



CEO Business Outlook Survey Results 2015

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CEO Business Outlook Survey 2015

The international management consultancy - MTI Consulting - recently concluded its 4th CEO Business Outlook Survey, with the results officially revealed by the MTI International CEO, Hilmy Cader, at the CIMA Corporate Partners Launch 2015.

Augmented by MTI Consulting's thought leadership initiatives and key learnings derived from its consulting experience over the years, the survey analyzed and assessed the perceptions of over 150 Sri Lankan chief executives with regard to the past success and expected future success of their companies. It further extracted their predictions regarding the state of the local and global economy in 2015, and the challenges their business as well as the Sri Lankan economy is likely to face.

The results of this survey will enable companies to streamline their strategizing for 2015 and aid them in their key decision making process - with regard to adding mass or trimming down, expanding or tightening, competitively attacking or defending, and progressing on a rampage or taking cover.

The CEO Business Outlook Survey 2015 was carried out by MTI Consulting in association with the Chartered Institute of Management Accountants and enabled by Sarva Integrated, Daily Mirror, Daily FT and the Sunday Times.



Significant Improvements or Lower Expectations?

Approximately 68% of surveyed CEOs stated that their business performed on or above expectations for 2014 while 32% stated that performance was below expectations. This is in sharp contrast to the results of the previous year where only 47% of the CEOs saw performance meet or exceed their expectations while the remainder failed to meet their expected targets.

This poses an important question – has there been a significant improvement in business performance over the last financial year or did CEOs simply lower their expectations at the beginning of the year to be able to meet their sub-standard targets at the end?

Through a quick analysis of the September quarterly reports for the S&P20 and a sample of small to mid-cap (S&M) firms – 90% of the S&P20 have enjoyed a year-on-year growth in net earnings while only 40% of S&M firms have experienced a year-on-year dip in net earnings. This does therefore provide some evidence of an improvement in business performance for 2014.

	2014	2013	2012
On or Above Expectations	68%	47%	46%
Below Expectations	32%	53%	54%

Q: How did your business perform in the previous year?

There are, however, a few concerns that must be addressed. Firstly, the business environment has been subject to slow credit growth in 2014. Borrowing at especially the SME level has reduced significantly in spite of the reduction in interest rates and attractive campaigns run by banks. Secondly, despite banks promoting credit, the non-performing accommodation ratios have increased. Thirdly, the bottom of the pyramid is a blue ocean in terms of livelihood products (especially credit products). There has been insufficient focus on this socioeconomic



segment which may sharply shift in the future as the current government places a lot more emphasis on improving their lives.

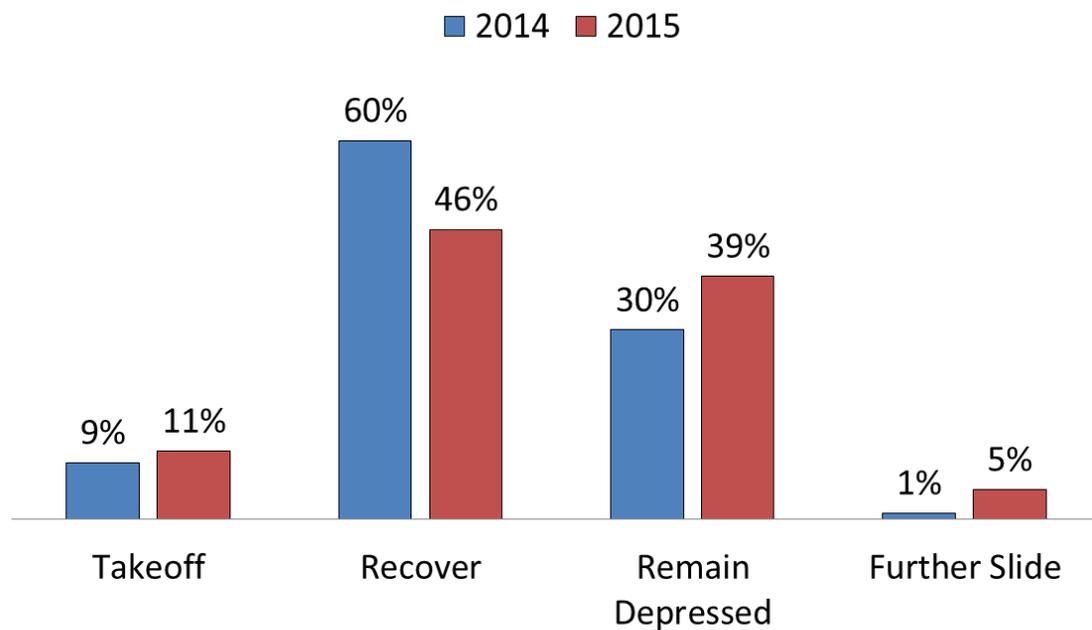
These are a few concerns that need to be kept in mind as we progress through 2015, regardless of the optimism vehemently displayed in the media.



