

BusinessPlus+ Newsletter



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Issue – August 2022

How to Manage the Growth of Your Business

“ You have brains in your head. You have feet in your shoes.
You can steer yourself in any direction you choose. You're on
your own, and you know what you know. And you are the guy
who'll decide where to go.

Dr Seuss

Introduction

Growing a business is one of the most exciting—yet nerve-wracking—experiences that you can have as a CEO, owner or senior leader within the business. It's exhilarating to see your business expand, but it also comes with a lot of pressure and new challenges. You may find yourself struggling under the weight of new responsibilities or worrying about maintaining your company culture as you hire more people. But there are some things you can do to make growing pains less painful, so your company can continue to develop in a healthy way.

Business Growth Risks

As a business owner or senior leader, it is important that you have a plan in place to help manage the risks associated with your company's growth. While revenue growth can be a positive thing, there are also several potential drawbacks that need to be considered and accounted for as well.

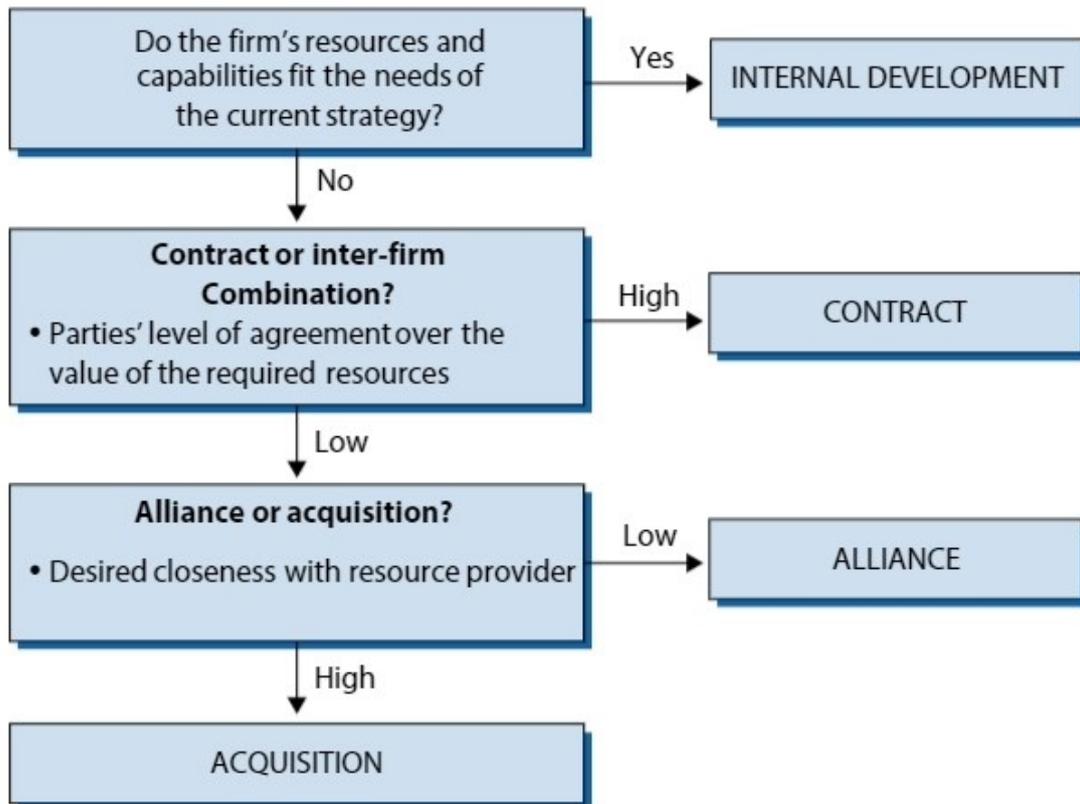
The biggest risk of all is simply not having enough cash flow to sustain the increased sales volume brought on by your business' expansion efforts. An increase in expenses and hiring new employees may also pose challenges if additional funding isn't secured or expanded operations aren't properly planned for.

Manage Internal Business Growth

The first step to managing internal business growth is to map out your current business and determine where you want to go.

It's important to note that not every type of growth is good for your company, so it's vital that you think about how each change will affect the future of your organisation. Some types of expansion are more likely than others to lead to success; others might be detrimental. If you're considering a new product or service, analyse whether there is enough market demand for it—if not, then perhaps it isn't worth investing in at this time (or ever).

Manage External Business Growth



Choosing the Right Growth Path

Source: "Finding the Right Path" Capron & Mitchell, Harvard Business Review - September-October 2010

When your business is growing, you have four main reasons: acquisition, merger, organic growth and licensing.

Acquisition is the process of buying a company or a subsidiary of another firm in order to expand your business' operations. This can be done through bidding on companies that are up for sale or purchasing them outright.

Mergers happen when two similar firms join forces to further their mutual goals and increase market share within an existing industry; both parties need to agree on whether they want to merge as equals or one will buy out the other.

Organic growth is basically what it sounds like: You're growing organically by building up sales organically (i.e., without making any purchases).

Franchising is when you license out your brand name so other people can use it as part of their own businesses.

Business Growth Effect on Finances

Now that you've determined how your business is growing, it's time to look at how this growth will affect the finances of your business. The first step in managing finances during growth is setting financial goals. Financial goals are quantifiable targets, such as increasing revenue by 10% or reducing expenses by 2%. This can be done using a simple percentage increase or dollar amount increase for each month/quarter/year until you hit your target goal. Once you have determined what goals are most important to meet, it's time to figure out what kind of money management strategies need to be put into place in order to reach these goals without losing control of operations or sacrificing profit margins.

Business Growth Effect on Staffing

The most important thing to remember when planning for business growth is that you absolutely must have a plan for staffing. Your business has its own unique staffing requirements, so it's important to carefully think about what those are and how they might change as your business grows.

