

The Australian Industry Group

NATIONAL CEO SURVEY 2016

Business Strategy

NOVEMBER 2016



About Ai Group

The Australian Industry Group (Ai Group) is a peak industry association acting on behalf of business for more than 140 years. We are a truly national employers' organisation.

Ai Group represents the interests of more than 60,000 businesses employing more than 1 million staff. Our longstanding involvement with diverse industry sectors including manufacturing, construction, transport, labour hire, mining services, defence, airlines and ICT means we are genuinely representative of Australian industry.

With more than 250 staff in offices across NSW, QLD, SA, VIC and WA, we have the resources and the expertise to meet the changing needs of our members. We provide the practical information, advice and assistance you need to run your business more effectively.

Ai Group offers members a voice at all levels of government through our policy leadership and influence. Our deep experience of industrial relations and workplace law positions Ai Group as the leading advocate on behalf of enterprises large and small across Australia.

We intrinsically understand the challenges facing industry and remain at the cutting edge of policy debate and legislative change – and strategic business management.

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Key points

- The environment for Australian business is increasingly characterised by intense competition, rapid change and disruptive technologies. There is a growing need for effective business planning and strategies and it is important that planning extends the horizons for businesses – including by incorporating innovation and greater global engagement.
- Combined results from the 2016 and previous CEO surveys show that on balance, businesses with a strategy tend to see more revenue growth than those with no strategy and they also tend to experience higher employment growth, investment and higher levels of expenditure on Research and Development.
- While Ai Group's 2016 CEO Survey found that 90% of businesses had a growth strategy (an increase from 85% in 2015), there are a number of areas where Australian businesses can improve their planning to lift their future competitiveness.
- While most businesses surveyed are focused on improving sales or developing new products or services, businesses that focus on developing new products or services or on developing new overseas markets generally saw higher increases in revenue, while businesses focusing more narrowly on increasing sales or developing domestic markets actually saw declining revenues. This highlights the importance of planning for the development of the business and not simply its growth.
- Australian businesses currently lag their developed nation peers in measures of innovation and sophistication. Further, the pace of innovation growth in Australian business is not strong. Strategic initiatives need to focus on how to leverage digital technologies, how to develop higher value products in the value chain and how to become more engaged across industries; with research organisations; and with supply and distribution networks globally.
- Developing overseas markets is also a key source of future growth, especially with the relatively lower Australian dollar and a number of Free Trade Agreements opening up opportunities with key Asian trading partners. Yet, this did not feature as a prominent strategic initiative for businesses participating in the 2016 CEO Survey.
- Ai Group is uniquely positioned to provide services to Australian businesses looking to develop their business strategy.

Introduction

Broadly, strategy refers to the means by which high level goals are achieved. In a business context, strategic planning can be seen as the bridge between business goals and concrete actions; straddling the gap between ends and means. Strategy is also adaptive and evolves over time.

Conventionally, business strategy includes planning for profit growth including by improving marketing to grow domestic market share and lifting efficiency and margins by reducing unit costs. For some businesses, strategy extends to new product development, developing overseas markets and developing new and existing staff. However other areas such digital strategy are also vital.

Many Australian businesses could benefit from adding additional dimensions to their existing strategic planning processes. In an environment characterised by increasing competition, rapid change and disruptive technologies, more expansive business planning and strategies are now critical. Yet as the business landscape changes (and all the more rapidly), businesses have found it difficult to develop and regularly update plans or strategies, let alone implement them. This is particularly true of smaller businesses. This is a ‘catch twenty-two’ for those businesses who neglect strategic planning, as the challenging environment makes it all the more important for businesses to have an effective strategy. Despite the challenges of undertaking it, businesses are generally better off making the effort to develop effective strategic plans.

While there is a plethora of literature on business strategy, much of which finds that strategy is essential to business survival and growth, it is an often neglected area for businesses. Ai Group’s findings from recent CEO Survey’s (as well as data from the World Economic Forum and the Australian Bureau of Statistics) show that while the majority of businesses have a strategy of some form, the strategic planning process of Australian businesses as a whole could be improved significantly. This is true particularly of ‘what’ businesses are focusing on as strategic initiatives and how much focus is given to digital and innovative aspects of strategy, as well as developing overseas markets.

Australian businesses generally lag their developed nation peers when it comes to innovation and the leveraging of digital technologies. To avoid being left behind as digital technologies and more ‘innovative’ products change the global economic landscape, Australian businesses may need to change their mindsets.