Global Economy will Slip Further

The opinion of Sri Lankan CEOs is that the global economy will slip further in 2015. As opposed to the results from 2014, a lesser proportion of CEOs (46% compared to 60% previously) expect a global recovery, and a greater percentage expects a depression to continue (39% compared to 30% previously) or further worsen (5% compared to 1% previously). There has been an insignificant rise in the amount of CEOs expecting the economy to take-off in the current year (11% compared to 9% previously).

On the other hand, the World Bank and the International Monetary Fund both predict that the world’s economy will enjoy a greater growth rate than 2014 – 3.0% and 3.5% respectively – albeit only a respective 0.4 and 0.2 percentage points increment from the previous year.



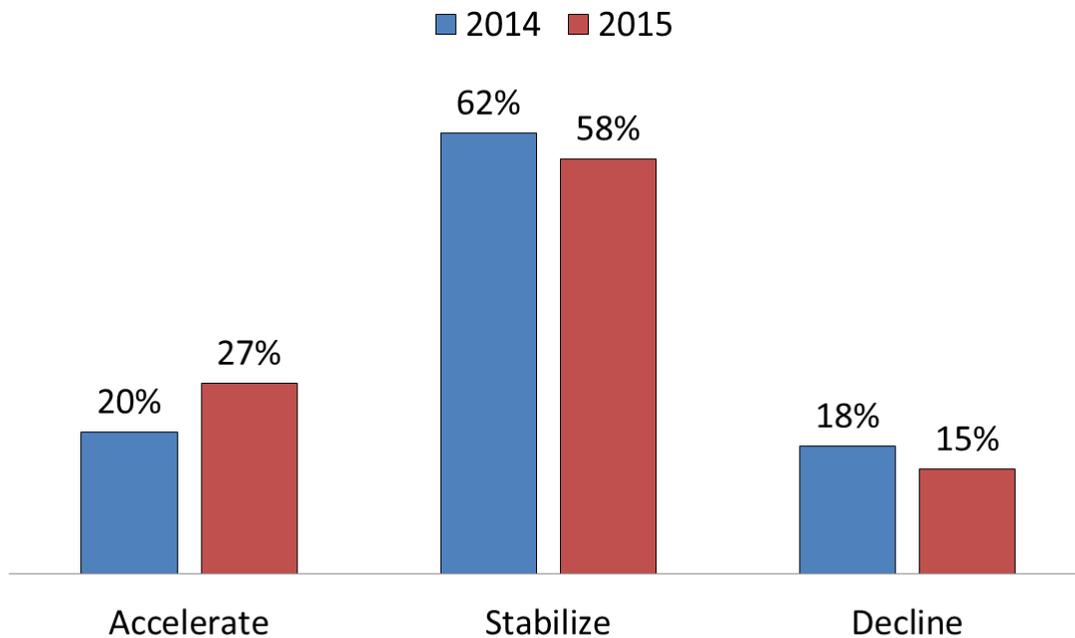
Q: What will happen to the Global Economy in the following year?

However, as per the IMF, much of this global growth is to emanate from advanced economies that are estimated to grow at 2.4% in the current year – mainly on the back of a strengthening US economy - as opposed to their growth rate of 1.8% in the previous year. Developing and emerging economies, however, are estimated to grow at 4.3% in the current year, down from 4.4% in the previous year, mainly due to declining Chinese growth and lessening exports to the Eurozone.



