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The Disconnect between Government and Business

Address by Suncorp CFO Steve Johnston to the Trans-Tasman Business Circle

Thank you and good afternoon.

It's an honour to have the opportunity to address this Trans-Tasman Business Circle event.

Today, I want to challenge a conventional wisdom.

It's often said that government doesn't understand business. And that this disconnect impedes economic output because (it is argued) the heavy and often misguided hand of government stifles private sector enterprise, creativity and innovation.

Such a view was eloquently advanced by former US President Ronald Reagan who said: "The best minds are not in Government. If they were, business would steal them away."

With due respect to the Gipper – on this occasion, at least, I disagree.

Instead, I argue that it is equally, and potentially more so the case, that business just doesn't understand politics, public policy and the role of government. And today, I will put forward my views on five actions, I believe, business should consider to address this emerging disconnect.

I have reached these conclusions after a career bouncing between the public and private sectors, and an education that included political science, public policy and economics. I spent a number of years in roles adjacent to politics... and I've led corporate teams that interfaced with government and the Parliament. I have now moved on to the more 'noble pursuit' of managing the finances of a top 20 financial services group.

Let me be clear, my observations today should not be seen as a criticism of any individual politician, business leader or the organisations who generally do a good job in representing us. Nor should they be seen as representing the views of Suncorp, its Board or Senior Executive.

Over the years, I have seen much change, but never have I felt such a sense of confusion, frustration and agitation on both sides. I feel very strongly that the time has come for a new form of engagement between business and the Parliament. An engagement absent of acrimony and point scoring. A constructive arrangement that is in the national interest.

Relationship between business and government

It often puzzles me why the relationship between business and government has become so fraught.

Particularly when big business and government share the common objectives of building a prosperous and growing economy...a motivated and engaged workforce...and a competitive trading position for our nation - you'd think we would be on the same team.

We do share some commonalities....for example, we are big and too often described by our detractors as bureaucratic and cumbersome.

I think business often forgets that our customers and shareholders are also voters and constituents. Both government and business deliver products and services to the broad community. When we do it well, business is rewarded with growing revenues and profits...and government is rewarded with clear voter support and mandates.

Looking at the state of our nation today I think you can't argue with the notion that big business and governments of both major parties have taken our eyes off the ball. We have lost sight of our core responsibilities, which in the Government's case should be taxing, spending and regulating. In our case it should be to deliver products and services of the type and quality that meet customer needs, and in the process driving shareholder wealth and economic growth.

This loss of focus on our core responsibilities has clearly opened up a divide in our relationship but it has also provided new and potent competitive threats and disruption to business growth and effective government.

Changing environment

Just as business is being disrupted by agile and nimble start-ups, fintechs and entrepreneurs, our political system is also facing serious and sustained disruption.

Driven by the relentless 24 hour social media news cycle and the changing nature of information dissemination, politics in this country has become almost completely reactive. Political operatives spend their days reacting to media enquiries and paddling to keep their reputations intact. Both major parties in our country are facing a backlash from a cynical and anxious electorate. Micro parties and individuals rise too easily on the celebrity factor, effectively harnessing community dissent to pursue narrow agendas with no requirement to detail a plan for the future.

Good public policy that is in the best interests of our nation, is being sacrificed for short term vision - driven by populism like never before.

Business too is not immune from this short-termism. Investment decisions with pay back periods that stretch beyond the traditional three-year planning cycle rarely pass muster. Just as the electorate is demanding immediacy, so too are fund managers who increasingly mark themselves against three-month, not three-year performance tables.

With so much in common, government and business must recognise the threats that jointly confront us and agree to work together to build an accord that is in the national interest.

But to do that constructively, business must change the way it works with and thinks about, government and public policy.

As Reagan said: "Government is the people's business and every man, woman and child becomes a shareholder with the first penny of tax paid."

For too long, business has addressed government with the sole intent of improving or protecting its revenues, and usually on a reactive, issue-by-issue, initiative-by-initiative basis.

Of course this all works well until the status quo is threatened.

A first constructive step on our part is to understand that public policy is now no longer the domain of the elected government. The days of governments with big majorities for business to cosy up to are long gone. The composition of our parliaments means public policy can now emerge from many quarters.

Consequently, business must expand its horizon from the elected government to the Parliament. Business must more genuinely and constructively engage across the broad spectrum of parties and individuals that make up the legislatures of today and the future. We must understand them and their agendas, not disregard them as we may have done in the past.

We must also demonstrate and reinforce the message to all political stakeholders that we are acting in the best interests of not just our shareholders, but our customers and the wider community.

Failure to do so will undoubtedly mean that we confront a new and unpredictable corporate regulator – the Parliament itself.

Gone are the days when the interests of government and business were so aligned that it was in neither's interest to rock the boat.

