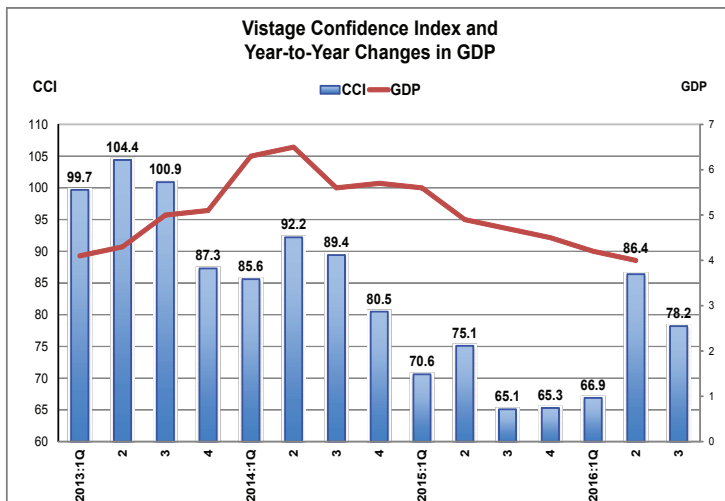


## VISTAGE-MIER CEO Confidence Index

Surveying CEOs, Executives  
of small and mid-sized  
businesses since 2003

### CONFIDENCE DRIFTS LOWER

CEOs are increasingly concerned and cautious about the economy and the outlook for their firms for the rest of 2016. Indicating this is the Vistage-MIER CEO Confidence Index which edged lower to 78.2 in 3Q2016, losing 8.2 points from 2Q2016. Notwithstanding its gain of 12.9 points from 3Q2015, its continued stay below the 100-point threshold of optimism, since 3Q2013, suggests a lack of confidence amongst CEOs, with overhanging negative sentiments for three years now.



CEOs were generally less upbeat of the current economic conditions than they were last quarter. The index for current economic conditions slipped four points from 2Q2016 to 78.2 in 3Q2016. 4% of the CEOs in the latest survey responded positively, while 57% begged to differ, compared to 7% and 56% in 2Q2016, respectively. Their expectations of the economy in the coming months are not bullish either, as shown in the index for expected economic conditions which, at 72, fell seventeen points quarter-on-quarter. 12% opined that the economy will likely see better months ahead, as opposed to 4-in-10 who believed otherwise.

CEOs are priming for a moderate outlook for their businesses going forward. Except for the expected economic conditions index, all the other expected indexes, albeit lower than 2Q2016, registered above the 100-point threshold level of optimism. The index for expected revenue settled at 126, down from 138 in 2Q2016, with 45% of the respondents forecasting higher revenues soon, down from 52% in 2Q2016. 19% expect their revenues to worsen in the coming months, up from 14% last quarter. The index for expected profitability shrank 11 points on the quarter to 111 in 3Q2016. Compared to last quarter, not only are there fewer CEOs this time anticipating an improvement in their profits soon, but those expecting a profit meltdown are also higher this time around.

Employment is expected to slow down in the coming months. The latest expected employment index stood at 123, down from 132 in 2Q2016. Again, fewer respondents this quarter than 2Q2016 are planning to increase their headcount soon, while more are looking into retrenching their manpower instead. Fixed investment is expected to soften as well, as shown in the index for planned fixed investment which lost nine points from 2Q2016 to 112 in 3Q2016. 32% planned to increase their investment expenditure soon, while 2-in-10 will slash theirs, compared to 39% and 18% in 2Q2016, respectively.

### RECENT RECRUITMENT FREEZE ON FOREIGN WORKERS

The recent freeze on the recruitment of foreign workers, except for four sectors (manufacturing, construction, plantation and furniture) generally does not affect CEOs' businesses. This was attested by 53% of the respondents, while 23% indicated the impact on them as minimal, 19% are affected moderately and 5% severely.

### INCENTIVES FOR TALENT RETENTION

In the 2Q2016 survey, it was found that 68% of the respondents preferred giving reasonable/higher incentives instead of high salaries to retain talent in their organizations. When asked to elaborate on those incentives, most of them provide performance incentives or performance bonuses.

