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# Weekend Business

The Sydney Morning Herald

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# DON'T GET... CARRIED AWAY

The country's leading chief executives on how Australia can survive the resources boom. **Stuart Washington** reports.

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# Resources boom – use it or lose it

Five leading chief executives tell the *Herald* how best Australia might benefit before the boom turns to bust. **Stuart Washington** reports.

**HOW** do you feel about a new capital gains tax on your house? What about a government that gives power to talented “technocrats” instead of elected representatives?

Speak to Australia's five most admired chief executives and there is no shortage of ideas about how to address the central challenge we face as a nation.

On their view, the central challenge can be boiled down to a single proposition: how do we survive the boom?

There is no single answer. But there has been plenty of thinking among the five chief executives named in the top positions of the annual *Sydney Morning Herald*-East Coles Most Admired survey.

What about government programs to support secondary industries so Australia is not “hollowed out” by an overwhelming focus on resources? Maybe a fundamental rethink of Australia's training and education systems? How about redoing the Howard government's much maligned Work Choices? Or perhaps a sovereign wealth fund?

Given the chief executives' appearance at the top of the tree, as voted by 1500 individual rankings by market participants, their views can be taken as being from among the best the market has to offer.

Never mind that there isn't a single answer. What is striking, given the range of chief executives and the industries they represent, is the uniform agreement on the importance of addressing the challenges posed by the boom. There is a frustration that we are not doing enough long-term thinking to capture the continuing benefits; nor preparing for when the boom turns to a bust.

It is perhaps expected that hearing device manufacturer Cochlear's Chris Roberts and blood product manufacturer CSL's Brian McNamee should be warning about the challenges facing Australia from a disproportionate focus on resources. After all, both companies are “born global” success stories built on the principles of a smart Australia surviving on its brains.

But hearing similar warnings from Newcrest's Ian Smith, Wesfarmer's Richard Goyder and, to a lesser extent, Origin's Grant King, is not nearly so expected.

After all, their businesses represent, respectively, successful gold, coal and gas extractors, making hay while the sun of record commodity prices continues to shine.

Roberts, the chief executive of the

“  
There is frustration  
that we are not  
doing enough.”

hearing device manufacturer Cochlear, remembers back to the 1970s commodities boom.

“The commodity boom turned ... Australia got itself into a real pickle because it was just digging stuff or growing stuff,” Roberts says.

“We have had this wonderful opportunity where we have had high commodity prices, but that's not going to last. And we're going to be worse off. That's the real tragedy.”

Smith laments the lack of a broader debate about how Australia

lives with – and survives after – the current resources boom.

Along the way, he summarises the challenges posed by an undue focus on resources and Norway's policy response of a sovereign wealth fund.

“I think it's rather unfortunate. The debate's not wide enough,” Smith says. “It's interesting people keep throwing up Norway as a model; Norway is a model we should avoid like the plague.”

“Their streams of gold – black gold – has put them in a position where ... the cost of living and the cost of labour in Norway has really put them into not the best of positions for the long term. They may have that very large fund to fall back on, but you don't want a society that is hollowed out in its secondary industries.”

“I suppose in some ways the only thing worse than following a model of Norway is to follow a model of Norway without the large pocket of money built up, which is where Australia is headed.”

Smith's views are not just surprising given his career as a miner. As chief executive, he has driven Newcrest's market capitalisation from \$US4.5 billion in 2006 to \$US29 billion.

It is also surprising due to his role as the former chairman of the Minerals Council of Australia, which helped knock \$60 billion in revenue out of the resources super profit tax in its transformation to the mining resources rent tax.

But Smith's views about the downside of a boom are hard won as a miner who started his career at Broken Hill and saw the devastation of the last bust.

The boom's effect of driving a high cost of living in Melbourne, including its galloping property prices, is nominated by Brian McNamee as CSL's biggest challenge as it



seeks as CSL's biggest challenge as it seeks the world's best and brightest.

“The biggest challenge for us is the cost of living – housing,” he says. “Governments have to do something about housing. Our housing market is troubling to anyone you try to bring into Melbourne.”

McNamee is not shy about possible solutions. He challenges one of Australia's great sacred cows: the expectation people can buy and sell their own homes without paying capital gains tax.

“I think we have a tax system that grossly over-encourages investment in housing,” he says. “Capital-gains-tax-free on housing is poor policy because fundamentally it over-encourages people to invest in their home, disproportionately.”