The first step in this process is conducting an internal analysis of your current staffing needs. You should assess whether or not there are any areas where you need more staff or if there's room to expand existing positions by hiring new people or shifting responsibilities around within the company. This can help inform decisions about how much space to allocate for office space, equipment maintenance and other needs that will be impacted by increasing employee headcounts as well as how much money will be spent on them over time.

Business Growth Effect on Marketing

Marketing is a key component of business growth. As your business grows, you must ensure that marketing continues to be integrated into every aspect of your organisation's operations. This means that marketing should be a continual process and not just something you do when things are slow or if you need to release some information about your company.

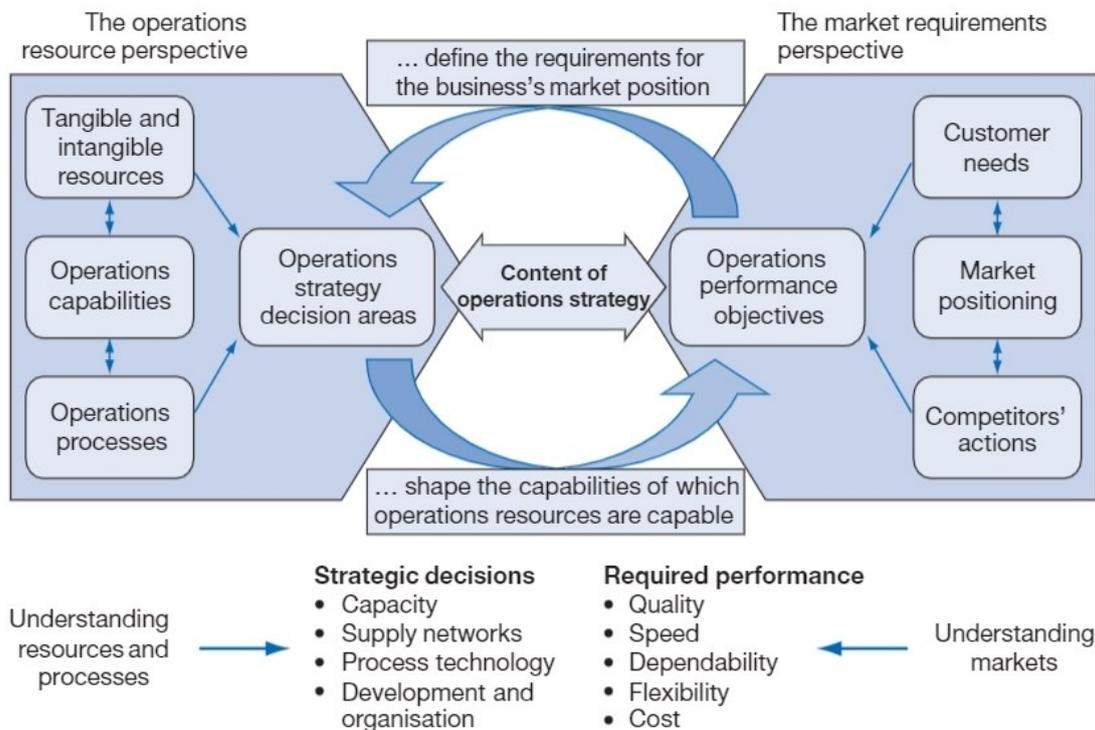
Marketing can help you reach the right kind of customer and tell them what makes your product or service stand out from the competition. It will also help you maintain relationships with customers after they have made their initial purchase, which is essential for loyalty programs like rewards cards or frequent flyer programs (these types of programs reward customers for spending more money).

Business Growth Effect on Sales

Sales are a key component of business growth. If you want to make sure that your business keeps growing, sales are a crucial part of the process. You should be constantly focused on ways to increase your sales and bring in more revenue. This might seem like an obvious statement, but many small businesses don't consider this aspect of their operations until they start running into problems with cash flow or lack the resources they need to stay competitive.

Sales should be integrated with everything else you do as a business owner or manager. You should never see sales as being separate from marketing, accounting or human resources; instead, all these departments need to work together so that they support each other's objectives and goals at every stage of the company's development.

Business Growth Effect on Operations



Operations Strategy – The strategic reconciliation of Market Requirements with Operational Resources

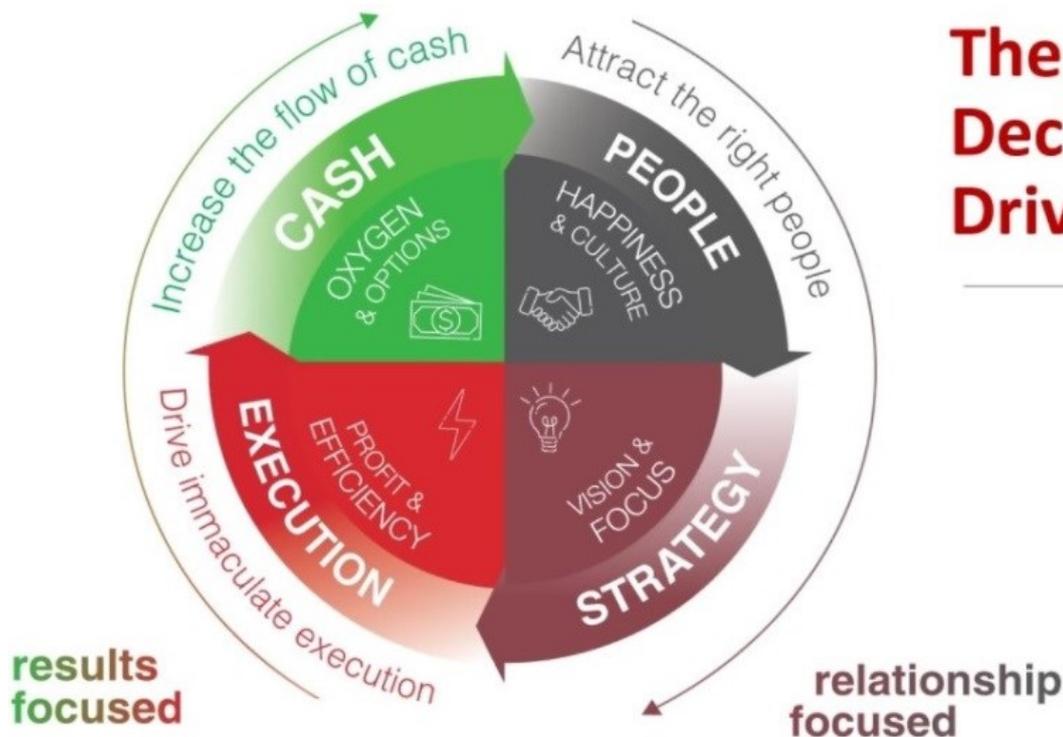
Source: "Operations Strategy" Sixth Edition 2020 Nigel Slack & Michael Lewis