The spectacle of the CEOs of our four largest financial institutions being summonsed to Parliament to explain themselves is just a precursor of what can be expected into the future.

If you get a moment, search YouTube for Democrat Senator Elizabeth Warren's forensic cross examination of former Wells Fargo CEO, John Stumpf, to see the standard of questioning that Australian politicians will aspire to and that we in business may be subjected to in the future.

My point is that the game has changed and we, in business, must acknowledge this, embrace it and change our actions accordingly.

How to adapt our approach

So how can the business community adapt to, and be effective within, this new political environment?

Here are the five key actions I said I would get to when I opened my address.

First, we need to do a better job of serving our customers who are also voters and **delivering** value for them not **extracting** value from them.

This is an important distinction, one which has been embraced by our CEO and which forms the centrepiece of Suncorp's customer Marketplace strategy.

We need to de-clutter and simplify our communication so customers are empowered to make good decisions. In financial services, at least, the predominance of intermediaries is in direct response to the inherent complication of products and services, which ultimately are being sold to satisfy fairly basic needs.

Our customers are stressed. Not only do they face cost of living pressures but they're grappling with technological change at a rate not seen before in our history. We need to make things faster and easier for them. And they must genuinely feel that we have their interests at heart. They are, after all, the reason we exist.

Secondly, we must recognise that some of the disenfranchisement which, in turn, feeds populist politics is created by business itself.

We must better explain ourselves and our actions. For too long, the corporate world has not wanted to raise its head above the parapet to advocate for and defend public policy that is in the best interests of not only our shareholders, but our people and the wider community. We have left a gaping hole, a vacuum, for the reactive policy development that we see today. We have not been active enough in ensuring that the facts are clearly articulated to balance the argument being perpetrated by sections of the community that big business is bad.

Yes, representative bodies have a role to play in this. But 'we' as a collective – the individuals who comprise the business community – bear the most responsibility.

And, as we seek to maintain shareholder returns by improving efficiency, we have to do a better job of explaining our objectives to customers and voters alike. As a rule, we in business do a good job in explaining ourselves to

our current and prospective shareholders but do less well in explaining initiatives to the general public. With such a bias to shareholder communication, it's hardly surprising that people hear the financial and not the community message.

Remember, electors are customers and both electors and customers are most likely to be shareholders - either directly or via their superannuation funds.

Thirdly, business must also look to the bigger picture.

It's no longer possible to view value through the traditional lens of costs, benefits, NPVs and returns on invested equity. Big projects with defined costs and accrued benefits that deliver shareholder returns above the cost of capital will be replaced by smaller, incremental, test and learn innovations that have uncertain benefit streams and a higher failure rate than we have traditionally accepted.

Throw on top of that the requirement for modern business to invest in and integrate its social responsibilities across its operations, and it's clear to me that we will need to create a new value creation framework to guide business investment.

Indeed this is a conundrum facing many CFOs as we balance the needs of our traditional businesses with an uncertain and disrupted future landscape.

At its heart, business that is more innovative, responsive to customer and society's needs, and with a clear view of the multiple sources of value creation, will be well placed to influence this new political environment.

My fourth observation is that business should avoid using political uncertainty as an excuse for delayed or deferred investment.

We all know that the theatre of politics can manifest itself in lower consumer and business confidence and what, to our mind, appears to be an arduous process of legislative and regulatory approvals.

My point is that those who await clear political air could be waiting a very long time. Indeed, this nirvana may never materialise. Do you think disruptors, start-ups and entrepreneurs factor political uncertainty into their risk appetite? To the contrary, they thrive on it. And we should do the same.

And finally, I feel there needs to be greater transfer of skills between the public and private sectors in our country.

In this regard there is much to admire about the United States system where corporate skills are imported into the administration at all levels. In my view, the carriage of Australian public administration would be significantly improved with the appointment of corporate leaders who were minded to give something back to the nation.

This is not to suggest it should be one way traffic. Or that I agree with Reagan.

There are many fine public officials who, in my experience, could add significant value to the private sector.

Of course Section 64 of our Constitution is an obvious impediment to this. But the narrowing gene pool of our elected representatives and its decreasing attraction as a career option for gen Ys and millennials means we should find a mechanism for a more seamless transfer of skills and experiences between the private and public sectors.

Conclusion

In conclusion, now is not the time to allow myths and misperceptions to widen further the divide between business and the Parliament.

Australia finds itself once again dealing with a fractured and divided Federal Parliament. There is no point complaining about that. The people have spoken. What we must do is align our interests, support better outcomes for our customers and our communities, and have the courage to stand up for what we believe.

The ball is in our court. There is too much at stake for us to remain in our corporate suites, in the grandstand or on the sidelines. We must enter the field of play.

Thank you.