ON TARGET

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CLIMATE COSTS DO MATTER: BUT IT'S NOW TIME FOR URGENT ACTION!

CMA AUSTRALIA Certified Management Accountants

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CEO MESSAGE: CLIMATE COSTS DO MATTER: BUT IT'S NOW TIME FOR URGENT ACTION!

Prof Janek Ratnatunga

CEO, ICMA Australia

A fierce debate raged during the Australian federal election campaign over the cost of taking meaningful action on climate change.

On one side of the political spectrum were macro-economic models with assumptions made to suit the client who commissioned the work. These competing models predicted wildly different outcomes for the economy resulting from climate action.[i] On the other side of the political spectrum was the view that economic cost modelling is *"yesterday's news".*

Until the election results were announced, in which the ruling Coalition government had a miraculous victory, it appeared that the conventional wisdom by which climate change politics has been conducted in the past; i.e. the ideology of climate change *caution* – was on the edge of being eradicated in favour of immediate and urgent climate change *action*.

The Australian result went against worldwide trends, where the debate about modelling, costs and economic impacts is being replaced by the principle of urgent action to fight global warming. In early May 2019, the British parliament passed a declaration that environment and climate change is an emergency – putting Britain on a "war footing" on climate. The high-profile Swedish schoolgirl Greta Thunberg tweeted: *"Now other nations must follow"*.

In the USA, however, the Trump Administration appears to have thrown out all economic modelling in favour *no action* at all, as it does not believe in anthropomorphic (man-made) climate change in the first place. These views from the USA have been mocked worldwide as views of *"climate denying cave dwellers"*.

Climate Costs or No Climate Costs – That is the Question.

Some of the economic cost models predicted that the ALP opposition party's 45 per cent emissions reduction target by 2030 would cause the gross domestic product to fall by up to $542 billion.

Given such scary scenarios of the losses to the gross national product of its climate action policies, the ALP opposition decided not to release its policy costings (if it had any). Mr Bill Shorten, the losing leader of the ALP, defended its position by stating that its policy could not be modelled or costed by saying *"The cost of not acting on climate change is far worse than acting on climate change; …when you talk about cost, what's the cost to the environment, the cost in not acting?"* [ii]

In his pitch to the Australian voter, Mr Bill Shorten said the public is *"sick and tired"* of excuses and if Australia doesn't take serious action it faces an economic disaster. His message was that the nation cannot afford inaction; and that costing climate action is yesterday's question. In summary, he said, *"Let's just get on with it".[iii]*

The Coalition government's miraculous victory indicates either that a majority of the Australian people still want to see the cost impact of climate action – i.e. they do not want to *"get on with it"* without knowing the costs of what they are getting into; or that climate change is viewed by many as *"tomorrow's question"* – to be solved when the economy is more resilient.

Conventional Economic Cost Modelling

So, what are the economic costs of failing to act on climate change? Can it be modelled?

There is a place for economic modelling in a symposium, seminar room, or refereed journal; with the assumptions and conclusions being discussed by experts – but not in politics. Thinking people know and accept that the future is unknowable. Others delude themselves that somewhere out there is an expert with a crystal ball – who can give them a sneak peek at the future.[iv]

The inescapable fact is that it is not possible to know the cost of climate action with even the remotest degree of *accuracy*. If you consider the range of assumptions that economist makes in their modelling, any combination of expected economic outcomes of the cost climate action is possible – it depends on who is paying the bill for the modelling.

Assumptions can be made about costs at various hierarchical levels. Cost to the government budget? Cost to business? Cost to individual taxpayers? Cost to exports? Costs to minerals and resources industries? Cost to the macro-economy? Cost to the micro-economy? What about the benefits? Cost to the economy that ignores any benefit to the economy? And of course, the big one: Cost to the economy that ignores the cost of *not* doing anything?

Economic cost modellers have to make multiple and interrelated assumptions to model what some policy change will cost.

For example; (1) how far and how fast the cost of renewable energy and battery storage will fall; (2) how far and how fast the cost of electric cars will fall; (3) how quickly firms that face higher energy prices will adapt by increasing their efficiency; (4) how the introduction of new sources of electricity generation and storage will disrupt the business models of today's highly profitable electricity *retailers*; (5) how regulation of energy prices will increase or decrease the monopoly profits of energy and petrol companies; (6) how much the trend to *household* electricity generation and storage will increase the efficiency of the national grid by reducing problems with seasonal peaks in demand; (7) whether the batteries of electric cars will be a form of free storage for the national grid; and (8) how long it will take for autonomous vehicles to transform car ownership and use (Gittins, 2019).