Sri Lankan Economy will Marginally Improve

A combined 85% of surveyed CEOs expect the Sri Lankan economy to either stabilize or accelerate while only 15% expect the economy to decline. Along the same lines, there has been a marginal reduction in CEOs expecting the economy to stabilize (58% compared to 62% previously) or decline (15% compared to 18% previously) and a noticeable increase in CEOs expecting the economy to accelerate in 2015 (27% compared to 20% previously).



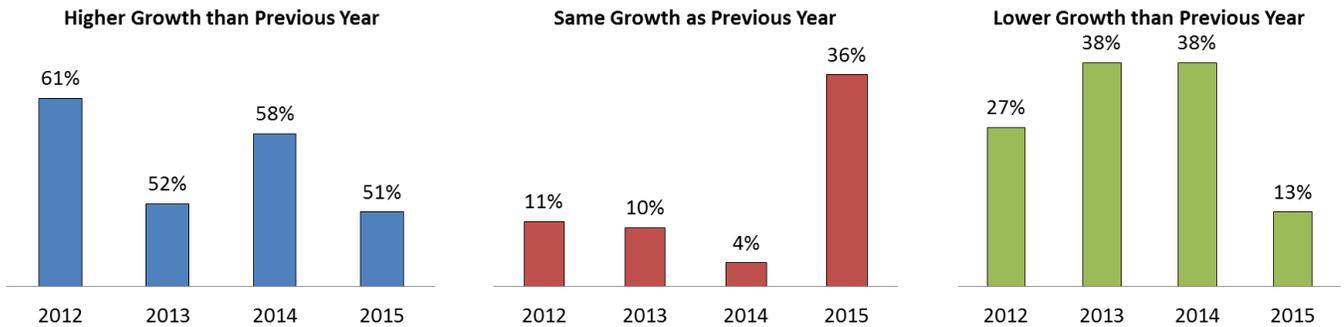
Q: What will happen to the Sri Lankan Economy in the following year?

This is once again surprising as the performance of the Sri Lankan economy depends greatly on domestic consumption and exports to the EU, of which the former is subject to the effects of slow credit growth while the latter is currently plagued by low inflation and declining consumer spending. Clearly, CEOs expect vast improvements in these key areas in 2015.



Subdued Expectations for 2015

The pre-election business expectations for 2015 are quite subdued. There has been an extremely sharp increase in CEOs expecting the same growth as in the previous year for 2015 – that is 36% compared to the 8% average for the previous three years. Similarly CEOs expecting lower growth than the previous year have dropped sharply from 38% in 2014 to only 13% in 2015.



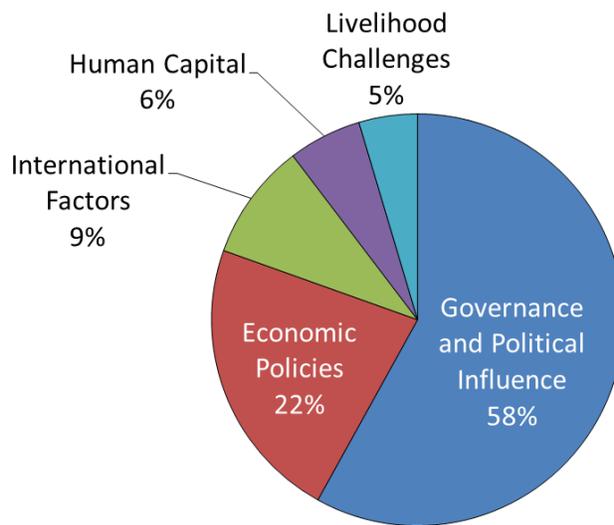
Q: How do you expect your business to grow in the following year?

Those CEOs expecting higher growth than the previous year have remained volatile in number - with 51% saying so, almost similar to the amount in 2013, but a slight drop from 58% in 2014.



Overwhelmingly Governance and Political Influence

An outstanding 58% of CEOs believe that the primary challenge to the Sri Lankan economy is Governance and Political Influence, then followed by Economic Policies (which does share some similarities with the former) and a minor focus on International Factors, Human Capital and Livelihood Challenges in that order.