## VISTAGE-MIER CEO Confidence Index Highlights

**45%** of CEOs projected higher revenues, down from 52% in 2Q2016.

**35%** of CEOs expected an increase in profits, maintained from 2Q2016.

**53%** of CEOs stated that the recent freeze on the recruitment of foreign workers have no impact on their businesses.

**66%** of CEOs opined that the incentives provided by them to retain talent were satisfactory.

**46%** of CEOs are maintaining their businesses amid volatility in the global and domestic economic environment.

**62%** of CEOs thought that the incidence of corporate corruption and crime in Malaysia has increased in the past 12 months.

**92%** of CEOs believed that security has worsened, of which **65%** have personally reduced their frequency of visits to public places.

**52%** of CEOs felt that capital punishment should be retained only for serious crimes.

**75%** and **77%** of CEOs said the impact of Brexit has a neutral impact on them on a personal and business level, respectively.

**12%** of CEOs opined that the power or role of the CEO is given by the family to the eldest to continue the family's business success.

**41%** of CEOs planned to invest in fixed deposits/cash in the next six months.

	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016
<b>VISTAGE-MIER CEO CONFIDENCE INDEX</b>	65.1	65.3	66.9	86.4	78.2
<b>COMPONENTS</b>					
Current Economic Conditions	16	17	20	51	47
Expected Economic Conditions	36	40	35	89	72
Expected Change in Employment	121	117	120	132	123
Planned Fixed Investment	109	108	105	121	112
Expected Revenue Growth	114	117	122	138	126
Expected Profit Growth	96	95	104	122	111

Note: All component questions are scored as the percent giving favorable replies minus the percent for unfavorable plus 100. The VISTAGE-MIER CEO Confidence Index is the sum of the components calculated as a percentage of the level recorded in 2nd quarter 2003 survey.

Profit sharing and sales commission are also popular among many of the respondents, while company trips, medical benefits, flexible work-hours, training incentives, transport/travel allowances and insurance benefits are provided by some of the CEOs. Other incentives include, among others, attendance incentive, better leave entitlement, allowance (car, handphone, optical, overtime and petrol), company car, employee share option scheme, dental benefit, freebies (lunch, parking, sports club/gym membership) and higher EPF contribution and holidays.

On the effectiveness of these incentives in meeting the CEOs' goal of retaining talent, 66% believed they were satisfactory, while 10% found them very effective and 12% said they were ineffective.

### **VOLATILITY IN THE GLOBAL AND DOMESTIC ECONOMIC ENVIRONMENT**

Amid increasing volatility in the global and domestic economic environment, most CEOs (46%) said they are maintaining their businesses, while 34% claimed that their businesses are growing and 2-in-10 are facing a decline.

### **CORRUPTION AND CRIME**

Contrary to PwC's Global Economic Crime Survey 2016, which showed a slight decline in age-old crimes like asset misappropriation, procurement and accounting fraud in Malaysia vis-à-vis their 2014's findings, 62% of the CEOs, based on their experience on the ground, were of the view that the incidence of corporate corruption and crime in Malaysia over the past twelve months has increased. 35% believed it has remained unchanged and 3% felt that it has declined.

### **SECURITY IN THE COUNTRY**

In light of the recent spate of violence, CEOs were asked of their experience and conversations with their family, friends and business associates about the security situation in the country. 92% unanimously believed that it has generally worsened, with 65% among them having personally reduced their frequency of visits to public places (shopping malls, pubs, entertainment outlets, etc.) consequently.

### **CAPITAL PUNISHMENT**

Death penalty for the illegal import, export, sale or possession of narcotic drugs and psychotropic substances is known to the legal systems of 33 countries, including Malaysia since 1983. 4-in-10 opined that capital punishment should be retained, while 52% felt that it should be retained only for serious crimes (murder, drug trafficking, firearms possession, kidnapping and treason, rape, terrorism, etc.) and 8% said it should be abolished.