Operations are a key component of the growth of your business. It's not just about making sure you have enough stock on hand or managing customer service, but also making sure your operations work well with the rest of the business.

For example, if you are trying to grow into other markets and expand internationally, then you will need to look at things like translation and localisation costs for new languages as well as costs related to shipping products internationally (like customs

duties). Operations can help you determine what those costs might be before they happen so that they don't surprise you later on down the road.

Operations can also help you understand how much it would cost if an unexpected event happens such as an increase in demand or decrease in supply. This way when this happens there won't be any surprises, because everyone knows what their responsibilities are going forward and how much money needs to be allocated towards each area respectively.



The Four Decisions that Drive Growth

Conclusion

Hopefully, this article has shown that proper management of growth is critical to the success of any business.

It's not just something you do when you have enough money to hire employees and move into a new office space; it's an ongoing process and one that should be taken seriously. As we've discussed here, proper management means having clear goals in mind from the beginning so you know what direction your business is headed in at any given time.

Proper management also involves giving yourself room for flexibility as circumstances change over time or unexpected events crop up along the way—and it means taking care to delegate tasks properly, even if it feels difficult sometimes. We hope this article has given you a better understanding of what makes up good growth management and how you can apply these principles to your own business.

Why a Winning Strategy Starts With a Challenge, Not an Opportunity

A strategy is a mixture of policy and action designed to surmount a high-stakes challenge. It is not a goal or wished-for end state. It is a form of problem-solving—you cannot solve a problem you do not comprehend. Thus, challenge-based strategy begins with a broad description of the challenges—problems and opportunities—facing the organisation. They may be competitive, legal, due to changing social norms, or issues with the organisation itself.

In performing a diagnosis, the strategist seeks to understand why certain challenges have become salient, about the forces at work, and why the challenge seems difficult. In approaching this work, you should use the tools of analogy, reframing, comparison, and analysis in order to understand what is happening and what is critical.

The Crux of a Business

In a new book, *“The Crux: How Leaders Become Strategists”* Richard Rumelt makes short shrift of such vagueness as ‘big audacious goals’ for the business. He sets out a process **that puts the biggest challenge your company faces** at the heart of your strategy: **finding the crux, seeking an edge, and avoiding distractions.**

The crux is the key issue where action will best pay off, and Rumelt reveals how to pinpoint it so you can focus energy on what really matters. As understanding deepens, the strategist seeks the crux—the one challenge that is both critical and appears to be solvable. This narrowing down is the source of much of the strategist’s power, as focus remains the cornerstone of strategy.

The strategist should understand the sources of “edge,” or power, or leverage that are relevant to the situation. To punch through the crux, you will use one or more of them. Willpower is not enough.

To do strategy well, avoid the bright, shiny distractions that abound. Don’t spend days on mission statements; don’t start with goals in strategy work. The chase of the quarterly profit/sales targets (in isolation) are obvious instances of distractions from your business strategy. Others include the myth that everything needs to flow from a “mission” or confusing management with strategy.

Rumelt illuminates in his book how business leaders can overcome obstacles, navigate uncertainty and determine the best path forward.

The Key Question For Leaders Is, Where Can They Win?

This puts addressability at the centre of any strategy. As Rumelt acknowledges in his book - addressability stands in contrast to the approach adopted by many business executives today.

Strategies are not supposed to map out a broad path for the future. **The hard part, that makes a real difference, is turning the broad intent into actions that firms can pursue right now.** That requires you to break down challenges into smaller chunks.

An Example

Let’s assume that a group of people is trying to do this for Intel. The big challenge is that **Moore’s Law** is coming to an end and Intel can no longer enjoy the high margins it did as long as Windows-Intel was the de-facto standard for personal computers.

A discussion of this issue is likely to produce a decent list of tough challenges including the rise of AMD, manufacturing problems, a weak position in the mobile market, the continuous struggle to catch up in AI where Nvidia has done well, and the cultural adjustment to move beyond the era of guaranteed dominance.

After a spirited discussion about these challenges, **the next step is scoring each of them on a scale of 1-10 to determine how critical a particular challenge is for the business and whether the company will be able to address the issue in over the next three to four years.**

When Rumelt ran through this exercise with a group of five executives from Intel in early 2020, the manufacturing issue scored highly on both dimensions. Intel has not been able to solve this issue yet, whilst also trying to receive subsidies from the US government to produce computer chips in America.

