational processes that were new to their industry and 6 percent claimed they introduced management processes that were new to their industry.

Implications

For large organisations, achieving major productivity increases requires formal innovation and transformation programs targeting operations and management processes and involving people, capabilities and technology. An example is the National Australia Bank (NAB) which between 2004 and 2007 achieved an annual increase in revenues per employee of 22 percent. Since 2005, NAB has been implementing a transformation program targeting all aspects of NAB products, services and operations. The programs have also involved workforce reductions of more than 4,500 through restructuring of corporate functions while investing in branch network, productivity measures, brand and new capabilities. Another example is Qantas, which between 2004 and 2007 achieved an annual increase in revenues per employee of 9 percent linked to its ongoing Sustainable Future programs. The programs also aim to deliver a 20 to 25 percent reduction in the carrier's total cost base.



Dealing with new competitors

Challenges

Over the past two years, emerging-market multinationals have become a major force. In 2007, almost one in seven of the companies in the Fortune Global 500 were from emerging markets; and at the end of 2007, PetroChina became the world's largest corporation by market capitalisation.

Today, scores of Australian organisations with global operations have to deal with emerging-market players as fierce competitors and sometimes as alliance partners. Both, BHP Billiton and Rio Tinto are competing worldwide with Brazil's Vale, the world's largest iron ore producer. Vale claims to have supplied nearly a quarter of all Chinese iron ore imports in 2006. Rio Tinto's takeover of Alcoa has placed it in direct competition with Russia's UC RUSAL, the world's largest aluminium company. Indonesia's PT. Bumi Resources is benefiting from the transport bottlenecks faced by Australian coal miners in supplying North Asian markets. Jetstar International is battling Malaysia's Air Asia for discount travellers. In carton board products Amcor is facing price pressure from operators such as China's Nine Dragons Paper. The world's leading metals recycler, the Sims Group is competing for scarce raw materials with recyclers from China and India. Australian dairy companies that are successfully exporting to Asia are starting to meet China

Mengui Dairy Company which aims to become a global top 20 dairy. Chilean leaders such as Concha y Toro are going head to head with Fosters' wine businesses in both Europe and North America. And, in the rapidly growing Gulf economies, Leighton Holdings is facing Indian services giant Larsen & Toubro.

In 2007, Australia became a major focus for expanding emerging-market multinationals, especially in the resources sector. Activities of Chinese enterprises included the A\$3 billion proposed development of the Aurukun bauxite mine in Queensland by the Aluminum Corporation of China Limited (CHALCO), the listing of China Yunnan Copper on the ASX in October 2007, the A\$200 million takeover of the Orica and Exxon Mobil joint venture Quenos by China National Chemical Corporation (ChemChina) and Sinosteel's A\$1.15 billion bid for Midwest Corp. Reflecting this activity, total investment by Chinese and Hong Kong companies approved by the Foreign Investment Review Board increased 380 percent to A\$30.8 billion between 2005/06 and 2006/07.⁹ Examples of large-scale investment from other emerging markets included Mexican Cemex SA's A\$17 billion takeover of Rinker Group, Ukrainian Palmary Enterprises A\$1.3 billion takeover of Consolidated Minerals, and Russian Magnitogorsk Iron & Steel's purchase of 5.4 percent of Fortescue Metals.

Implications

The recent investment by the Aluminum Corporation of China (CHINALCO) in Rio Tinto has finally brought home the message that emerging-market multinationals have arrived in Australia. Media attention has understandably focused on the implications of large scale direct investment by foreign state controlled enterprises in Australia. For Australian business leaders, the new challenge will be their ability to include emerging-market multinationals in their business strategies as global and domestic competitors, investors, alliance partners and potential acquisition targets.

Note: For detailed insights into the strategies of emerging market multinationals, please refer to the new Accenture study "The Rise of the Emerging Market Multinational." You can download a copy via www.accenture.com/mpw.

