

Business Essential Briefs

(1) Cyber Security:

As more Australian companies conduct a majority of their business online, cyber criminals are becoming smarter and better resourced. If successful, this can cause significant disruption to an organisation – by stealing classified information or funds. So, if you're running a business, cyber security has never been more important.

In a way, it's a lot like taking out insurance to shield your business from things like theft and product liability. Implementing cyber security measures can help safeguard your technology and information from cybercrime, and support your recovery should your business experience a cyber-attack.

A cyber security guide has been produced by Business Australia to help you understand cybercrime, the risks it poses and the steps you can take to navigate potential threats and how to protect your business.

To access the guide, please click on the link [HERE](#).

(2) Quiz - Understanding Foreign Exchange Risk Management:

Here is a fun way to explore or improve your understanding of foreign exchange management, if your business needs to make and receive payments in foreign currencies. This resource uses a quiz format that you will hopefully enjoy – **we will provide a link to the answers at the end of this newsletter.**

The quiz questions can be accessed by clicking on the link [HERE](#).

(3) Australian Business Supply Chain Risk:

Australia's supply chains proved generally resilient in response to the COVID-19 pandemic, but the experience with COVID-19, following the devastating 2019-20 bushfires has highlighted Australia's potential vulnerability to supply chain disruptions. Panic buying of some goods, notably personal protective equipment, and the imposition of export restrictions on these products by some countries added a degree of urgency to the unfolding situation.

Regardless of the response, managing the risks of supply chain disruptions — whatever their origin — inescapably entails costs on businesses, consumers and governments. These costs vary substantially and depend on the choice of mitigation strategy — stockpiling, supplier diversification, contingent contracting, developing domestic capability, among others. They also depend on the state of preparedness of firms and governments to assume responsibility, and to make effective decisions, on the level and manner of risk management they are prepared to take.

Supply chains are networks of firms participating in the process of transforming inputs into final products that are delivered to consumers. Improvements in technology and trade liberalisation have made it easier and cheaper to source many goods and services from overseas. This has brought benefits from specialisation and economies of scale. It has also lifted the complexity of supply chains — modern supply chains often rely on inputs from across the globe and can consist of thousands of firms.

A good Australian example of supply chain issues is to be found in the nation's \$45bn wine industry. That industry is scrambling to secure French oak barrels out of Europe in time for next year's vintage as big disruptions across the global supply chain caused by Covid-19 play havoc with shipping schedules and the price of barrels skyrocket. The price of French oak barrels, highly prized by Australian winemakers for adding layers of flavour and complexity to their premium and luxury wines, has risen by more than a third since the pandemic emerged to now cost more than \$2000 each.

This intricate web of economic interdependencies means that a supply chain is potentially exposed to the many types of shocks that can affect every business, both in Australia and overseas: geopolitical (for example, a trade war), environmental (a natural disaster), economic (a financial crisis), societal (a pandemic) and infrastructure-related (cyber-attacks). Business exposure to these risks depends on the characteristics of supply chains. A lack of flexibility, such as a dependency on one firm for a critical input, geographic clustering when all firms in an industry are in one location, and lengthy supply chains increase firm-level risk.

To manage their exposure and appetite for these risks, those businesses that are most vulnerable use sophisticated tools and strategies.

Stages of supply chain risk management strategies can be thought of in a prevention, preparedness, response and recovery ("PPRR") paradigm, sometimes used in emergency and disaster management.

In the context of this PPRR paradigm, strategies seek to improve supply chain resilience by:

- **preventing** a disruption (or lowering the likelihood of a disruption occurring);
- **preparing** the rest of the supply chain to avoid the costs of the disruption;
- improving the speed and effectiveness of the firm's **response**;
- facilitating a firm's **recovery** from a disruption.

Firms make decisions about investing in each of these stages before a disruption, but naturally some strategies will only come into effect after a disruption has occurred (response and recovery).

Different risks are better treated in the most appropriate stages of the PPRR model. For example, a predictable risk (such as the potential impacts of the United Kingdom withdrawing from the European Union) might best be treated in the prevention stage.

However, an unknown, highly uncertain risk (such as a large storm) might be better treated through response and recovery (or in preparatory actions that will help more effective response or recovery after a disruption).

A combination of appropriate strategies used at different stages, is likely the most effective approach to managing risks. The figure below outlines some of the different PPRR strategies available to business.

Prevention	Preparedness	Response	Recovery
Reduce the likelihood of a disruption Locate factories, suppliers or warehouses in areas that are less prone to disruption Choose suppliers that are less vulnerable to disruptions Invest in risk management for critical suppliers	Prepare the rest of the supply chain to mitigate costs of the disruption Hold additional buffer stock Have additional capacity among other suppliers Diversify supply network and geographic footprint Delayed product differentiation Use contingent contracting Take out insurance	Improve the speed and effectiveness of the firm's response Invest in early detection systems Have contingency plans in place ahead of a disruption Have flexible manufacturing processes Use dynamic pricing and promotion	Recover from the disruption Develop post-disruption recovery plans

Sources: Hopp et al. (2012, pp. 24–26) and PC (2014b).

Figure 4: Companies that maintain the status quo have elevated risk



Source: Bain & Company

If you are interested in some more information on supply chain management, please use the link [HERE](#).