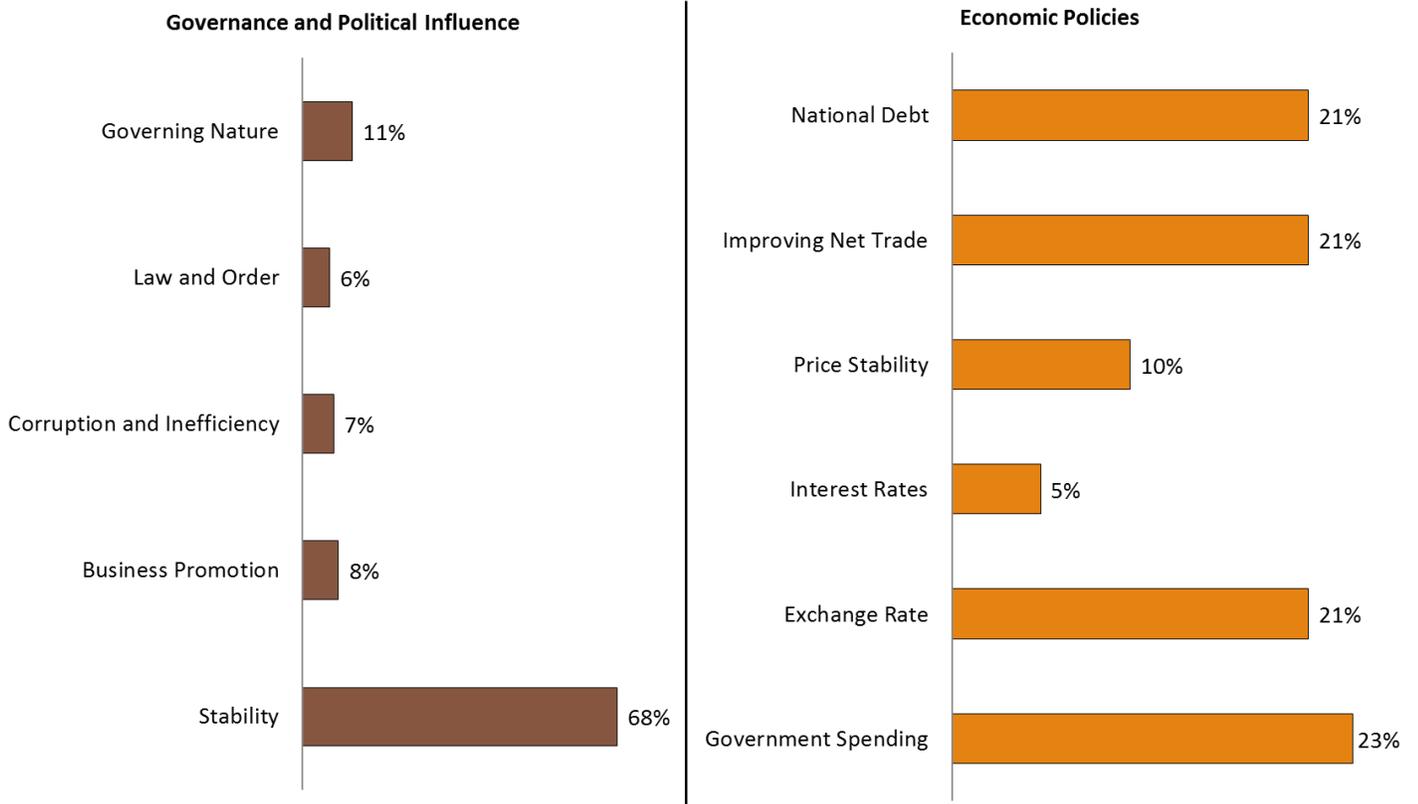
Q: What will be the No. 1 challenge to the SL Economy in 2015?

A closer look at Governance and Political Influence unveiled a plethora of related sub-factors. While a primary problem was the stability of system, there were also several responses with regard to law and order, the nature of governance or in other words the transparency and consistency of their policies, corruption and inefficiency, and the lack of development in certain sectors and industries and general business promotion.



Similarly economic policies too were categorized into six sub-factors of which controversial government spending held the highest relative proportion, closely followed by national debt, improving net trade, and exchange rates. There was less of a focus, however, on price stability and interest rates.