The Crux is Crucial

Identifying the crux is an important first step. Yet, without surmounting it the only satisfaction lies in understanding your organisation’s demise. Here asymmetries come into play. **What distinguishes you from your competitors? Or put differently, which asymmetries are you able to exploit?**

The first asymmetry you could exploit is information. Think of a real estate agent who is well connected to everyone in his community and finds out who wants to sell or buy way before any of his out-of-town competitors.

The second is know-how. Google’s algorithms, combined with its engineers skills in handling big data from maps gives it an edge when it comes to mobility solutions.

Third is finding a unique business position others cannot occupy. The Nigerian conglomerate Dangote Industries, for example, built strong relationships with successive governments resulting in import duties holding international players at bay.

The fourth source of asymmetry is efficiency, typically based on scale and experience. Tesla had long been haunted by a lack of manufacturing experience. Not too long ago it seemed like the company was simply not able to scale.

Conclusions

Management is about getting things done, often relying on metrics that help you to determine whether you are meeting your objectives. *“A strategy,”* Rumelt writes, *“is a reasoned argument about the forces at work in a situation and how to deal with them. Don’t let the metrics drown out the thought.”*

Strategy is not about setting financial targets, statements of desired outcomes, or performance goals. **It is about finding the crux and taking decisive, coherent action that will make positive differences for the business.**



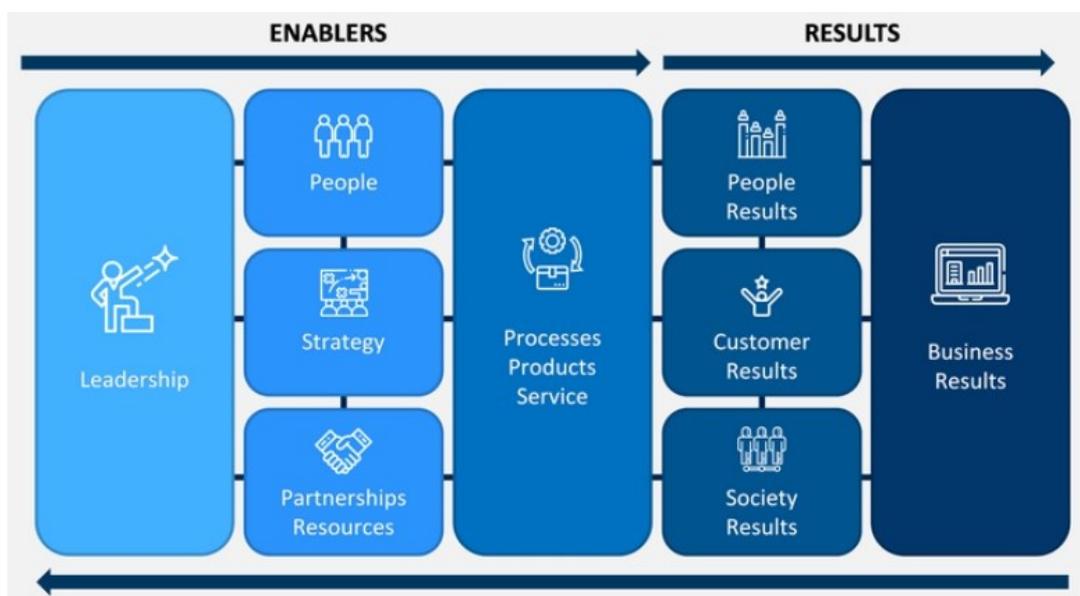
If you would like further information on implementation of The Crux approach to strategy, please access the article from McKinsey & Company titled *“Getting Strategy Wrong—and How to Do It Right Instead”* from Richard P. Rumelt, please click on the link [HERE](#).

Approaches to Better Leadership

“The need for leadership is as great as ever. Leadership is needed to help people reach from where they are, to where they have never been and, sometimes, scarcely imagine going. Without leadership, institutions drift, and nations court growing irrelevance and ultimately, disaster.”

Henry Kissinger – Former US Secretary of State

If we want to give better measurement a better chance, the context that leaders see it in must change. So, what are the results that leaders want?



A London Business School survey found that amongst the top concerns that worry leaders are:

- **Employee engagement**
- **Strategy-execution gap**
- **Collaboration across organisational boundaries**
- **Not leading change because of day-to-day tasks**

Solving problems that alleviate leaders' worries and concerns is a much more constructive context for performance measurement than "a lot of hard work to create something that threatens them". So how could we link performance measurement to solving problems that worry leaders the most?



How Does Measurement Solve The Problems Leaders Have?

One way to shift the context for leaders is to demonstrate how good performance measurement processes provide the tools specifically for their problems. To illustrate, here are several ways that performance measurement directly helps to solve those problems:

- **Employee engagement** is linked to how they see their contributions to strategy. Use results maps to help visualise employee contributions and to help leaders both communicate strategy and give a practical way for employees to own their contribution to it.
- **The strategy-execution gap** is linked to the clarity of how strategy is articulated. Translate broad strategic goals into language every employee can understand, because no goal that is misunderstood can be achieved.
- **The strategy-execution gap** is also linked to how directly strategy is measured. Make the achievement of strategic goals very tangible, which makes it easier for employees to choose actions that will help achieve them.
- **The strategy-execution gap** is also linked to the way that strategy is cascaded down to teams. Strive to have each part of the organisation contributing their unique best to achieving the strategy as a whole.
- **Collaboration across organisational boundaries** is linked to finding shared results and working together to move the measures of those results.
- **Not leading change because of day-to-day tasks** is linked to all the points listed before this one. How much easier would it be for leaders to do their real job - leading change - if employees were engaged, they understood the strategy, felt ownership for their contribution to it, and knew what to do to help achieve it?

What Worries Your Own Leaders?