Also, Australian businesses need to be more aware of developing overseas markets, particularly with the lower Australian dollar and a number of new Free Trade Agreements with key Asian trading partners.

Key findings from the National CEO Survey

How many businesses have a strategy in 2016?

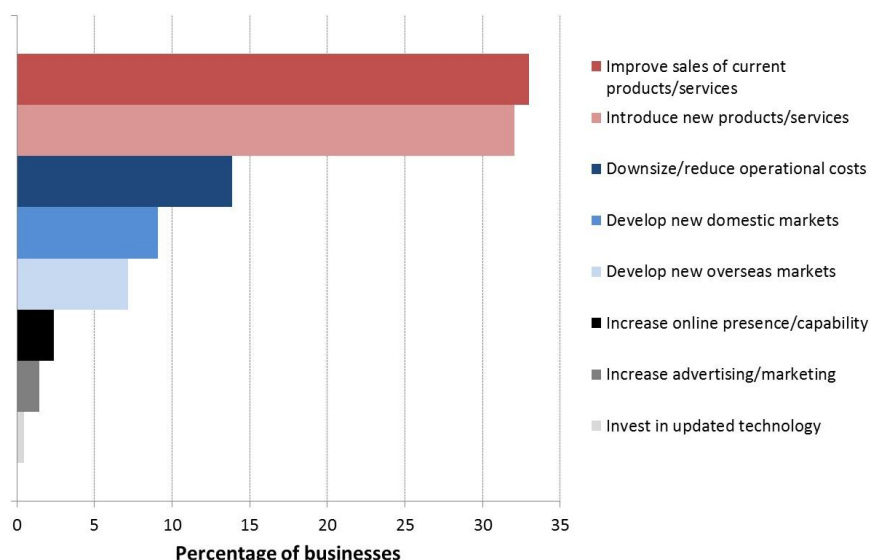
Ai Group's 2016 CEO Survey found that 90% of businesses had a growth strategy, while 10% did not. This compares to 85% in 2015 and 89% in 2014. The Construction sector had the highest proportion of businesses with a growth strategy for 2016 (96%), followed by manufacturers (91%), services businesses (84%) and mining services businesses (80%).

Interestingly, results for the sample did not vary significantly by business size, with large (more than 100 employees), medium sized businesses (20 to 100 employees) and small businesses (less than 20 employees) having similar levels of strategy engagement (91%, 89% and 90% respectively). It should be noted that the CEO Survey's focus on 'employer' businesses and therefore a significant number of businesses that are 'sole traders' or businesses with very small numbers of staff are not represented in these results. It could be reasonably expected that these businesses, if included in the 'small' business segment, would significantly reduce the proportion of small businesses with strategies.

What strategic initiatives are Australian businesses focussing on?

Most businesses are focused on improving sales of existing products or services, with 34% of businesses nominating this as their top initiative for 2016. Close behind this initiative was introducing new product lines or service offerings, with 32% nominating this as a top priority in 2016.