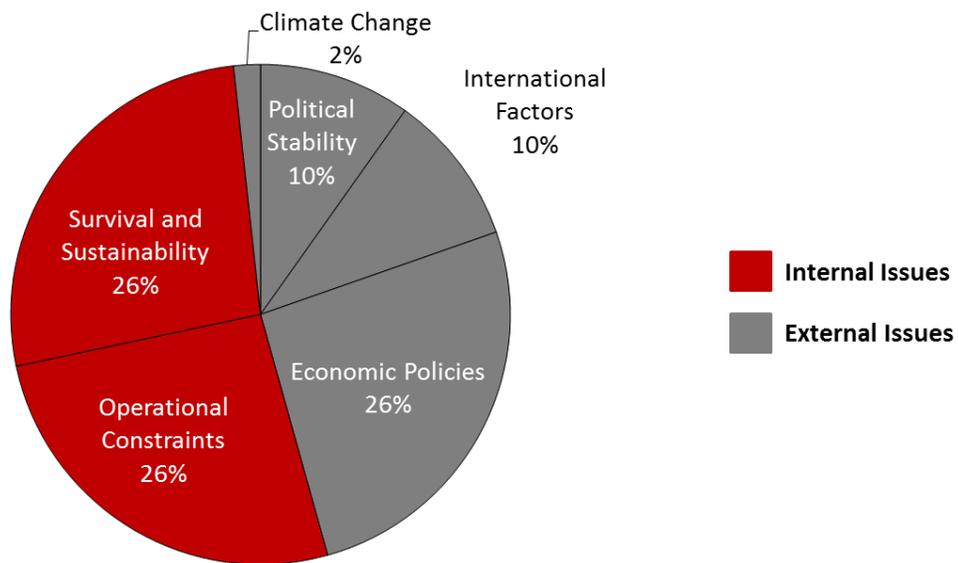
This raises the question – is the private sector sufficiently lobbying for the fundamental reforms needed for the prolonged success of the economy?





“The problem is out there, not with us!”

A significant number of CEOs (48%) believe that the primary challenge to their business is external and hence uncontrollable. These external factors are made up of economic policies, political stability, international factors and climate change. Do these external factors actually have an overbearing influence or are a significant proportion of respondents simply looking for the easy way out and blaming the government, its policies, and the global economy for their shortcomings?



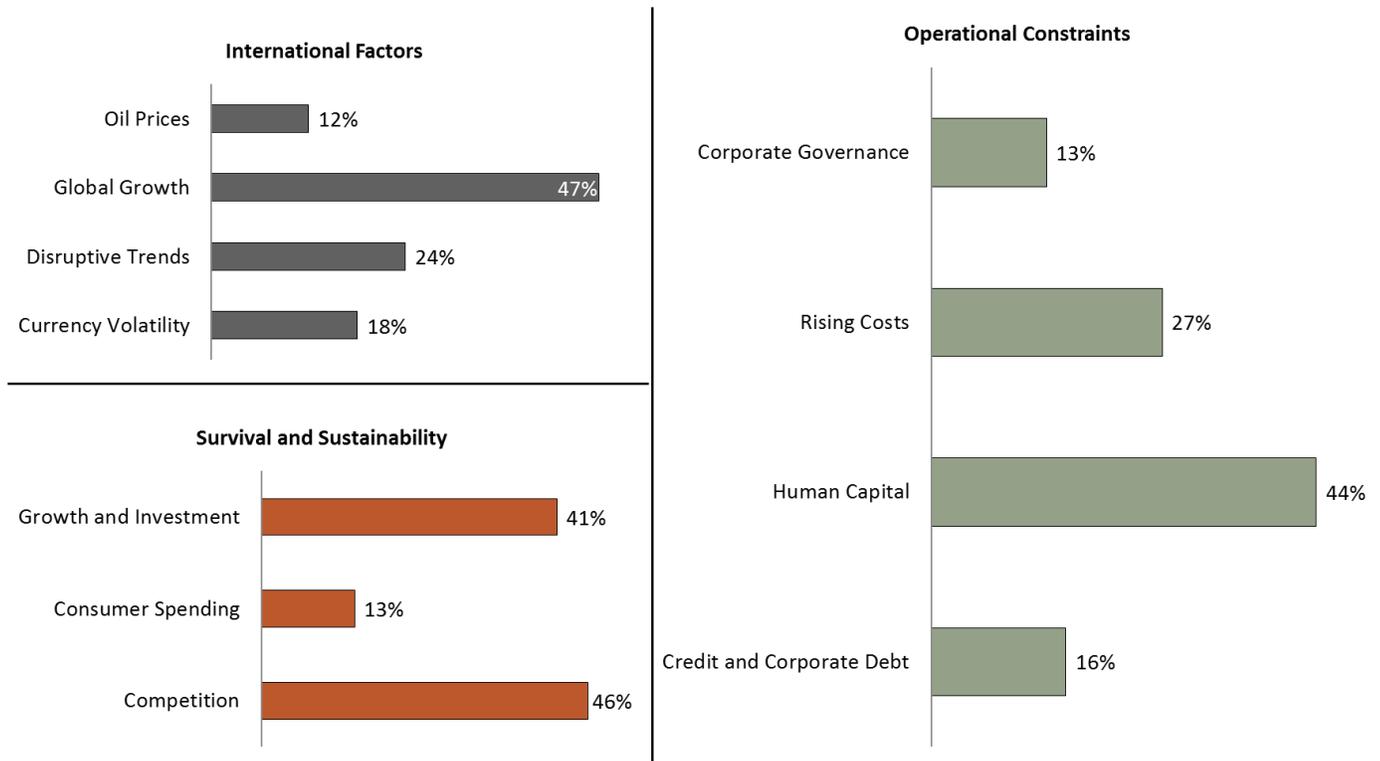
Q: What will be the No. 1 challenge to your business or industry in 2015?