Understand that first, and then develop a message that speaks to what's important to them. Measurement (of the right things) is fundamental to every system in organisations. Thus, its likely **better measurement** can play a part in solving your leader's problems.

4 recipes for organizational health (combinations of management practices)



% likelihood of top-quartile health based on strength of alignment with any 1 of 4 organizational-health recipes¹



¹68% of sample had weak alignment, 22% had strong alignment, and 10% had very strong alignment; n = 501 organizations with 1,539,047 individual respondents.

McKinsey&Company | Source: Organizational Health Index by McKinsey

Replace Threat with Support

Successful leadership is supported by proper performance measurement, not threatened by it. But for many leaders, this truth is hidden. They need a change in context to come to see it. That change of context starts with what really keeps your leaders awake at night.

ALIGN TEAM

It's your role as a **Leader** to now execute your **Strategic Plan.**

- **Align team with strategy** – with transparent communication
- **Lead and innovate** – with training and coaching
- **Inspire and motivate team** – with timely feedback
- **Drive positive culture** – by trusted relationships
- **Be accountable** – by allocating regular time and a mentor

The 2022 Edelman Barometer of Trust survey, revealed that business leadership is pivotal to restoring societal trust and stability to the general populace (your customers), as illustrated in the diagram below.

RESTORING TRUST IS KEY TO SOCIETAL STABILITY

Business societal role is here to stay

People want more business leadership, not less.

Demonstrate tangible progress

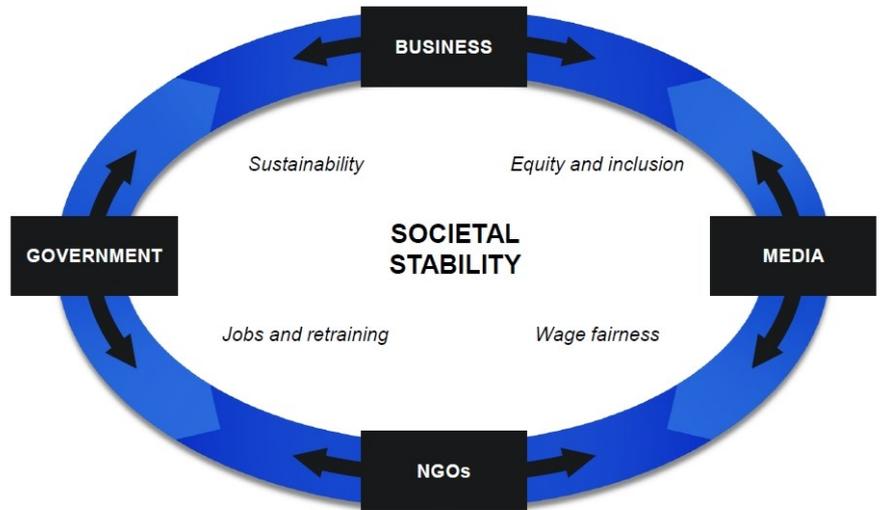
Restore belief in society's ability to build a better future: show the system works.

Leadership must focus on long-term thinking

Solutions over divisiveness; long-term thinking over short-term gain.

Every institution must provide trustworthy information

Clear, consistent, fact-based information is critical to breaking the cycle of distrust.



Furthermore, the Edelman Trust Barometer survey revealed the key dimensions of trust criteria is wide ranging, and places significant importance on strong leadership for trust and real change to be made in the business world. The table below explains the dimensions of trust requirements for leaders to embrace and imbed in their business.

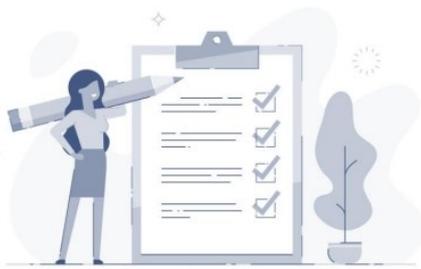
Shortened	Full
Information quality	Information quality: Being a reliable source of trustworthy information
Hold others accountable	Holding others accountable: Drawing critical attention to institutions and individuals that are engaging in unethical behavior
Communication and transparency	Communication and transparency: Communicating with the public clearly, fully, and often about what it is doing and why
Exert power effectively	Exerting power effectively: Getting people or organizations to do things even if they do not want to
Get results	Getting results: Successfully executing plans and strategies that yield the promised results
Work with other institutions and organizations	Working with other institutions and organizations: Forming strong, collaborative relationships with other organizations and institutions to get things done
Take a leadership role	Taking a leadership role: Taking the lead on convening and coordinating cross-institutional efforts to solve society's current problems and address emerging challenges
Change management	Change management: Introducing changes or innovations in ways that get people to accept them rather than feeling threatened or intimidated by them
Long-term thinking and planning	Long-term thinking and planning: Embracing a long-term orientation towards addressing problems that leads to the development of permanent solutions rather than engaging in short-term thinking that leads to the creation of temporary fixes

The personal and professional attributes of the effective leader in turbulent times

- ❑ Has a **purpose** which is firmly linked to the organizational purpose. This imbues communications and supports cultural work
- ❑ **Listens effectively** to pick up the mood of the organization and the real issues for people – customers, staff, and suppliers
- ❑ **Acts in priority order**, knowing that you cannot do everything – and progress is better than perfection
- ❑ Can **keep rational when trouble arises** – by acknowledging the realities of the situation
 - Understands and acknowledges that technology will have problems
 - Knows that humans are subject to failure under a variety of pressures
 - And **ACCEPTS** all of this, so knows time is wasted in irritation, and problems are dealt with one at time, in a rational fashion
- ❑ **Knows when a decision must be made** (as opposed to seeking more information and conducting more analysis)
- ❑ Tries to understand **“who should make the decision”** and **“how the decision should be made”**
- ❑ Is less concerned about appearances, and more concerned about **substance**
- ❑ Always wants the enterprise to get better – which mean the leader must also **improve** (as a human being as well as a professional)
- ❑ Can **tell the story** of where the enterprise has been and where it is going
- ❑ **Facilitates** meetings well
- ❑ **Knows where good advice can be sought and found**. Who you spend time with matters