The broader impacts of a resources-biased economy are also challenges highlighted by McNamee: “Government has a challenge that it doesn't cause a distorted economy ... How do you stop the dollar appreciating to such a level



**BEST CHIEF EXECUTIVE\***

Company	Chief executive
1 ORIGIN ENERGY	Grant King
2 CSL	Brian McNamee
3 WESFARMERS	Richard Goyder
4 NEWCREST	Ian Smith
5 COCHLEAR	Chris Roberts
6 COCA-COLA AMATIL	Terry Davis
7 QBE	Frank O'Halloran
8 JB HI-FI	Terry Smart
9 RAMSAY HEALTH CARE	Christopher Rex
10 AGL ENERGY	Michael Fraser

**BEST GROWTH PROSPECTS\***

Company
1 COCHLEAR LIMITED
2 FORTESCUE METALS
3 OIL SEARCH
4 CSL
5 SEEK
6 SANTOS
7 ORIGIN ENERGY
8 RIVERSDALE MINING
9 BHP BILLITON
10 RESMED

**BEST SHAREHOLDER  
VALUE FOCUS\***

Company
1 ORIGIN ENERGY
2 CSL
3 WESFARMERS
4 COCHLEAR
5 SEEK
6 BHP BILLITON
7 QBE
8 DAVID JONES
9 AMP
10 WESTPAC

**BEST STRATEGY\***

Company
1 NEWCREST
2 ORIGIN ENERGY
3 JB HI-FI
4 COCHLEAR
5 COCA-COLA AMATIL
6 CSL
7 FORTESCUE METALS
8 APA GROUP
9 WESFARMERS
10 OIL SEARCH

\*2010

SOURCE: EAST COLES

that many other industries really can't survive?"

McNamee voices his support for a sovereign fund, and – demonstrating the breadth of views on the issue – cites Norway as the model.

"We have to find a way of taking the mining boom out of the economy, and taking it out of the dollar, because it is distorting our dollar too much," he says.

Goyder at Wesfarmers and King at Origin are believers in a stronger-for-longer resources cycle.

But Goyder is wise to the issues raised when the boom turns to a bust. "If you get a significant fall-off in demand and pricing, that will impact Australia's current account, it will impact company profit performance and therefore tax take, it will impact employment," he said.

He echoes other views on whether we should be thinking smarter.

"One of the long-term things governments have got to contemplate is what do we leave Australia with after, as we go through this

period of enjoying a strong resource sector," he says.

"How do we build on our capabilities and other sectors in the economy that can take up the slack if and when we get a fall-off in demand and production?"

Goyder also raises the lack of a broader take on how Australia can benefit from the boom, citing Wesfarmers' key challenge of attracting and retaining talented staff.

"The whole issue of ensuring

Australia has a first-class pool of talent for the workforce is really important," he says.

"That goes to education, that goes to immigration policy, and it goes to making sure Australia retains its status as an attractive place to come and live and work.

"It needs long-term strategic thinking, to make sure we get it right. This is one where the government has got to work with business and the education sector."

Grant King at Origin is also a

believer in the need to remove roadblocks so the full extent of the boom's benefits can be enjoyed.

"Australia has got huge opportunities, magnificent resources... what might get in the way of us capturing that prize?" he asks.

King outlines two fundamental challenges: first, a process for gaining permits to extract resources that is getting longer and harder.

"Frankly it's taking more and more stamina to get to the same point, in terms of financial capacity and organisational will and capability to do it," he says.

Second, he nominates roadblocks stopping Australia's workforce from supplying the continuing boom. He names a slowness to re-skill staff in the education sector; a lack of mobility in the workforce; and a greater requirement to source labour shortages from overseas.

Last year a parliamentary task-force predicted a shortfall of 1700 mining engineers over the next five years, as Australia builds \$133 billion in new investments.

Roberts, however, looks beyond the demands of the boom to how Australia should be positioning itself.

"Innovation in general, technological innovation, is the turbocharger for growth for a country or a company," he says. "I don't know why people struggle with that."

But Roberts almost despairs of having this message heard. "There is no real receptors of understanding of innovation," he says.

Smith's comments also carry a hint of despair about Parliament having the wherewithal to address the challenges.

Asked whether we are saddled with the politicians we deserve, Smith highlights another big idea: the introduction of well-paid "technocrats" to address the issues.

"Pericles, in about 300BC, changed the situation a bit, and opened up the source points for politicians. I think we need to address where our politicians are coming from," he says.

He adds: "[In Australia] we don't engage for whatever reason in the general context-setting debates that we should be undertaking. So a lot of our policy is short term."

## CHRIS ROBERTS COCHLEAR

**Annual shareholder return over tenure:** 23.5%  
**How long in job:** 7 years  
**What keeps you awake at night:** "To me it's all about execution... the thing that worries me is, are we executing fast enough and hard enough and well enough?"



If there is one description about how his business overcame those challenges and proved a high-tech goldmine, it is the words "long term". It is a standpoint Roberts attributes to the company founder Paul Trainor and his

CHRIS ROBERTS well remembers when he became chief executive at the hearing device manufacturer Cochlear in early 2004.