So, What Counts: The Action or the Cost?

There are one of five approaches a person can take to interpreting modelling results: (1) believe all results that fit with one's prejudices and ignore all those that do not; (2) don't accept any results – even when you have been told which assumptions are the main drivers of those results – unless you are an expert in the field; (3) enjoy all the comforts that a carbon-centred life can bring until the lights go out in about 30 years; (4) leave your fate in your creator's hand (or on luck); or (5) forget about the dire predictions of the cost models and get galvanized into immediate and urgent climate action.

The last approach can border on extremism and civil disobedience. The logic cannot be avoided – once you say the issue is human extinction then you open the door to suspension or interruption of the democratic process to save the planet. This should be avoided.

Australia has had a largely peaceful political debate and an outcome that still favours caution in climate action. But there should not be too much caution. Now that politics is over, it is time for urgent climate action.

Otherwise, it will take another miracle to save this planet.

Professor Janek Ratnatunga, CMA, CGBA

CEO, ICMA Australia

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive

[i] Nicole Hasham (2019), "Government sits on secret modelling of climate policy costs" Sydney Morning Herald, May 4. p.51

[ii] Simon Benson (2019), "Price Labor's carbon cuts? Yes, you can" The Australian, May 2, p.3

[iii] Paul Kelly (2019), "Shorten reinvents climate politics", The Australian, May 4, p.5

[iv] Ross Gittins (2019), "Only the stupid think the cost of climate change is simple" Sydney Morning Herald, May 4, p. 5.

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AUSTRALIAN CEOS DEFY ECONOMIC OUTLOOK AS CONFIDENCE GROWS

Based on findings of the fifth annual KPMG Global CEO Outlook, published in Australia today, more than half (58 percent) of Australia's CEOs are 'very confident' about their company's prospects over the next three years.

Business confidence and growth outlook

This is a significant rise from just 22 percent in last year's survey. Most of the others (38 percent) said they were 'confident' as they look ahead to 2022.

Their confidence extended to prospects for the country as a whole. Notably, 44 percent said they were very confident about growth prospects for Australia, compared to 20 percent in 2018. This was lower than the views of their global counterparts about their own countries, although the gap was reduced from last year. The KPMG global survey was carried out early in 2019.

Gary Wingrove, KPMG Australia CEO, said: "Despite the current economic uncertainty – as reflected by the RBA's interest rate cut yesterday – Australian CEOs are still upbeat about their prospects. We surveyed them earlier this year, and while there has been a slowing in the economy since then, there is still a measured confidence among Australian business leaders looking ahead over the next three years."

He added: "But to capitalise on that underlying confidence it's essential that the government uses its fresh mandate to reinvigorate policies which will stimulate the economy. We can't rely just on monetary policy. If the mooted tax cuts can get through the Senate that will boost consumer spending, while wider tax reform – although politically difficult – would help boost our international competitiveness. Productivity is still the key to business and wages growth and well targeted infrastructure spending will help. With 10-year bond yields at record lows, there has never been a time when it's cheaper to deliver Infrastructure Australia's long-list of priority projects."

But Australian CEOs expressed much less confidence when considering the global economy compared to their overseas equivalents. Just 38 percent were either confident or very confident about growth prospects for the global economy over the next three years – compared to 63 percent of overseas CEOs. This was a sizeable fall from the 77 percent vote of confidence in the global economy's prospects cited by Australian CEOs a year ago.

The number of Australian CEOs expressing confidence in their industry's prospects also dropped compared to 2018. Just 22 percent were very confident about the next three years, a fall from 32 percent a year ago. Again this was a lower percentage than their overseas counterparts.

In terms of top-line revenue growth predictions, 38 percent of Australian CEOs believed their company would enjoy 2-5 percent growth, while nearly two-thirds (64 percent) thought it would be up to 2 percent. None of them tipped growth above 5 percent, as a small minority did last year. Overall, this was lower than overseas CEOs, nearly half (46 percent) of whom predicted growth of over 2 percent.

On headcount, 86 percent of Australian CEOs believed their people numbers would increase over the next three years: most by less than 5 percent, but 28 percent of respondents thought by 6-10 percent, with 2 percent believing their staff numbers would grow by more than 10 percent. This was slightly lower overall than overseas CEOs.