The majority of CEOs (52%) however, do believe that the primary challenge to their business in 2015 is internal. These internal factors are made up of operational constraints, and survival and sustainability. Although it may be argued that the latter has external elements, it is our opinion that a business’s survival in a competitive environment (and going concern) is majorly dictated by their competitive advantage and their product/service differentiation. As these in turn are influenced by a business’s flexibility and willingness to adapt to a dynamic environment – they are mainly internal issues.



Of the operational constraints, the inability to identify and employ adequate human resources was the most widely cited reason, which poses the question – does Sri Lanka have a human capital problem and is it suffering the consequences of increasing brain drain? Rising costs, issues with handling and obtaining credit and corporate debt, and corporate governance were also cited challenges.

Global growth, or more precisely the lack of it, was seen as the most common international factor challenging the success of Sri Lankan businesses in 2015. Oil prices which have been plummeting over the past few months was the least common international challenge while disruptive trends (for example, the ever changing supply chain) and currency volatility (excluding the SLR) fell in between.





Way Forward for Sri Lankan Businesses

There is no doubt that 2015 will require Sri Lankan companies to consider re-strategizing. The next few years will see fairly stable presidential policies but companies need to expect highly dynamic parliamentary politics. As we don't know how this will turn out, it is important to possess or gain the ability to handle uncertainty amidst some certainty.

The current regime's policies seem to place great focus on serving the basic needs of the people and catering to the bottom of the pyramid. Industries such as Agriculture and Food, Healthcare, Public Transportation (not necessarily highways), Affordable Housing, Micro-finance, and other industries that employ semi-skilled labour (outside of the western province) are clearly set to be the promising growth zones in the future.

Another factor we need to keep in mind is the Sri Lankan rupee. Do we continue to pay the cost of holding it at its current value or do we let it float and experience the consequences? Though exporters may be satisfied at the moment, we'll certainly have to pay at some point for the increasing cost of holding it now.

The energy bill for countries like Sri Lanka will be significantly lower in 2015. Whether the entire saving will be passed on to the consumer is another question. However despite the reduction in the energy bill, in the Sri Lankan context, the cost of 'energizing' the refinery and the distribution could still be very inefficient. Therefore what benefits we gain from the reduction in oil prices may be lost during the refining and distribution process.

Exports are to become extremely crucial as there will be less inflow in terms of infrastructure based funding. Though there may be significant pressure to improve exports, this cannot be done efficiently during a 100 day plan. Fundamental policy changes are required in order to identify Sri Lanka's competitive advantages. Perhaps the government will provide short term incentives in order to drive exports further.

Finally, those businesses which have become 'addicted' to 'political sweeteners' will have to re-think and re-skill themselves as without these 'political sweeteners' survival will become their primary challenge. Hopefully, however, the system will not be reconfigured to how it once was and this may be the opportunity to drive Sri Lankan companies to survive on their own strength and skill in a level playing field and thereby not rely on political clutches to take their business forward.



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