Profits to June 30 that year fell by 35 per cent, Cochlear's rivals were taking market share and the US Department of Justice was probing whether its US subsidiary had criminally influenced doctors.

"It was one of the most difficult years of my life. We lost some key people and we were subpoenaed by the Department of Justice... These just sort of come at you," Roberts says.

"I learned a lot about myself... because I was driven to succeed; the more stuff that went wrong you just get up that little bit earlier and you work that little bit harder."

understanding of the time horizons of a scientific approach and its impact on business. "What that means is you have got to see this as a very long journey," he says.

Cochlear has flourished under this approach. It had revenues of \$745 million last year, and a global market share of about 65 per cent. It is one of Australia's few global success stories, with services covering 200 countries and operations in 80.

Roberts has just finished Trevor Sykes's book on the financial crisis, and his reaction embodies his business's counterpoint to financially engineered vehicles.

"You just shake your head and think: where was their integrity?"

Stuart Washington

## GRANT KING ORIGIN

**Annual shareholder return over tenure:** 24.5%  
**Length of tenure:** 11 years  
**What keeps you awake at night:** "How do you build sustainable businesses for the long-term?"



IT WAS in the mid-1990s that Origin – then buried inside the building materials company Boral – saw challenges ahead in the energy business.

One challenge, spelt out this week by Origin's boss, Grant King, boiled down to what part of the energy business it should focus on.

Then, after choosing to be in the retail business, the question to emerge was how dependent Origin would become on its energy suppliers in a deregulated market.

The strategy launched then – and a key contributor to its successes today – involved Origin moving to become a supplier, a generator and a retailer, and profit at all points of the chain.

"The question was what strategy should one pursue to be successful in the long run," King says.

"For us the only answer was that you needed to integrate across fuel, generation and retail."

The strategy's success has the side benefit of King being lauded by the market, illustrated by his appearance as the top chief executive on the *Sydney Morning Herald*-East Coles most-admired list for the second year in a row.

The strategy is not without perils. These were clear in Origin's first-half results on Thursday, which showed the high cost of exploration activities led to the company reporting a loss.

King says there is an inevitable balancing act between short-term and long-term goals.

"The conundrum here is that I think to have a business that is successful and sustainable in the long term you have to make decisions with the long-term interests in mind," he says. "But to be trusted enough to do that you have to deliver in the short term." SW

## BRIAN McNAMEE CSL

**Annual shareholder return over tenure:** 28.6%  
**How long in job:** 21 years  
**Biggest challenge:** "Our housing market is troubling for anyone you bring into Melbourne."

THERE is a robust "how embarrassing" when CSL boss Brian McNamee is asked about chief executives growing their business by blindly chasing a total shareholder return target.

"That sort of strategy is embarrassing," he chuckles. "What is that? It's a bit like a tennis player walking on to the court and deciding they want to win 6-3, 6-3 each time."

"How about working on your game? Your backhand, your forehand, your serve? If you play better, you tend to win more matches. You don't win by merely articulating a simplistic economic yardstick."

From both a business and a tennis perspective (Peter McNamee is his brother), McNamee has the track record for his views to carry weight.

CSL is the old Commonwealth Serum Laboratories, sold by the government in 1994 at a share price

## IAN SMITH NEWCREST



of \$2.40 and a market capitalisation of \$312 million.

Under McNamee's leadership since 1990, it has grown into a diverse global biotech

business, building from its original blood products business to include vaccines and pharmaceuticals.

Along the way, its share price has grown to about \$35 and the market capitalisation is now \$19.5 billion.

McNamee is dismissive of CEOs who blame the market for demanding short-term results.

"If there are CEOs who say that, they should buy a mirror and they can look at their problem," he says.

Instead, he argues executives should be able to fully articulate and spell out the short, medium and long-term value they are creating.

For McNamee, his role still holds appeal. "The good news is my job changes every four to five years." SW

**Annual shareholder return over tenure:** 15.3%  
**How long in job:** 5 years  
**What keeps you awake at night:** "When you come out of a background around Broken Hill and retrenching to get it to survive, what keeps you awake at night is what can you do for a group of people or an organisation so it doesn't have to go through those things."



"There were too many layers of constraint on the company to afford yourself some opportunities that will come along in the resources industry," Smith says.

The dispatching of each challenge was done in a cultural change under the banner of "creating our future" that Smith sees as vital to the company's renewal.

"If people can truly understand the context of what you are out to achieve as an organisation, and they can see their part in it, they will get on board," Smith says.

What followed was a company that could capitalise on its opportunities, including being able to buy its rival Lihir Gold last August.