Nonetheless, like last year, Australian CEOs reported that their companies are proactively recruiting the talent and skills needed rather than waiting to see if they hit growth targets before hiring – unlike most overseas CEOs.

Threats and challenges

Environmental/climate change risk was the seen by Australian CEOs as the number one threat to their organisation's growth (28 percent), up from second place last year. It was also in top place for global CEOs (21 percent).

It was one of several ESG (environmental, social and governance) themed findings:

- The top answer for 'what are you motivated by?' for Australian CEOs was 'making environmental and socio-economic impact';
- Two-thirds of Australian CEOs felt they were responsible for ensuring their companies' ESG policies reflected their customers' values;
- Most CEOs agreed that 'my organisation's growth will be determined by our ability to anticipate and navigate the global shift to a low-carbon, clean-technology economy'.

Australian-based Adrian King, Global Chair of Sustainability, Climate Change & ESG Services at KPMG, said: "I suspect the reason why climate change is number one risk for CEOs in Australia is that a lack of policy for a pathway to achieve our National contribution to the Paris target is not encouraging new investment in low emissions technologies in areas like energy, infrastructure and electric vehicles and so is creating market disruption. There is also a growing awareness of the exposure of business models to climate risks. More large companies need to engage in cllmate change scenario planning, as recommended by the Task-Force on Climate Related Financial Disclosures (TCFD)."

"Banks and investors are now tilting away from companies that are expected to have a significant climate risk exposure and are unable to demonstrate a comprehensive strategy to manage these risks. Directors are now aware of the two significant legal opinions that Climate Change is a material and foreseeable risk, which they must consider. There is also an increased regulatory risk due to ASIC, APRA, RBA and accounting standard-setters all issuing guidance on climate risk disclosures in the last 12 months. Business will itself have to drive progress on climate change, as it seems unlikely there will be any radical new government policy initiatives."

He added: "In terms of ESG, locally and globally we are seeing a sea-change in investor interest in ESG questions – there is a clear competitive advantage available to companies that can clearly identify ESG issues and demonstrate how they are managing the risk and maximizing the opportunities presented. In Australia, separate KPMG analysis has shown that a majority of Funds Under Management are now categorised as 'responsible investments' – one which integrates ESG factors across the portfolio – and will therefore favour companies that demonstrate leading ESG performance."

Other risks

Emerging/disruptive technologies was second biggest risk for Australian CEOs (22 percent) and globally. It was rated top threat in last year's Australian findings, just ahead of climate change. In third place, on 16 percent, was operational risk, which doubled its response from last year.

Gary Wingrove observed: "I believe the rise in prominence of risk in these findings reflects a rise in profile of the risk management function in Australia. No doubt the backdrop of the Royal Commission has played a part here, and risk is having now to 're-imagine' its role as counsel to CEOs."

Overseas CEOs nominated 'a return to territorialism' in third place, as Australian respondents had a year ago. In terms of geo-political risk, Australian CEOs were more worried about the ongoing US/China trade war than Brexit – a reverse of overseas CEOs' views. Australian CEOs were also notably more wary of expanding into markets that form part of the Belt & Road Initiative than their global counterparts.

Brendan Rynne, KPMG Australia Chief Economist, said: "It is not surprising Australian CEOs are very concerned about the ongoing US-China trade tensions – our own research has shown the potential damage this could cause us. Global supply chains, multi-country production processes and the importance of services exports all add to the complexity of how a trade war could play out in practice today. Our government will need to continue to steer a very careful path between our largest trading partner and our defence guarantor."

Disruption, agility and innovation

Australian CEOs seem to be increasingly coming to terms with the change of disruption. Nearly two-thirds said that rather than waiting to be disrupted by competitors, they were now disrupting their sector. This compared to one third last year. And just over a half (54 percent) said that lead times to achieve significant progress on transformation in their business could seem 'overwhelming' – last year that figure was 86 percent.

More Australian CEOs than global (44 percent to 31 percent) believed they would see significant return on their investments in digital transformation over the next 12 months. Overall 90 percent of all CEOs believed it would happen within 3 years.

For artificial intelligence, 14 percent of Australian CEOs believed it would be within a year and 24 percent within 3 years – the majority thought 3-5 years. For robotic process automation, half thought they would see payback within 3 years.