Creating value in a carbon-constrained economy

Challenges

In January 2008, Australia was ranked at 46 of 159 countries in the Environmental Performance Index¹⁰. This was based on a set of 20 indicators of environmental health, air and water quality, vitality of biodiversity and habitat, the state of productive natural resources and sustainability of energy and carbon emissions. Australia's poor ranking indicates the significant lag behind other developed economies in acting to address the sustainability of economic activity. However, since the ratification of the Kyoto Protocol as the first act of the newly-elected Australian Government in late 2007, the domestic debate on sustainability and climate change has been fundamentally altered through five major impacts on Australian organisations.

1. A national emissions trading scheme. Pending announcements of binding carbon emission targets and a national emission trading scheme will change the economics and operations of Australian organisations. As a result, carbon emissions will emerge as a new liability that organisations will need to mitigate, and at the same time an asset from which some can derive value.

2. Changing consumer behaviour. There are new and vastly expanded markets for sustainable products and services across all industries and segments. For example, in 2007, the number of Australian households buying renewable energy products from utilities increased by 91 percent to 696,000.¹¹ Financial investments that systematically take environmental, social, ethical or governance issues into account grew 43 percent in the year to June 2007, from A\$13.52 billion to A\$19.39

billion.¹² Finally, organic food consumption, estimated at around A\$500 million in 2007, is expected to grow by up to 40 percent in 2008.¹³

3. Competition for scarce resources. Prices for key inputs including land, water, energy and other natural resources have risen dramatically, while the reliability of supply has become more volatile. One example is the competition between mining companies and agricultural producers for water along Australia's east coast.

4. Stakeholder concerns. Shareholders, investors, consumers and employees will not tolerate a lack of concern for environmental sustainability. Today, more than 1000 organisations around the world are using a framework developed by the Global Reporting Initiative¹⁴ to provide detailed information on their sustainability performance as input to credit rating agencies, investors and governments. Employees want to work for organisations recognised as being environmentally responsible. Finally, for organisations seen as irresponsible, social activism threatens to directly impact on the bottom line.

5. Rapidly evolving technology. Changes in regulation, economics and demand have triggered a vast increase of global investment into sustainable technologies including renewable energies, biofuels and biomaterials, low-emission transport, water filtration, low-energy buildings and associated systems. While in some areas commercialisation is still some way off, the building industry is showing how fast substitution can occur when regulation and customer demand change at once.

Implications

Sustainability is much more than a compliance issue. Australian business leaders must begin to develop a comprehensive plan for their organisations that addresses four priorities:

1. Minimise dependency on carbon intensive inputs and other scarce resources.
2. Create new efficiencies and capture potential cost-savings by identifying opportunities to reduce emissions, treating carbon as an input cost, both within the organisation and in the end-to-end supply chain.
3. Retain and grow businesses in demand, based on the sustainability performance of products and services. Sustainability opens a new framework for seeing markets for previously under or unvalued assets and populations as consumer demands drive new innovations in product design, offering and price.
4. Protect business longevity by maintaining brand reputation. Incorporating sustainability into the business model in this way allows businesses to be more than just prepared and resilient. It will help them flourish as their industries change.

Moving beyond the "war for talent" discussion

Challenges

For some time, a lack of available skilled labour has been constraining the activities of Australian organisations and slowing down economic growth. Unemployment has been falling steadily for over a decade, hitting a new low of 4.1 percent in January 2008.¹⁵ In the same month, 277,000¹⁶ jobs were advertised in Australia.

Industry growth pit against current workforce demographics demonstrate that many sectors will continue to face significant challenges in meeting their future labour needs. The bad news is that the skills shortage will only intensify in the longer term. Overall employment demand in Australia is forecast to increase by 119,000 per annum over the next ten years, while the growth in Australia's workforce is forecast to drop from 180,000 per annum to 75,000 per annum over the same timeframe.¹⁷ One possible solution is increasing workforce participation. International comparisons show that Australia could potentially unlock a further 600,000¹⁸ workers by emulating global best policy practices in addressing participation of male workers, women of child bearing age and older workers.