(4) Improving Australian Business Management Practices:

In the July edition of BusinessPlus, we included an article discussing Australian Business ranking on the IMD World Competiveness Index for 2021. Australian businesses ranked 22nd overall, **however performed very poorly on the management practices** coming in at 58th out of 64 countries.

Management practices key criteria include agility, entrepreneurship, customer satisfaction and manager credibility. Looking specifically at the topic of business agility this month we note that “agility” is currently a very common business topic. Online searches for “agile transformation” yield around 100 million hits, and the stories of well-known pioneers circulate widely. But is this just hype, or are there real benefits to be gained? Is agility just noise from the IT department, or an opportunity that merits serious attention from the top team? And if pursuing agility yields benefits, what is the recipe for success?

Highly successful agile transformations deliver significant performance improvement. The essence of an agile transformation is reimagining the organisation as a network of high-performing teams, supported by an effective, stable backbone of strategy, structure, processes, people, and technology.

Imagine working on such a team - having the right people working together, all with different capabilities - enabling businesses to move with unprecedented speed. This can increase customer satisfaction and boost operational performance. It can also provide a safe place to experiment within the business and drive more innovation. Employees will feel more engaged and enthused by a clear and common purpose, the autonomy to make decisions, and an ability to develop and grow in their roles with the business.

Highly successful agile transformations result in a step change in performance, with impact achieved in multiple dimensions.

Impact achieved by highly successful¹ agile transformations

Customer centricity	Operational performance	Speed	Innovation	Employee engagement	Efficiency
30%	30%	5–10×	#1	30	30%
increase in customer satisfaction by creating teams with end-to-end customer missions	improvement in selected processes by removing hand overs and driving continuous improvement	increase in speed in driving change and decision making through simplified operating model	ranking in driving innovation among peers	percentage-point increase in employee engagement by ensuring people have autonomy and purpose	efficiency gains through fewer hand overs, reduced overhead, and strict focus
VS 5–10% for less successful transformations	VS 5–10% for less successful transformations	VS 2× for less successful transformations	VS no ranking for less successful transformations	VS 5–10 for less successful transformations	VS 5–10% for less successful transformations



Share of organizations reporting a significant impact on their financial performance after their transformation



Source: McKinsey & Company

A recent global survey by McKinsey & Co. produced a useful article, resulting from that global business research. For a copy of that paper – “*The impact of Agility: How to shape your organisation to compete*” please click on the link [HERE](#).

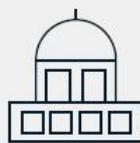
In addition, McKinsey & Co. recently released a paper titled “*How Australian companies can reinvent themselves in 2021*” which discusses the items shown in the diagram below and it can be accessed [HERE](#).

There are five imperatives for continuous transformation in a new era.



Transformation

Deliver continuous waves of transformation, in parallel, working back from end-state vision



Governance

Blueprint to manage interdependencies and sequencing, then manage to reallocate resources regularly



Talent

Attract and develop new talent to the organization and redefine expectations about “transformation roles”



Culture

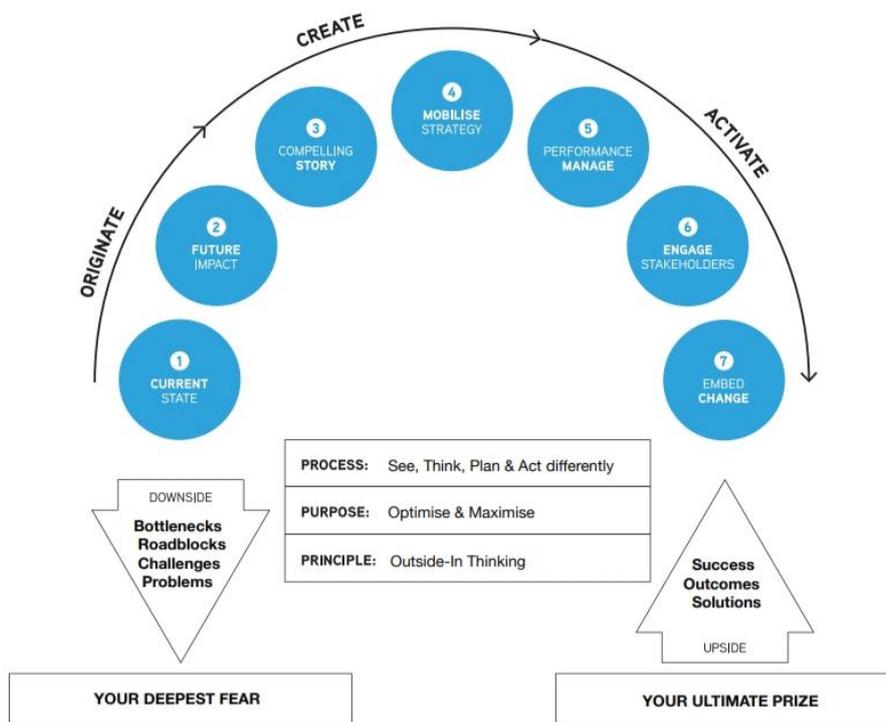
Empower employees to collaborate seamlessly across the company



Sustainability

Bake in sustainability throughout, use the opportunity to renew the social license to operate

The diagram below captures the business approach required to transform your business effectively by adopting strong process, purpose and unique “outside-in” thinking principle.



Source: Brian Sands – Strategy Advisor

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