Australian CEOs were prepared to spend in the digital arena – a third planned to upskill at least half of the entire workforce in digital skills, while two-thirds prioritised investment in capital technology ahead of workforce investment.

Brendan Rynne observed: 'Recent research KPMG Economics has carried out shows that productivity – the key driver of wages growth – depends strongly on hi-tech investment. So it is an encouraging sign that Australian CEOs seem keen to invest in this area."

A large majority (80 percent) of Australian CEOs agreed with the statement 'acting with agility is the new currency of business – if we're too slow we will be bankrupt'; and two thirds agreed that 'our growth relies on our ability to challenge and disrupt any business norm'. There was an increase, from last year, in the number admitting that 'we need to improve our innovation processes and execution'.

There was a large drop from last year in the proportion of CEOs saying their company had walked away from a potentially profitable third-party relationship if that firm did not fit well with their own culture and purpose. Two-thirds of CEOs said that only via an increase in the use of third-party relationships could their organisation achieve the agility it needed.

And on a 'safe to fail' culture, there was a large discrepancy between CEOs' aims and realities. 80 percent said they wanted their employees to feel free to innovate without worrying about negative consequences if an initiative failed, yet only half that number actually felt their organisations had such a culture.

The resiliant CEO

The survey had some interesting findings on Australian CEOs' personal experiences and views of their roles.

More than two-thirds believed they were responsible for ensuring seamless connection between the front, middle and back offices to improve customer and brand experience in a way their predecessors were not. A similar majority said they were personally leading the technology strategy and were actively transforming their leadership team to enhance the company's resilience. A majority said their use of cloud technologies would increase in the next 3 years, although this was a smaller number than overseas.

Two-thirds said that the average tenure of CEOs as 5 years meant they were under pressure to act with agility and were putting in place measures to ensure their vision was realised after they had left. 76 percent admitted that earlier in their career they had had a significant mis-step that they had been able to overcome.

Possibly with the Hayne report fresh in CEOs' minds, two-thirds agreed that their companies could 'significantly improve our understanding of our customers'. Half admitted that, to date, their investments to personalise the customer experience had not delivered the hoped-for growth benefits. Two-thirds said that protecting customer data was one of their most important responsibilities, to allow the business to grow the customer base in future.


THE
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Making sense of
the bottom line...

IT'S HARD BEING A CFO

Being a CFO is tough enough, but for those who work in the mid-tier, it's harder still.

You have all the issues that come with managing and organising the finances of a multi-million dollar business, which is no mean feat in itself. And, as if that wasn't enough to fill up your week, more often than not, your boss will be kind enough to add sorting out the corporate IT to your list of responsibilities.

But It's Just Not Fair

If the business were big enough, you'd have a Chief Information Officer (CIO) or Chief Technology Officer (CTO) to perform this role. But for most mid-tier businesses with revenue under $120m or so, this additional expense is deemed a luxury they can ill afford.

This doesn't mean that your problems are any less complex though. IT for the big end of town may well be bigger, but in terms of complexity, there's often very little in it.

Your IT manager or managed service provider could be a valuable source of help, but they're typically too close to the technology to provide an objective, strategically aligned view. So, it comes down to the CFO, and unless you're one of a very small percentage of senior finance professionals who've had the opportunity to study IT practices at length, this is a somewhat unfair burden for you to have to shoulder.

The reality for most is that they have many years of training and experience under their belt in the world of finance, but rarely can the same be said about IT. Education comes in the form of an occasional one day course, reading books, journals and blogs, and the brutality of learning on the job, making day to day decisions that will hopefully keep the lights on.

Turn of the Century

10 or 20 years ago, progressive and forward thinking CFOs went on training courses or undertook an MBA, in an attempt to keep up with the changing IT landscape. But the rate of change then is as nothing compared to today.

Today, technology change is exponential, and showing no signs of slowing. 5G will be upon us soon, and the proliferation of internet of things devices and the many SaaS (Something as a service) offerings, means that unless you have specialist knowledge, there are simply too many options and it's impossible to keep up.

Worse still, the democratisation of technology solutions means that buying the latest and greatest packages no longer guarantees an edge. The playing field has been levelled and today's best in show is really only enough to help you keep up.

Trusted Advisors

This technological turmoil has the potential to severely impact profitability, something not lost on many in finance, who recognise the negative impact that poor technology choices can have on wage costs, team morale, marketing spends and customer lifetime value, to name but a few.