Implications

Australian organisations must move beyond their current focus on resource management and instead adopt strategies that will help them multiply the talent they have access to. This will require adopting a talent mindset, optimising talent development and management capabilities and creating a talent culture that engages employees at all levels.

Adopting a talent mindset.

Top management must begin by articulating a vision and demonstrating passion around talent and its strategic importance to the organisation. This vision can then become the basis for a detailed human capital strategy that is linked to the organisation's business strategy. Measuring and reporting how talent is contributing to organisational performance is critical. Possible metrics include profit per employee, revenue per employee or average cost per employee but also HR indicators such as turnover rates, absentee rates or length of service.

Improving talent development and management capabilities.

This involves three major components:

- Talent definition and planning of staff numbers and competency in terms of skills, knowledge and behaviours required to execute business strategy.

- Balancing talent sourcing and retention. This includes identifying available talent pools, how they are changing, what new ones are emerging and how the different talent pools can be accessed. It includes shaping an attractive and sustainable employee-value proposition; and for all requirements evaluating the alternative sourcing options, including contract, outsourcing or co-sourcing and global sourcing of skills and capabilities.

- Talent development. As labour becomes more mobile and the workforce becomes more aged, integrating learning with knowledge management is important in preventing the loss of critical knowledge and experiences. There is also a requirement for most organisations to significantly boost investment and replace outdated learning content and delivery infrastructure and better align learning with the business.

Creating a talent culture.

People and their skills make the difference between an organisation's success and failure. Creating a talent culture that engages employees at all levels and encourages collaboration cannot be the responsibility of the HR function. It must be championed by top management and jointly owned by all levels of the organisation.

Forecast employment growth and current mature workforce by industry¹⁹

Industry sector	New jobs forecast 2007-2012	Percentage of current workforce over 45 years of age
Health and Community Services	170,000	46%
Property and Business Services	136,000	37%
Retail	128,000	25%
Construction	82,500	33%
Personal and other Services	43,400	35%
Hospitality and Tourism	39,000	26%
Mining	35,000	35%
Education	33,200	49%
Government Administration and Defence	30,000	45%
Transport	29,000	43%
Financial Services	15,000	30%
Communications	8,000	38%
Utilities	-1,500	41%
Manufacturing	-33,600	38%



Achieving High Performance

One thing is for certain: few business leaders will find 2008 boring. As executive teams deal with the immediate challenges thrown up by turbulent markets, they must also make focused decisions to position themselves for high performance in the long term. Accenture research indicates that high performance businesses are characterised by a clear market focus and positioning, a set of distinctive capabilities, and an approach to people and values (or 'high-performance anatomy') uniquely adapted to the new realities.

Market focus and positioning:

Australian organisations are targeting new markets and facing a constant stream of new competitors. Consequently, characteristics that may have previously been a stable source of competitive

advantage must now get continually reexamined and updated.

Distinctive capabilities: More innovation; higher productivity; the requirements of a sustainable business model; talent management. Organisations will require a large number of new and upgraded capabilities. Critical to understand is which of these capabilities will be distinctive, providing competitive advantage and which are still required but not central to the business model or easily imitated.

Performance anatomy: Culture and people matter. Leadership teams must bring an ability to operate in disparate markets and cultures and manage a highly diverse domestic and often multinational workforce. Core values will need to be maintained and strengthened.

By comprehensively addressing and renewing these building blocks of high performance, Australian businesses will be able to exploit the potential sources of growth and efficiencies today's rapidly shifting and tightly integrated global business environment provides.



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About Accenture's research into the implications of globalisation

Despite doubts that a true global economy would materialise, it has become a reality for today's businesses and governments. Multiple centres of economic power and activity have emerged, signifying a new era of globalisation, which Accenture calls the "multi-polar" world. Accenture's original research and experience working with organisations around the world attempts to identify the forces creating this new world order. We offer critical insight for both businesses and governments striving to achieve and sustain high performance in an increasingly complex global environment. To find out more, please visit www.accenture.com/mpw.

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About Accenture

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