Chart 1: First priorities for businesses with a strategy



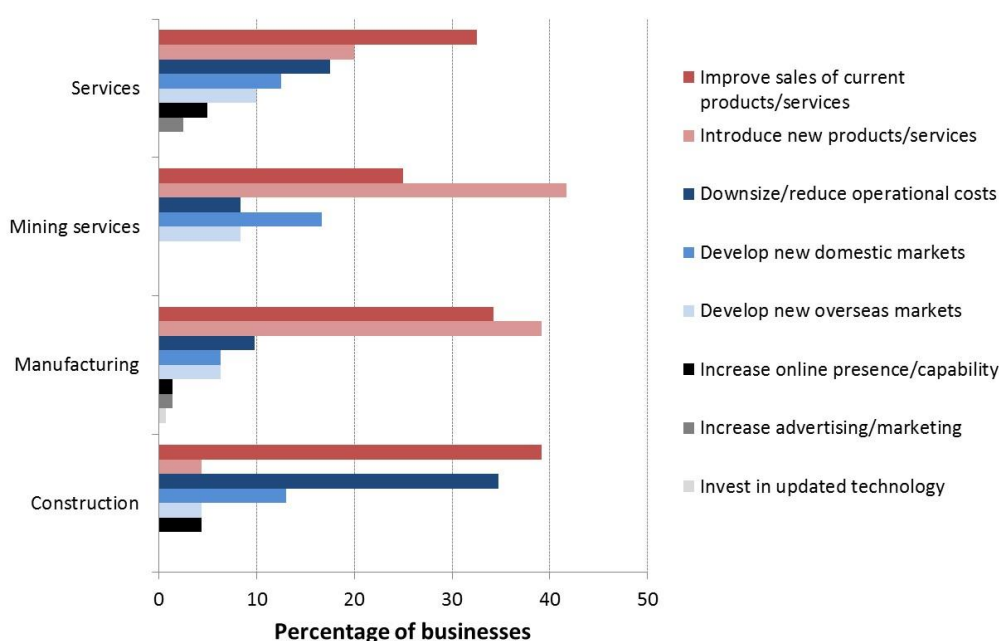
Source: Ai Group

By industry, construction businesses were most concerned with improving sales, with 39% of respondents nominating this as their top initiative. Manufacturers were most focused on introducing new products (39%) but also quite focused on improving sales levels (34%). Mining services businesses were predominantly focused on introducing new service offerings (42%) as the industry undergoes significant change. Services businesses were mostly focused on improving sales (33%).

Service businesses and manufacturers were more focused on growing overseas markets, with 10% and 8% of businesses respectively nominating this as the top priority for them. This is surprisingly low given the opportunities that have opened up with the lower Australian dollar in recent years.

Driving efficiency seems to be a greater focus for construction businesses (35% nominate this as the top strategic priority) as a raft of large resources projects dry up and the smaller pipeline of work available is forcing these firms to become more efficient to survive. Services businesses (18%), manufacturers (10%) and mining services businesses (8%) have relatively lower concerns with reducing costs.

Chart 2: First priorities for businesses with a strategy, by industry



Source: Ai Group

The level of engagement with new technology and the focus on increasing online presence and capability is alarmingly low across industries and business sizes. Only 2% of all businesses nominated enhancing online capabilities and presence as a top priority and only 1% nominated investing in updated technology. This is consistent with Australian businesses' relatively poor report card for business innovation, sophistication and digital competitiveness.

While the overall level of strategy engagement in Australian businesses is encouraging, and having an effective business strategy is important to business success and survival, the dominant initiatives are more sales and product focused. A thoughtful approach is required in developing a strategy that translates into durable business growth, and these results may indicate that Australian businesses could improve.

Businesses in Ai Group's monthly business surveys (**Australian PMI®**, **Australian PSI®** and **Australian PCI®**) have recently noted a marked increase in competition, cost pressures and tepid demand across a number of industries in Australia. This highlights that business growth objectives might be better aligned to expanding overseas markets (particularly in light of a relatively lower Australian dollar and a number of Free Trade Agreements now in place or being negotiated) and undertaking more innovative activities such as increasing online presence and investing in digital technology.

Indeed, much of the growth in business seen in the recent year has been significantly assisted by the lower Australian dollar (seen in both increasing export volumes as well as import replacement). Also, recent findings by the World Economic Forum show Australian businesses lagging on a number of fronts (see below) concerning business innovation and digital competitiveness, suggesting that Australian businesses should be focused on improving this to remain competitive.

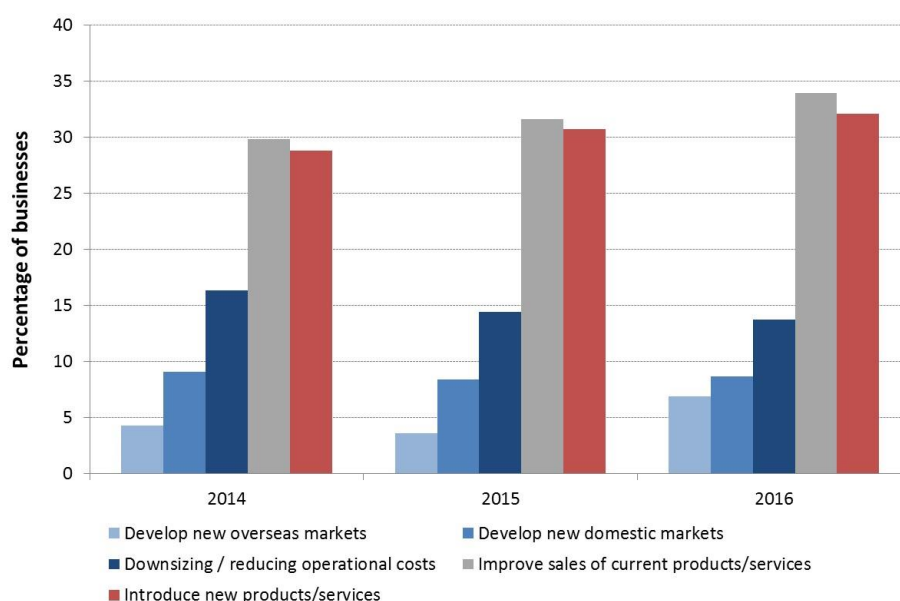
How are businesses strategic priorities changing?