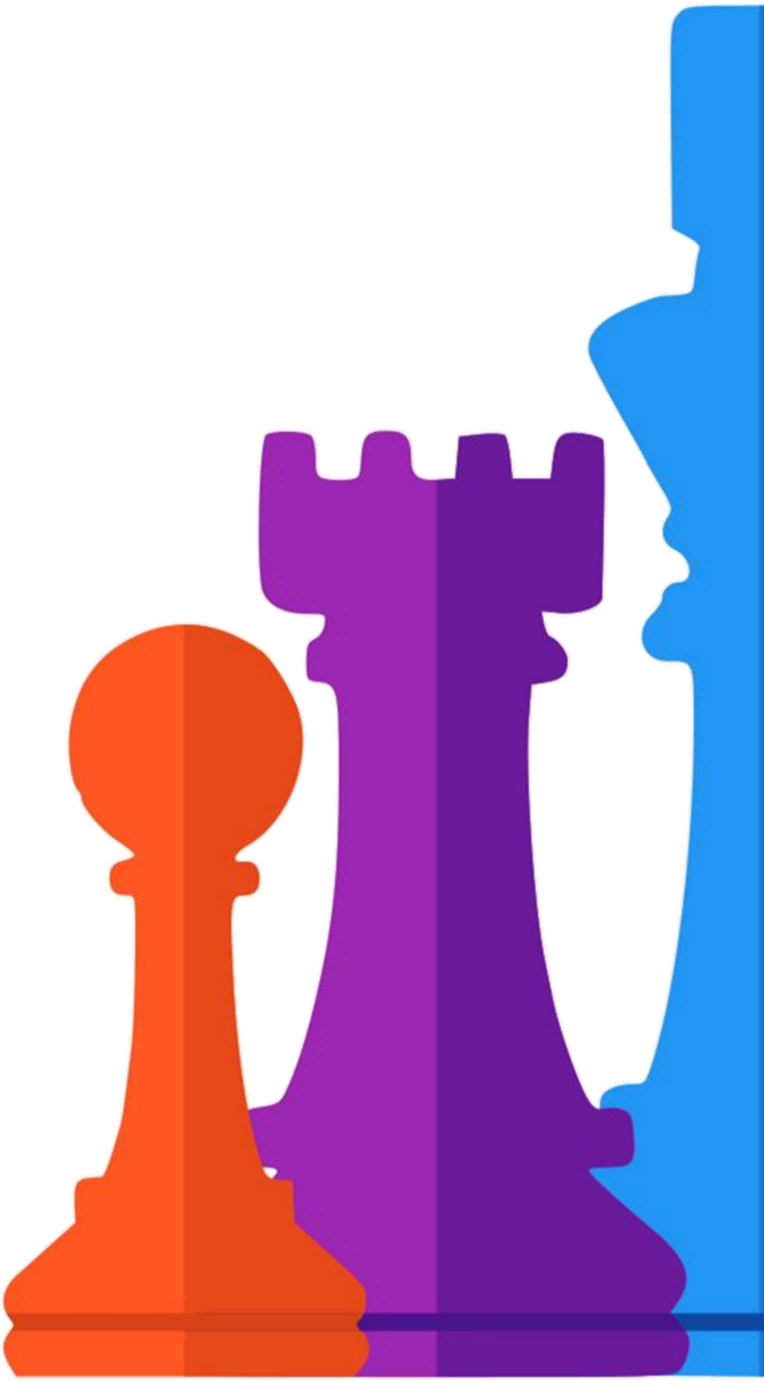
To counter this, progressive CFOs are now beginning to engage IT specialists and innovators, armed with new techniques and technology to help them improve every aspect of their offering, both internally and externally. An innovation mindset permeates the business, and incremental change through effective technology and process improvement is now the mantra. The whole team is equipped with up to date tools, tailored to their needs. They have the information they need at their fingertips, allowing them to deliver high quality services and exceptional value for their customers.

These are the market leaders and they're racing to the top.

Service and the bottom line are the winners.

Others CFOs are yet to grasp these opportunities, and they're finding that their only weapon is price.

They're joining the race to the bottom, and that's a race that no one ever wins.



About the Author

Stewart Marshall is an IT innovator, educator and strategist, and the bestselling author of 'Doing IT for Money: A Business Leader's Guide to Improving Profit Per Person'.