Asked whether toughness is part of his make-up, Smith replies: "I would define it more as tenacity. I'm certainly a person that never gives up. If you're going to take something on you treat it as a professional bout. There's no such thing as a three-rounder; you're in it for the full 15 rounds." SW

## RICHARD GOYDER WESFARMERS

**Annual shareholder return over tenure:** 12.8%  
**Length of tenure:** 8 years  
**Biggest challenge:** "The biggest issue many of us face in Australia is the ability to attract and retain talented employees."



THE SHARP intake of breath across the market when Wesfarmers ponied up \$22 billion to buy Coles in mid-2007 was almost audible.

Then there was a frisson of schadenfreude as it turned out Wesfarmers had bought the struggling retailer at what turned out to be the heights of the pre-crisis boom.

Obituaries of the West Australian conglomerate's track record of successes were all but at the printers.

But Wesfarmers pulled off two capital raisings, appears to have turned Coles around and is expecting strong profit growth.

And here is Wesfarmers' chief executive, Richard Goyder, gracing a top five position of the *Sydney Morning Herald*-East Coles Most Admired chief executives survey

with barely a suggestion of breaking a sweat.

Goyder characterises his role across Wesfarmers' diverse businesses of coal mining, insurance and retail as setting direction, making sure he puts the right people in the right spots, and a third goal

he describes as "set and live the standards".

"I have seen over time that having a good reputation in corporate life as a company is invaluable because people come to you with opportunities and they are prepared to deal with you," he says.

Goyder said the only criticisms that stung during the acquisition of Coles was the view that he had somehow "bet the company".

"With Coles, yes, we had made a big bet because of the size of the acquisition, but it was never: 'You're going to lose the lot,'" he says.

He does concede he may have bet his job: "If we got it wrong there was going to be some value loss, and that has implications for individuals." SW

SMITH: FOLIO

# The Sydney Morning Herald

February 26-27, 2011

FIRST PUBLISHED 1831

NO. 54,101 \$2.50 (inc. GST)

## Tax homes and control mine boom, CEOs urge

Stuart Washington

A TAX on owner-occupied homes to arrest soaring house prices is among extraordinary measures proposed by five of the country's most admired chief executives to address the dark side of the resources boom.

The bosses have said the impacts of the boom, including a higher cost of living, a shortage of staff and other industries withering, are the greatest challenges facing Australia.

But the five leaders, named today at the top of the annual *Sydney Morning Herald*-East Coles Most Admired business survey, have generally bemoaned a lack of long-term planning about the issues.

Among those calling for a broader debate about the dangers of the boom is the chief executive of the goldminer Newcrest, Ian Smith.

He said his views were formed during his early career in Broken Hill where he witnessed the fall-out from the last bust in the 1970s. "If you have been in mining as long as I have, you have seen the cycles ... and you never get deluded or sucked into the point that these good times are going to go on forever," he said.

As the former chairman of the Minerals Council of Australia, Mr Smith successfully led a campaign to cut \$60 billion from the federal government's revenue forecasts from its initial resources super profits tax proposal.

But Mr Smith said the tax was only one outcome and called for consideration of radical proposals including:

- ▶ Following a Swedish model of government support for secondary industries so Australia was not "hollowed out" by a disproportionate focus on the resources industry.
- ▶ Introducing "technocrats" into the Parliament for better handling of long-term policy issues. "How do we build something that can 'learn' something from

this boom ... and come out of the back side of it in a better state than when we went in?" Mr Smith said. "I don't think we're doing that at the moment."

The chief executive of CSL, Brian McNamee, said his global biotech business was facing challenges to hire the best and brightest in Melbourne because the boom was pushing up the cost of living. A capital gains tax on owner-occupied homes was needed to cap prices. This would attack one of the sacred cows of the tax system.

The top rate for capital gain on investment properties is 46.5 per cent, reducing to 23.25 per cent if the property is held more than a year. "Capital-gains-tax free on housing is poor policy because fundamentally it over encourages people to invest in their home," Dr McNamee said.

In 2009 the International Monetary Fund called for a capital gains tax on owner-occupied housing, arguing the current tax-free position encourages people to borrow too much then pay inflated prices for houses.

Dr McNamee also supports a sovereign fund similar to that set up by Norway to ensure long-term benefits from oil exports.

Other chief executives in the top five of the survey who were concerned about the effects of the boom were Grant King at Origin, Chris Roberts at Cochlear and Richard Goyder at Wesfarmers.

After the Henry review of tax last year, the government ruled out changes to the capital gains tax regime.

In a statement, the Treasurer, Wayne Swan, said the government was "acutely aware of the need to save more in the good times", which was why it was aiming for a surplus in 2012-13.

➔ **Dealing with the good times**

How to survive the resources explosion  
Weekend Business