The primary focus of survey respondents on improving sales and introducing new products and services is consistent with previous Ai Group surveys. This is followed by areas of efficiency measures, followed by developing new markets and then developing overseas markets. While the order of initiatives has not changed in recent years, the top two initiatives of growing sales and developing new products and service offerings have grown more prominent. Together these priorities represented a combined 59%, 62% and 66% of the first priorities for business strategy in 2014, 2015 and 2016 respectively.

Efficiency measures (downsizing or reducing operational costs) have fallen as first strategic priorities in recent years and this may be related to the weak inflationary environment that has developed in Australia and globally (effectively keeping a lid on some prices). Also, Ai Group's monthly surveys have shown positive signs for business conditions over much of this period, particularly for manufacturing businesses. This result correlates with more expansionary conditions for Australian non-mining businesses.

Development of domestic markets has fallen as a top priority while development of overseas markets has increased as a top priority in recent years. This has likely corresponded to a period a falling Australian dollar, making Australian exporters globally more competitive and boosting prospects for trade exposed businesses. Accordingly, the development of new overseas markets has grown in prominence in recent years as more Australian businesses look to take advantage of the lower exchange rate and possibly some new free trade agreements (including with China and Japan).

Chart 3: First priorities for businesses with a strategy, 2014-2016



Source: Ai Group

Australian business and innovation

WEF global competitiveness rankings

After years of resources led economic growth, Australian businesses are having to transition to an economy driven by non-mining sectors. The international environment is becoming more competitive and, with the dawn of the 'fourth industrial revolution', innovation in business will be crucial for ensuring Australia's continued economic prosperity. However, Australian businesses rank relatively poorly on measures of innovation and sophistication when compared to developed nation peers. Strategic planning in Australian businesses needs to take this into account, understanding that the global market place is becoming more competitive and sophisticated.

Australia's recent ranking in the World Economic Forum's (WEF) Global Competitiveness Report slid one place to 22nd in 2016-17, indicating a deterioration in national business competitiveness compared to one year earlier and taking Australia's ranking back to its equal worst position reached in 2014-15. While this is not a particularly bad ranking globally, Australia is an advanced economy and most other advanced economies comparable to Australia rank ahead of it. Central to recent the drop in Australia's competitiveness ranking were improvements in other countries' competitiveness and also some key weaknesses of Australian businesses, including in business sophistication and innovation.

Australia's business sophistication ranking fell one place to 28th in the most recent report. The result points to relatively stronger improvements in business sophistication globally and highlights the imperative for Australian businesses to lift their performance. Sophistication measures in which Australian businesses scored poorly include local supplier quantities (77th) (highlighting a high level of dependency on imported products), value chain breadth (50th) and state of cluster development (43rd), that is, concentrations of businesses in related products or services. As Australia seeks to diversify away from its recent reliance on resources exports, the economy must become better integrated into global supply chains and must produce globally competitive products that are 'higher up' in value chains.

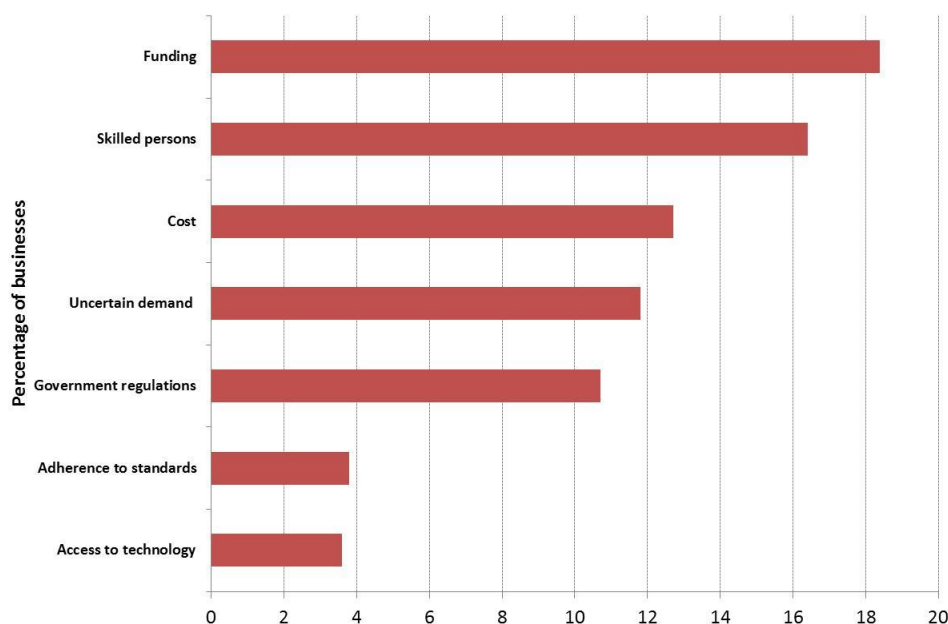
Australia's Innovation ranking fell 3 places to 26th in the most recent report. Innovation is crucial to successful participation in this latest wave of technological advancement. However, Australia is falling further behind its developed nation peers. Ongoing deficiencies for Australia in this area include lower company spending on R&D (24th) and university-industry collaboration in R&D (33rd). Although Australia does better on the quality of our scientific research (12th), more must be done to encourage collaboration on research and in successfully commercialising new technologies and R&D.