The founder of **MarshallFloyd,** he works with CEOs and CFOs of mid-tier businesses, teaching them how to work smarter to energise the team, engage with customers and improve their profit per person.

He's been solving business problems with technology for nearly 30 years, spending much of his career in R&D in the commercial software industry designing and building high-speed development tools and solutions used by thousands of businesses in Australia and around the world, including Proctor and Gamble, Kellogg's and Kawasaki.

THE RISE OF SUPER-JOBS: 1 OF 10 FUTURE OF WORK TRENDS

The rapid adoption of technology by business is leading to the rise of super-jobs, roles that leverage the significant productivity and efficiency gains that can arise when people work with technology, using it to both augment and broaden the scope of the work performed.

This is one of the ten trends for the future of work identified in Deloitte's 2019 Global Human Capital Trends report which explores how business needs to radically reinvent itself to meet societal expectations, adapt to rapid technological change and attract and engage workers.

Completed by nearly 10,000 respondents in 119 countries, Deloitte's ninth annual Global Human Capital Trends report is the largest longitudinal survey of its kind and shows how HR teams and business leaders are responding to the Fourth Industrial Revolution.

From jobs to super-jobs

A vast majority of organisations surveyed globally said they expect to increase or significantly increase their use of AI, cognitive technologies, robotic process automation, and robotics over the next three years, changing the nature of work.

Australia is a fast adopter compared to the global average. Three quarters (74%) of Australian businesses are hiring people with different skills due to the rise of automation in the past three years. Over half (52%) of Australian businesses are using automation extensively or across multiple functions (compared to 41% globally*)*. Eighty percent of Australian respondents (64% globally) indicate they expect the use of robotics to increase or increase significantly in the next three years. Half of Australian businesses are exploring the use of AI, with 35% already using it in selected functions and 95% say they expect their use of cognitive and AI technology to increase or increase significantly over the next three years.

As organisations adopt these technologies, they're finding that virtually every job must change, and that the jobs of the future are more digital, more multidisciplinary, and more data- and information-driven.

"Even though the workplace is being transformed by AI, robotics, and automation faster than many people expected, our research found that organisations are adapting along with the change," said Deloitte Human Capital lead partner, David Brown.

"The concept of a job is fundamentally changing. Paradoxically, to be able to take full advantage of technology, organisations must redesign jobs to focus on finding the human dimension of work. As machines take over repeatable tasks, jobs will become less routine. This will create new roles that we call 'super-jobs': jobs that combine parts of different traditional jobs into integrated roles that leverage the significant productivity and efficiency gains that can arise when people work *with* technology."

For example, a controller working for a mining operation centre in Perth and remotely managing the logistics for a fleet of autonomous mining trucks in the Pilbara has a super-job; or a doctor in Melbourne operating via telemedicine on a patient in Bendigo – both are enhancing human skills with technology.

"Super-jobs are machine-powered, data-driven and require human skills in problem-solving, communication, interpretation, and design. Super-jobs will combine work and skill sets across multiple business domains, opening up opportunities for mobility, advancement and the rapid adoption of new skills desperately needed today," said David Brown.

In a super job, technology has not only changed the nature of the skills the job requires but has changed the nature of the work and the job itself. Super-jobs require technical and soft skills, but also leverage the significant productivity and efficiency gains that can arise when people work with smart machines, data, and algorithms.

In the future, work will be defined by:

- The outputs and problems the workforce solves, not the activities and tasks they execute
- The teams and relationships people engage and motivate, not the subordinates they supervise
- The tools and technologies that both automate work and augment the workforce to increase productivity and enhance value to customers
- The integration of development, learning, and new experiences into the day-to-day (often real time) flow of work.

A need for continuous learning

Adapting to the rise of super-jobs is also forcing organisations to change the way their people learn. Reinventing the way people learn was seen as important or very important by 91% of survey respondents in Australia (86% globally) – the number one trend for 2019.

Three quarters (74%) of Australian businesses are hiring people with different skills due to the rise of automation in the past three years. Eighty percent (v 62% globally) are eliminating transactional work and replacing repetitive tasks and 68% are reskilling current employees.

"Leading organisations are empowering individuals' need to continuously develop skills by investing in new tools to embed learning not only into the flow of work, but the flow of life," said David Brown. "With the need to sustain 50-60-year careers as part of a 100-year life, lifelong learning has evolved from a matter of career advancement to workplace survival."