### **IMPACT OF BREXIT IN THE IMMEDIATE TERM**

Most analysts opined that Malaysia's fundamentals will not be significantly affected by Britain's withdrawal from the European Union (Brexit), but many fear that the spillover effects and inevitable uncertainties could weigh on the domestic economy and financial markets. At least three-quarters of the CEOs agreed with most analysts, saying that the impact on them will be neutral on a personal and business level in the immediate term. 18% saw a positive impact on them personally, while almost 14% envisaged a negative impact on their businesses.

### **WISH LIST FOR BUDGET 2017**

CEOs listed down their wishes for Budget 2017, with most hoping for a reduction in personal income tax. Others wished for a reduction in corporate tax, GST, electricity rates, toll charges, motor vehicle excise duties, mortgage rate and real property gains tax. Some hoped for an abolishment of toll charges and GST on medical aids. The provision of more grant/incentives/allowances for SMEs, investments and re-investments (especially for high-tech, energy efficient and automated investments), education, women entrepreneurs, training, and tax relief for personal income and corporate social responsibility were also on CEOs' wish list. While there were suggestions for a control on the ceiling price for food and inflation, others called for an upgrade of improvements in drainage

to prevent floods and more assistance to be provided for senior citizens. Some felt that there should be an increase in the following: government spending in ICT to assist the private sector, allocation for the middle-income group, healthcare and public security, scholarship for non-Bumiputera students and tax relief for the high-income group.

More affordable homes within the RM200k-500k price range should be constructed, with subsidies from the government for more affordable housing. Approved permits for the import of all kinds of machinery should be abolished and there should be more effort to fight graft and attract more foreign tourists to the country. Talent retention should be based on meritocracy and salaries in the private sector should be increased, while red tape and operating expenditure should be reduced by merging bloated ministries/departments. Some CEOs also hope to see a reduction in poverty and stabilization of the Ringgit.

### **CONTINUITY OF BUSINESS SUCCESS**

One of the major challenges facing many successful multi-generation family-owned companies worldwide is the "ugly family rows", with age often taking precedence over more talented family members. This survey found that this is not often the case here. Based on the respondents' family or professional working experience, only 12% said that the power or role of the CEO is given by the family to the eldest regardless. A majority of 46%, however, opined that shareholders would hire an outside CEO to ensure the best return of investment to the family business and to groom a successor, while 42% believed that the role of the CEO is given to the most talented family member.

### **INVESTMENT IN THE NEXT SIX MONTHS**

In the next six months, most (41%) CEOs will likely park their money in fixed deposits/cash, while 36% are planning to invest in local real estate. Equities are considered by 33% of the CEOs, while 19% are interested in unit trusts/mutual funds and 13% have foreign real estate in mind. 11% and 7% are contemplating on gold and gold futures, and bonds, respectively. Other investments cited by respondents include foreign currency, silver and silver futures, ETFs and Index Futures, insurance and medical policies, new branch opening, investment in e-Commerce and ASB.

### **ABOUT THE CEO CONFIDENCE INDEX**

Since its inception in 2003, the CEO Confidence Index, a quarterly survey of Vistage members in Malaysia, has become a leading indicator of what leaders of small and mid-sized companies are thinking about and planning for the future. These insights provide a leading indicator for employment, capital expenditure, sales and revenue trends. Each quarter, Vistage International polls its membership in Malaysia, USA, Canada, UK and Australia.

### **ABOUT VISTAGE MALAYSIA AND MIER**

Vistage Malaysia is a licensee of Vistage International, USA, the world's leading chief executive leadership development organization, providing unparalleled access to issue-resolution and better performance through monthly peer-advisory groups, one-on-one business coaching, expert-speaker presentations, and extensive online connectivity spread over 1,800 cities in 16 countries with more than 21,000 members worldwide.

Vistage Malaysia has more than 550 members with combined annual revenue of RM57 billion and employing over 90,000 employees. Vistage member companies grow, on average, 2.5 times faster than they did prior to joining Vistage. In 4Q2005, Vistage Malaysia entered into a strategic alliance with the Malaysian Institute of Economic Research (MIER) to co-brand the CEO Confidence Index. MIER is an independent, private, non-profit organization, devoted to economic, financial, and business research that would serve as a think-tank for the government and private sector by providing an objective and impartial understanding of socio-economic issues of national, regional and global importance.