ABS innovation statistics

Trends in Australian business innovation are found in recently released statistics by the Australian Bureau of Statistics (ABS). The ABS considers innovation as enhancements to goods and services produced, operational process improvements, marketing enhancements or organisational and managerial process improvements. For 2014-15 the ABS estimates that 38.2% of Australian businesses were 'innovating businesses'. Given the climate of rapid change and increasing competition, this proportion is low. Additionally, the pace of growth in innovating businesses is not strong, with the proportion of innovating businesses climbing slowly from 36.6% in 2012-13 to 38.2% in 2014-15.

In terms of what prevented business innovation in 2014-15, the primary reason was a lack of funding (18.4%), followed by a lack of skilled staff (16.4%). Businesses also nominated costs (12.7%), uncertain demand (11.8%) and government regulations (10.7%) as significant barriers to innovation.

Chart 4: Innovation drivers and barriers



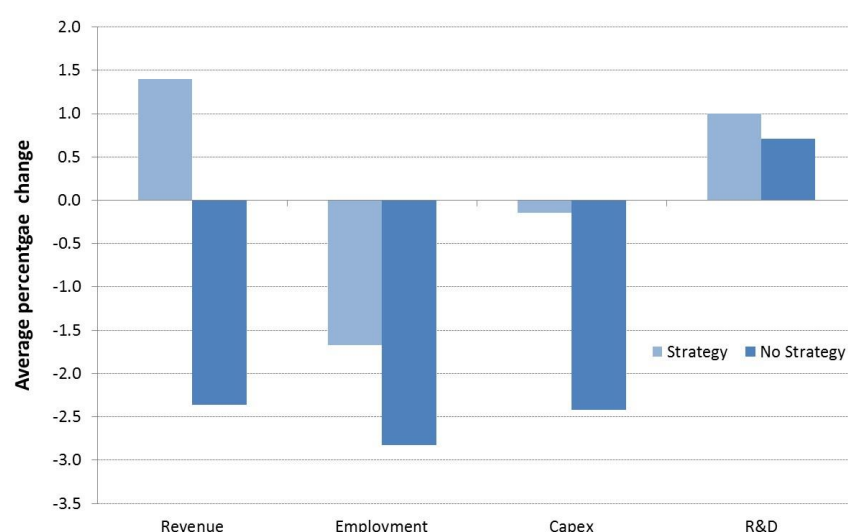
Source: ABS

On the reasons for innovating, increasing profitability was far and away the biggest driver for business innovation, with 63.1% of innovating businesses nominating this as a driver. Maintaining cutting edge technology (36.6%) and better catering to customer needs (35.5%) were also prominent drivers for business innovation. The perceived benefits of innovation for Australian businesses were dominated by increasing revenue and improved customer service, with 42.1% and 40.7% of innovating businesses respectively nominating this as a benefit.

The impact of business strategy

Using data from recent CEO Surveys (2014-2016), Ai Group has found that on balance, businesses with a strategy tend to see more revenue growth than those with no strategy (which tend to see falling revenues). Those businesses with a strategy have also seen lower levels of layoffs, less reduction in capital expenditure and higher levels of R&D. These findings are presented on an average basis, using results from the 2014, 2015 and 2016 CEO surveys and comparing the average percentage increase in different business metrics for businesses with a strategy and those with none.