Within this context, the report identifies three broader trends in how learning is evolving: it is becoming more integrated with work; it is becoming more personal; and it is shifting – slowly – toward lifelong models. Effective reinvention along these lines requires a workplace culture that supports continuous learning, incentives that motivate people to take advantage of learning opportunities, and a focus on helping individuals identify and develop new, needed skills.

Talent is everywhere

As well as reshaping the nature of job design through super jobs, the report also noted that organisations needed to rewire their approach to engaging with the 'alternative workforce' – freelancers, gig workers, and outsourced/managed service providers.

Sixty percent of Australian respondents (v 33% globally) reported extensively using alternative workforce arrangements for IT and 26% for their operations (25% globally). Yet 56% said they either managed alternative workers inconsistently or had few or no processes for managing them at all. These organisations are using alternative workers tactically as a way to fill immediate requirements, not strategically as a long-term solution for the future. Only 12% of Australian respondents (8% globally) said that they have best in class processes to manage and develop alternative workforce sources.

"For years, many considered contract, freelance, and gig employment to be 'alternative work,' options supplementary to full-time jobs," said David Brown. "Today, this segment of the workforce is mainstream and leading organisations are looking strategically at all types of work arrangements in their plans for growth. Best practices to access and deploy alternative workers are only now being invented.

"Organisations should look strategically at all types of work arrangements – traditional and alternative – to redesign jobs to properly leverage strengths across all workforce segments, from gig workers to those with super-jobs."

Taking a stance on social issues a business imperative

The 2018 edition of the Human Capital Trends report identified the rise of the 'social enterprise', noting that over half of Australian businesses (53%) said social responsibility was not a focus for them. In the 2019 report, 83% agree or strongly agree that taking a stance on social issues is a business imperative in today's market. A quarter (26%) strongly agree that investors value the importance of social impact greater than financial performance. And 60% believe that taking a public stance on social issues can positively impact the recruitment and retention of staff.

"The past 12 months has seen a dramatic shift in business recognition of the contribution it needs to make to society," said David Brown. "The Financial Services Royal Commission has had a sobering effect on all types of business, with leaders recognising a need to move beyond mission statements and philanthropy and restructure their whole business to ensure they benefit society, not just shareholders.

"We see this trend continuing. Our research found that 61% of Australian businesses expect social enterprise issues to be even more important three years from now."

What else needs to change?

The report's 10 Human Capital Trends for 2019 are organised into three domains of business that need to be reinvented (the future of the workforce, the future of the organisation and the future of HR) and three approaches to reinvention (refresh: update and improve the way things happen now; rewire: create new connections that change the strategic direction; and recode: start over and design from scratch).

Access the 2019 Deloitte Global Human Capital Trends report and gain further insights into the data via Deloitte's digital-first trends research progressive web app.

Background

Read the separate media backgrounder explaining each of the ten trends for 2019, including key stats for Australia. 122 HR leaders in Australia were interviewed for the global survey.

What is a social enterprise?

A social enterprise is an organisation whose mission combines revenue growth and profit-making with the need to respect and support its environment and stakeholder network. This includes listening to, investing in, and actively managing the trends that are shaping today's world. It is an organisation that shoulders its responsibility to be a good citizen (both inside and outside the organisation), serving as a role model for its peers and promoting a high degree of collaboration at every level of the organisation.

Super-jobs Explained

In traditional job design, organisations create fixed, stable roles with written job descriptions and then add supervisory and management positions on top. When parts of jobs are automated by machines, the work that remains for humans is generally more interpretive and service-oriented, involving problem-solving, data interpretation, communications and listening, customer service and empathy, and teamwork and collaboration. However, these higher-level skills are not fixed tasks like traditional jobs, so they are forcing organisations to create more flexible and evolving, less rigidly defined positions and roles.

In a super-job, technology has not only changed the nature of the skills the job requires but has changed the nature of the work and the job itself. Super-jobs require technical and soft skills, but also leverage the significant productivity and efficiency gains that can arise when people work with smart machines, data, and algorithms.

PWC LAUNCHES NEW ANALYSER TOOL TO REVOLUTIONISE FINANCIAL COMPLIANCE

PwC Australia's Assurance business has built a new tool to help companies identify and predict potential risks by collating and analysing thousands of data points across multiple systems.

The Financial Processes Analyser enables organisations to monitor their financial transactions in real-time in one integrated model, bringing together payables, receivables, payroll and expenses data to give an organisation full visibility of its financial story.