A leadership checklist can be a useful way to check-in on ourselves and our service to our enterprises

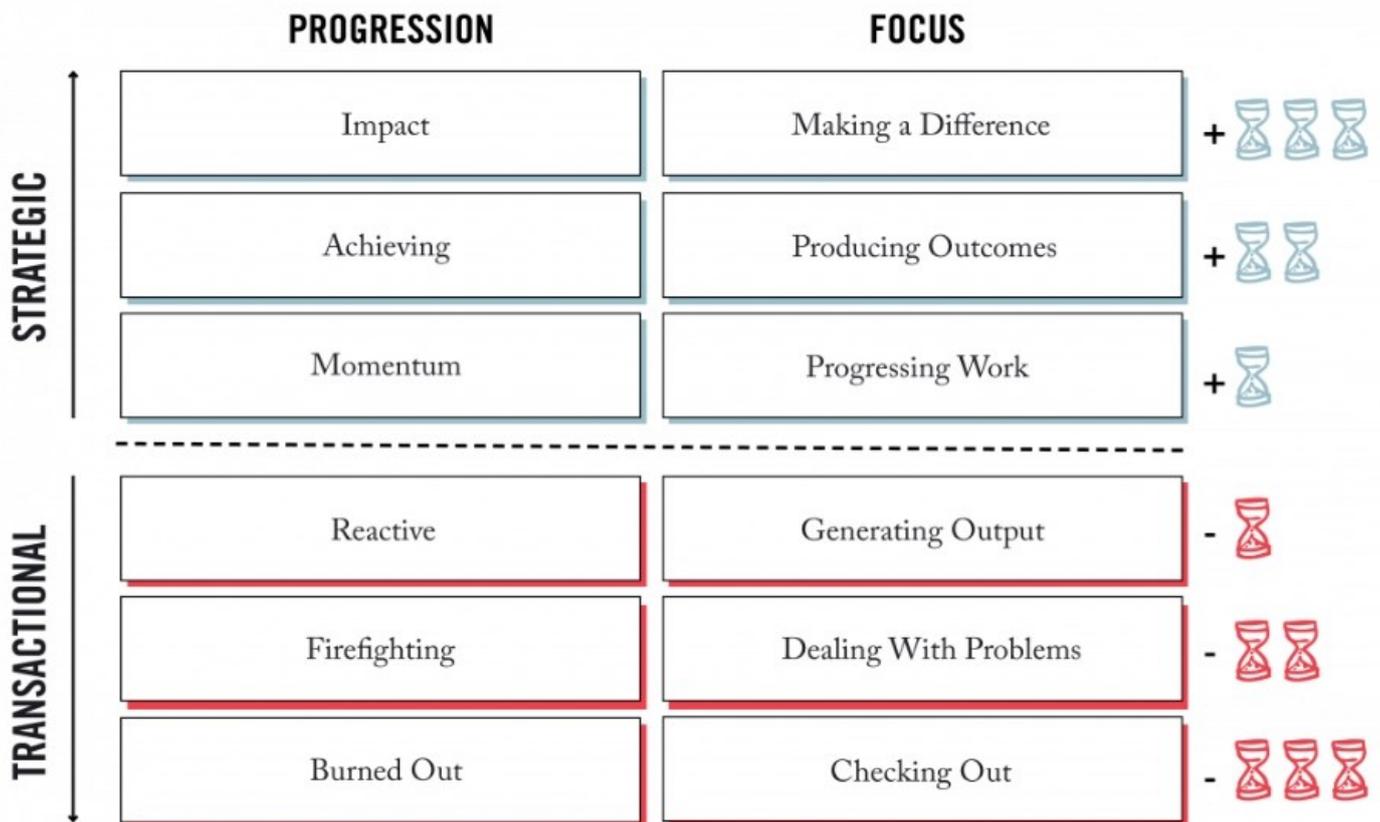


Themes	Checklist
Personal resilience	<ul style="list-style-type: none"> • The basics (diet, exercise, rest, support) • Managing “stress and rest” cycles • Reframing (What’s not wrong with this situation? Is there an opportunity here? What resources do you have to cope?) • Self-awareness (your belief systems shape your team) • Broader creative, critical and structural problem-solving skills <ul style="list-style-type: none"> • Including “adaptive” challenges • Incorporating “systems” thinking • Developing the necessary courage to act

Change your Leadership Focus

To improve your leadership, you need to be moving out of transactional involvement and into strategic activities, which make a powerful difference to the business. You move from “working in” the business to “working on” the business to achieve your strategic objectives. This then translates into less time dealing with problems and more time creating innovative and valuable solutions that can progress the business. By embracing this approach, you as a leader have more time to focus on the most important things to you professionally and personally.

This is reflected in the diagram below, where the objective is to reduce your leadership time in the transactional zone activities, and focusing more on the strategic zone and the areas that make the biggest impacts and trigger real difference for the organisation.



Business Essentials: Increased Business Fraud Risk

The combinations of the shift to remote working from home, shortage of workers and a constantly shifting economic landscape is increasing the prevalence and risk of occupational fraud for Australian businesses.

A recent study found that:

- 72 per cent of organisations reported an increased risk of fraud during the pandemic, with 85 per cent expecting this risk to continue;
- 65 per cent of organisations reported that remote work had increased their fraud risk;
- 62 per cent considered employees their biggest single source of risk; and
- 68 per cent of fraudsters were in financial stress or living beyond their means.