Chart 5: Impact on business metric, strategy vs no strategy



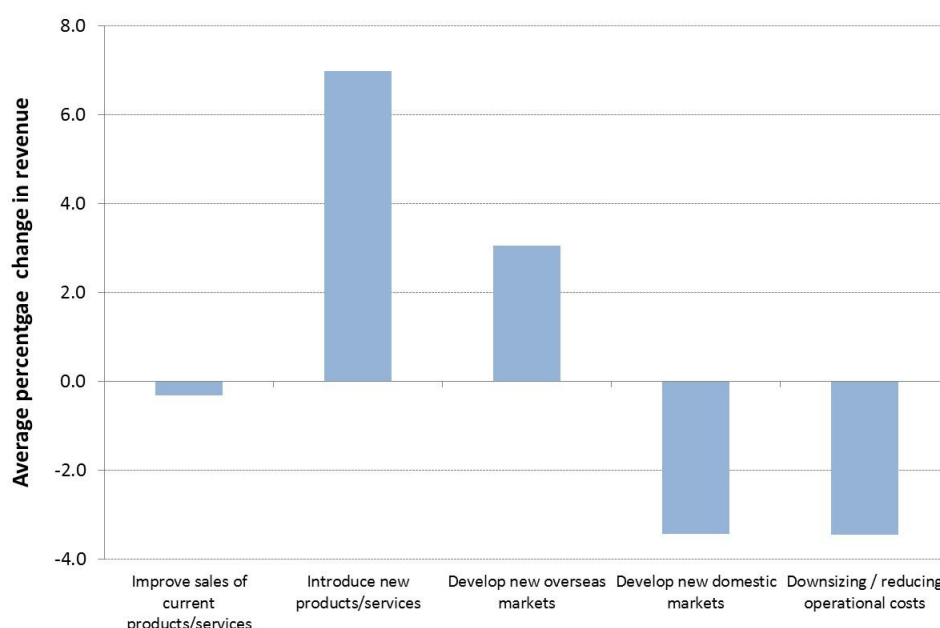
Source: Ai Group

For businesses with a strategy, the average impact on revenue was analyzed across different strategic initiatives (first priority strategies). Interestingly, the strategic initiatives showing the highest increase in revenue were the development of new products or services and the development of new overseas markets. Other initiatives, such as improving sales of existing offerings, developing domestic markets and downsizing or cost management do not show a strong link with revenue growth for this sample.

These results are telling. It is not surprising the development of export markets has yielded results for many businesses, with the depreciation of the Australian dollar and negotiation of a number of Free Trade Agreements. However, given the prominence of the improving sales initiative (most popular initiative in the last 3 years), it is interesting to note that this may not be the most effective measure (in fact, average revenue growth was slightly negative across the sample).

The results also highlight that innovation in business, perhaps partly seen in the development of new product offerings, was shown as a more effective strategy in growing revenue for this sample. This may indicate that instead of focusing on increasing sales in existing markets and managing costs, the more successful measures may be aligned with innovation and developing overseas markets instead of competing for what in many cases is a 'smaller pie' or industries where competition has intensified (such as retail).

Chart 6: Revenue impact of different strategic initiatives



Source: Ai Group

Also important is examining the impact of not having a business strategy. Aside from providing avenues to business growth, in an increasingly competitive and uncertain business landscape, the importance of effective business strategy is perhaps more important than ever in preventing business failure. The Australian Securities and Investment Commission (ASIC) annually publishes data for businesses that have become insolvent, including key determinants for business failure. Among the most prominent reasons in 2014-15 was poor strategic management¹.

One might think inadequate cash flow would dominate among the reasons for insolvency, however according to ASIC, 41% of business failures were caused by inadequate cash flow, closely followed by poor strategic management, at 37%. Trading losses was also a prominent cause for insolvency (33%) and arguably trading losses could also be mitigated by effective strategic planning. Interestingly 79% of the business insolvencies in 2014-15 were small businesses (less than 20 employees) and this highlights the need for smaller businesses to have an effective strategic plan in place.

Further, accounting firm RSM highlight in their *ThinkBig* 2016 report², that despite clear evidence of business (or strategic) planning correlating to stronger business growth, an alarming amount of SME's are not undertaking strategic planning. About two thirds (65%) of businesses surveyed by RSM complete business plans. 42% of businesses surveyed by RSM say they update business plans annually, and only 16% update business plans every two to three years. RSM found that businesses with strategic plans consistently outperform those who do not.

¹ <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2015-releases/15-337mr-asic-reports-on-corporate-insolvencies-2014-15/>

² <http://www.rsm.global/australia/insights/special-reports/thinkbig-2016>

Ai Group can help

As Australia's peak industry association, acting on behalf of business for more than 140 years and representing the interests of more than 60,000 businesses, Ai Group is uniquely positioned to provide services to Australian businesses looking to develop their strategy. Covering diverse industry sectors including manufacturing, construction, transport, labour hire, mining services, defence, airlines and Information Communications and Technology (ICT), Ai Group is well positioned to provide practical information, advice and assistance.

Entrepreneurs' Programme

Small and medium businesses and start-ups that are innovative and tech-savvy are more likely to grow and increase their ability to compete and prosper. Ai Group is a partner with the Federal Government in the delivery of the Entrepreneurs' Programme, which offers services tailored to participating businesses to improve competitiveness and productivity, solve a research problem, or find the right commercialisation solution for a novel product, process or service.

Ai Group has a team of business advisors and facilitators located around the country. The advice, support and services offered under the Entrepreneurs' Programme are free of charge for applicants that meet the eligibility criteria. Specific initiatives of the Entrepreneurs' Programme are outlined below.

Business Management

Tailored support and advice from expert Advisers and Facilitators with relevant private sector experience, to identify and maximise growth and supply chain opportunities in established businesses.

- Funding through matched grants of up to \$20,000 to implement recommended business capability improvement.

Innovation Connections

Encourages and assists small and medium sized businesses to access knowledge, engage with researchers and foster innovation.

The service provides specialist support which may include assistance to:

- identify critical and strategic research needs and opportunities for your business;
- help your business to find expertise, technology and advice; and
- find ways for your business to work with the research sector.

Matched funding of up to \$50,000 is available for research projects.

Accelerating Commercialisation

Provides expert guidance and connections through specialist advisers to help applicants find the right commercialisation solution for their novel product, process or service.

Funding through matched grants of:

- up to \$1 million over two years for commercialisation activities.

Incubator Support

Provides funding to new and existing incubators to deliver services aimed at improving the prospects of Australian start-ups achieving commercial success in international markets.

Funding through matched grants for:

- new and existing incubators — a minimum of \$10,000 and a maximum of \$500,000 per project for a maximum period of 24 months; and
- expert-in-residence — a minimum of \$1,000 and a maximum of \$25,000 per project for a maximum period of 12 months.

Eligibility

These services are available to small and medium businesses with turnover between \$1.5 million and \$100 million (\$750,000 to \$100 million for remote and Northern Australian businesses) that have traded in Australia for at least three years, possess an Australian Company Number, are financially solvent, and operate in the following growth sectors:

- Advanced Manufacturing.
- Food and Agribusiness.
- Medical Technologies and Pharmaceuticals.
- Mining Equipment, Technology and Services.
- Oil, Gas and Energy Resources.
- Enabling technologies and services of the above sectors; including, but not limited to:
 - freight and logistics;
 - Infrastructure related construction;
 - Information and communications technologies;
 - Professional services; and
 - Tourism (Northern Australia only).

What businesses say about the Entrepreneurs' Programme:

Supply Chain

A Tasmanian manufacturer of heavy equipment drive-lines for mining and agricultural vehicles, Jayben, was hit hard by the news that its main customer, Caterpillar, was moving its manufacturing plant to Thailand. Ai Group's Entrepreneurs' Programme Facilitator, Sarah Jones, worked with this innovative business, providing tailored guidance on how it could improve its supply chain relationships, maximise networking opportunities and better communicate its value proposition to potential customers. Jayben is likely to retain Caterpillar as a customer and is eyeing more global supply chain opportunities.

"We learnt what it takes to be in the global supply chain and how to really make that jump from being a local supplier to being a global supplier."

Chris Johnson, Lean Production Manager, Jayben

Business Management

Entrepreneurs' Programme assistance to ICT business Comlinx identified marketing and branding as an area requiring further focus from Comlinx's already established business. Matched funding through the Business Growth Grant meant Comlinx were able to dedicate \$40,000 to an ICT-skilled marketing company. Comlinx and its marketing partner worked so well it became a longer term arrangement. Eighteen months on from teaming up with Ai Group's Entrepreneurs' Programme Business Adviser Gary McHugh, Comlinx's market reach has grown dramatically.

"Gary understood our business and challenges having had extensive experience in the industry. We work well together. The Programme has set us on our way to seriously re-invest in our brand."

"Gary identified areas we could improve, to drive efficiencies into our business. With just minor changes we have been able to deliver those efficiencies."