It can be difficult to identify when fraud is happening, especially when it is an employee who has worked with an organisation for many years. However, financial and personal challenges that people have faced since the pandemic have led some employees to act uncharacteristically when it comes to occupational fraud. Adding to the risks of fraud occurring more frequently, are the higher cost of living pressures and bigger mortgage and private loan repayments due to increasing interest rates. Financial hardship is now widespread.

Regardless of an employee's situation, fraud has severe business consequences including the financial cost, time, operational issues and reputational damage that can result.

Areas of Fraud Risk

There are five key areas where Australian businesses may be at risk of occupational fraud:

1. Fraudulent Expense Claims

This is where employees will submit a claim for business expenses they never actually incurred. For example, in one case a contracted employee used a credit card to book air travel, accommodation and car hire. However, the employee never intended to incur the expense, so made the bookings and then cancelled it, keeping the expense claimed. Using fake receipts is another way that employees can submit fraudulent expense claims.

2. Non-Compliant Expenses

Research has found that 22 per cent of expense claims don't comply with company expense policies, and 50 per cent of these relate to hotel bookings where business travellers book directly and circumvent corporate booking processes. Non-compliance can also occur with incorrect receipts, duplicate claims, or even the employer accidentally paying the employee twice for the same expense claim.

3. Invoices

Fake and duplicate invoices can cost organisations thousands of dollars. Organisations are susceptible to receiving a legitimate-looking invoice for an expense the company never actually incurred.

4. Business Email Compromise

Business email compromise is used by fraudsters to redirect legitimate fund transfers to alternate accounts. Legitimate emails and invoices are intercepted, and banking details are changed to include fraudulent payment information.

5. Double Processing

Many organisations can inadvertently pay the same invoice twice, particularly when using manual, paper-based processes. This is usually an error rather than fraud but can be costly. Fraudsters take advantage of these outdated processes by producing an invoice for services or goods, and then sending the same invoice to numerous companies. Whichever business pays becomes an ongoing target.

Fraud can be very difficult to quantify accurately. **The Australian Competition and Consumer Commission estimates only 13 per cent of fraud victims report the loss.** Many others either accept a small degree of fraud in their organisation, or are simply unaware that it has happened.

To access the publication, an *"An Employee Fraud Guide for Business,"* - please click on the link [HERE](#).

Business Essentials: Australian Interest Rates & Inflation in Context

Let's review what is happening with interest rates and inflation in Australia at the moment and provide an historical perspective and a simple case study comparison of the business impacts and possible timeframes that may apply.

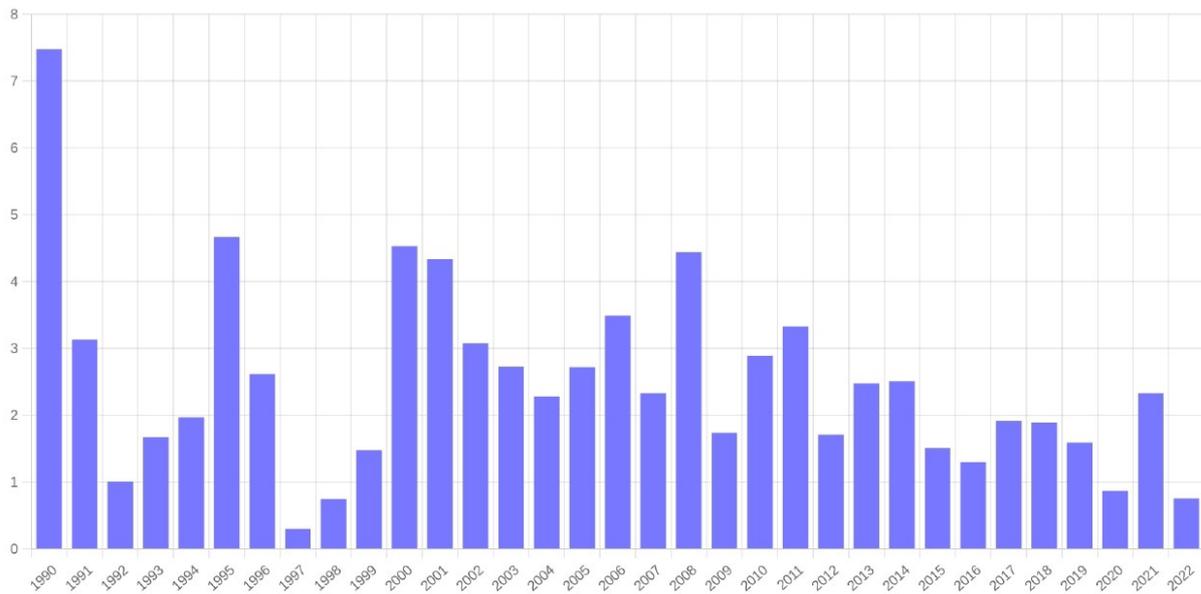
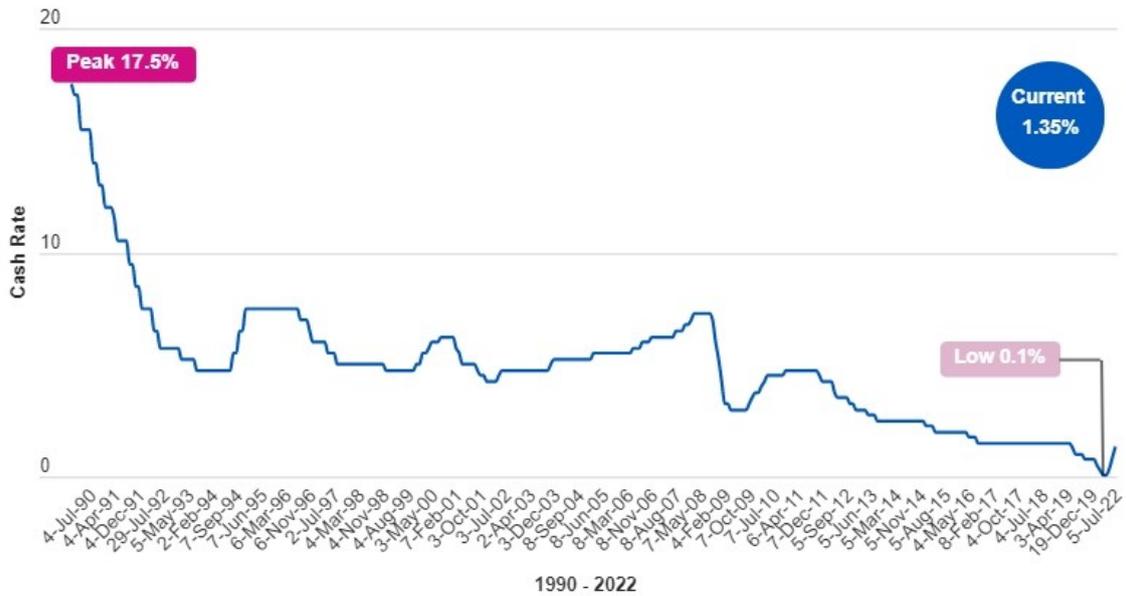
Relevant Time Frame	RBA Cash Rate (Interest %)	Inflation Rates (Actual/Indicative)	Top Personal Income Tax Rate (2) & Threshold	Company Tax Rate
August 1990	14.0% (1)	7.5%-	47% > \$50,000	39%
July 2022	1.35%	5.1%+	45% > \$180,000	30%/25% (3)
Changes	-12.65%	-2.4%	-2%/+\$130,000	-9%/-14%