Wayne Shaw, Director, Comlinx

Innovation Connections

Thanks to the efforts of Ai Group's Innovation Connections Facilitator, David Martin, SuperCool and Griffith University are collaborating on a project due for completion in early 2017 to produce a probe that will determine the thermal properties of food in refrigerated transport and cold storage. SuperCool will own the eventual licence but could not have reached this point without the research team at Griffith University. David helped the company partner with Griffith University.

"Griffith University researchers have been tremendous to work with. Our relationship is so strong now we could work together on many different projects in the future."

Mark Mitchell, Owner, Supercool Asia Pacific

TradeStart and Ai Group consultancy services

With significant trade opportunities now opening up for Australian businesses, Ai Group can help businesses strategically plan for and leverage these opportunities. Ai Group, in partnership with Austrade's offices, offers services through the TradeStart network in order to help exporters or potential exporters.

TradeStart aims to assist small and medium sized exporters to achieve long term success in international markets by offering the combined resources of Austrade and Ai Group, providing local assistance and a direct link to Austrade's services and overseas network.

Ai Group's TradeStart advisers provide practical advice to export ready businesses and can help exporters make informed decisions, gather and analyse information from a variety of sources to assist with them with market selection and liaise with Austrade's overseas staff and trade teams in Australia.

Specifically, TradeStart offers the following services:

- Advice on doing business in international markets;
- Help with international market selection;
- Identification of relevant international contacts;
- Assistance with market entry and expansion; and
- Identification and follow-up of specific international business opportunities.

Ai Group's Trade and Export Development team can also help businesses address critical questions concerning necessary documentation, relevant tariffs or free trade agreements, payment arrangements, letters of credit, international standards, trade shows, finding overseas customers and eligibility for government assistance.

Further, Ai Group's consultancy services can provide overseas market research, intelligence and assistance in developing effective strategic planning; assistance in matching suitable agents, distributors or other partners; preparation of travel arrangements including promotional material; and assistance in accessing various Government grants and assistance programs.

Digital Business Kit

With digital technologies taking hold and bringing about change across the global economy, the development of digital capability in Australian businesses will be key to ongoing competitiveness.

SME's often find it difficult to improve digital capabilities, so Ai Group has developed the Digital Business Kit (DBK). The DBK is a collection of information, tips, case studies and advice on how digital technologies can create real benefits for small to medium enterprises and not for profit organisations within the manufacturing industry.

Designed as an introduction to the possibilities that digital technologies offer businesses, the kit contains information across six modules full of useful information and tips from companies who have found real success in integrating new digital technology within the operations and management of their businesses.

Whether businesses are just starting out or already making great strides using technology to enhance digital technology capabilities, business are sure to find something within this DBK to improve processes, efficiency and ultimately your bottom line through the smart use of digital business solutions.

Contact Ai Group

Entrepreneurs' Programme

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Digital Business Kit

<https://digitalbusinesskits.com.au/>

Appendix

National CEO Survey's (2014, 2015, 2016)

2016 Survey

Responses were received from the CEOs of 248 businesses across Australia in October and November 2015. Together, these businesses employed around 97,300 people (400 people each on average) and had an aggregate annual turnover of around \$42 billion in 2015. Responses for previous CEO surveys, including the data used for this report, are summarized in the table below.

All Australian States (except Tasmania) and all major non-farm private-sector industries are represented in this year's CEO survey. The manufacturing sector contributed the highest proportion of respondents (64.5%). Manufacturing's share of this sample is higher than its share of national production (around 6%). Victoria was somewhat over-represented in the sample, relative to other states.

The services sectors represented in this sample include: IT, communications and media services; transport, post and storage services; wholesale trade; retail trade; finance and insurance; real estate and property services; professional services; administrative services; health and welfare services; education; hospitality (food and accommodation services); arts and recreation services; and personal services. These industries do not sum to GDP due to the exclusion of utilities (3% of GDP), public administration (5%) and agriculture (2%) and additional statistical items that are included in GDP.

2014, 2015 and 2016 Survey Summaries

CEO Survey: Number of respondents				
Industry	2014	2015	2016	
Mining and mining services	14	25	15	
Manufacturing	112	235	160	
Construction	25	43	27	
Services	90	50	46	
Total	241	352	248	
CEO Survey: Number of respondents				
State	2014	2015	2016	
NSW & ACT	73	100	65	
Vic	106	154	111	
Qld	31	52	46	
WA	12	2	2	
SA	18	44	24	
NT	1	-	-	
Tas	-	-	-	
Total	241	352	248	