Note 1: The RBA Cash Rate declined to 5.75% by 8 July 1992 from a peak of 17.5% in July 1990.

Note 2: The personal Income tax rate excludes the Medicare Levy.

Note 3: The lower rate of company tax (25%) applies to operating companies carrying on primarily business activities and with aggregate turnover in a financial year of less than \$50M. These eligible lower rate companies are called "Base Rate Entities" by the Australian Taxation Office. This corporate tax rate differentiation did not exist in 1990.

Australia's Official Cash Rate



Australian Annual Inflation Rate from 1990 to 2022

Sources: Reserve Bank of Australia (RBA) & ABS

So let's compare the two time periods with one another and tax effect the interest cost on borrowings for a business that is operated by an eligible base rate entity company (25% company tax rate) today.

Assumptions:

- Business Working Capital Loan facilities of \$5M;
- Average business loans interest rate margins of +5.0% over the applicable RBA cash target rates.

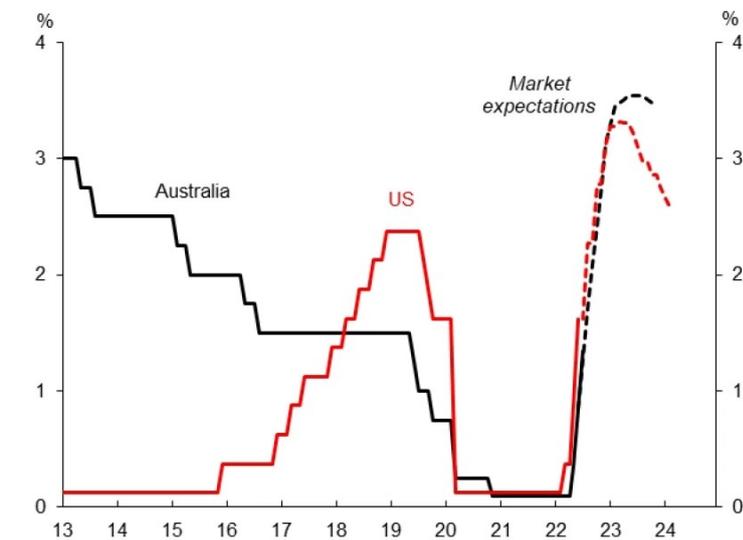
Year	Business Loan Facilities	Loan Interest Rate (Simple) pa	Loan Interest Amount	After Tax Cost of Loan Interest
1990/91	\$5,000,000	19.0%	\$950,000	\$579,500
2022/23	\$5,000,000	6.35%	\$317,500	\$238,125
Changes:		-12.65%	-\$632,500	-\$341,375
Total % Reductions			-66.6%	-58.9%

Conclusions for Business

At face value, this example (subject to the assumptions made in this case study) shows that a company today is significantly better off in the after tax cost of funding its working capital facilities and other business debt, whilst operating in a similar inflationary environment to 1990. Of course the example is simplistic, given it is based upon a snapshot in time comparison and the prevailing economic conditions can change very quickly, as illustrated by things such as:

- The reduction in the RBA cash rate in just two years - between July 1990 and July 1992 - (a reduction of 11.75% in the RBA target cash rate from the peak of 17.5%), when inflation also declined significantly in that same timeframe;
- The ongoing supply chain cost impacts on business today are significant, along with higher fuel, freight and energy costs on total overheads, that impact profitability, albeit with different industry sector effects;
- The normalised RBA cash rate target will most likely settle at around 2.5% to 3.0% (up from 1.35% now) in the next 12 to 18 months in Australia, with the Reserve Bank seeking to contain inflation – refer to the diagram below. This will further hit business cashflow and also customer demand (sales), because of personal cost of living increases and home loan repayment increases. This will generally continue to negatively impact many businesses profitability, in the short to medium term.

RBA Cash Rate Expectations



Source: Bloomberg, RBA, Macquarie Macro Strategy

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