Paul McMahen, PwC Data Assurance Partner, said: "Traditionally different financial processes are housed across multiple systems that don't always talk to each other. By feeding this data into one integrated application which monitors the data around the clock, management can identify unusual activity, trends or behaviours in real time and take swift action.

"The range and significance of anomalies the tool can pick up will include everything from duplicate payments to uncovering a supplier bank account that matches that of an employee, thereby indicating potential fraud.

"This type of analysis is crucial in helping business shift their focus to more real-time, forward looking compliance, enabling them to deal with control breakdowns or other issues as they occur and before they become a significant problem.

"The tool also includes machine learning capability, alerting management to developing trends from their data. For example, the tool could predict potential employees who may be a higher flight risk than others, or unusual employee expense claims which require investigation.

"The financial services royal commission has put a spotlight on compliance like never before. With ongoing regulatory reform, continuing operational challenges and evolving customer expectations companies are looking for ways they can better understand, explore and make informed decisions using the thousands of financial transactions they generate everyday."

The Financial Processes Analyser is the first in a series of tools that will be released by PwC across Asia Pacific to help organisations digitise their assurance and compliance functions.

MONTHLY WEBINAR SERIES

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Making the sharing of expertise and knowledge easier than ever; CMA Australia is breaking down the restrictions of interstate travel with our webinar series aiming to connect members nationally and internationally.

Stay connected and up to date with all the latest industry updates as well as expanding the conversation surrounding finance innovation and knowledge.

If you have a recommendation for a webinar which you feel would provide valuable information and development to fellow finance professionals, we would love to hear from you.

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CMA AUSTRALIA Certified Management Accountants

WHAT'S THE DIFFERENCE BETWEEN CREDIT AND DEBT? HOW AFTERPAY AND OTHER 'BNPL' PROVIDERS SKIRT CONSUMER LAWS

By Saurav Dutta, *Curtin University* and Lien Duong, *Curtin University*

Credit used to be straightforward. A company that let you own something and pay for it over time was called a credit provider. It might be a bank, a department store or a credit-card company.

Now there are "buy now, pay later" (BNPL) businesses. They too let you own something and pay for it over time. Yet these companies are not classified as credit providers.

Why is this?

A key reason is they don't technically charge interest.

Credit is defined in the dictionary as "a method of paying for goods at a later time, usually paying interest as well as the original money". Debt is simply "the amount of money you owe to someone else".

It's due to such distinctions that so many BNPL companies – including Afterpay, Zip and Splitit – have set up in Australia. Definitions in Australia's national credit law have created loopholes that enable BNPL companies to operate free of the obligations applying to credit providers.

The question therefore arises as to whether the law should make any distinction between credit and debt.

Legal loophole

The ways by which BNPL providers are not covered by the National Credit Act was examined by the Australian Securities and Investments Commission (ASIC) in 2018. The regulator looked at six leading BNPL companies and found:

- two of the companies (Afterpay and Oxipay) were not regulated under the National Credit Act because they did not technically charge consumers a fee on their debt
- the other four companies (zipMoney, Certegy, Openpay and Brighte) were not regulated because they charged upfront or periodic fees that were fixed, did not vary according to the amount of credit provided and were less than minimum specified amounts under the law.

Let's take a closer look at Afterpay, because it is an industry leader. Note the exact way other BNPL companies collect revenue might differ considerably, as indicated by the following data compiled by ASIC.

Because BPNL companies are not regulated under the Credit Act, Afterpay is not legally required to observe the Act's responsible lending obligations, which include performing a credit check and verifying a customer's income and ability to pay a debt back.

As The Sydney Morning Herald put it:

> ***"It's a stroke of genius – from the perspective of the company and its shareholders. From the perspective of consumer groups, not so much."***

Afterpay reserves the right to do credit checks (according to clauses 6.1 and 6.2 of its customer agreement) but it can otherwise approve a customer request almost instantly. This makes it very convenient; but also increases the risk it will be dishing out money to people that can't afford to get into debt.

Interest alternatives

In lieu of charging interest, Afterpay relies on two mechanisms to make a profit.

About three-quarters of its revenue comes from merchant fees. On every purchase, Afterpay charges the merchant a commission of 4-6% of the value of the transaction, plus 30 cents.

The other quarter comes from late fees, imposed on customers when they fail to make repayments on time.

Afterpay's standard repayment period is two months, with customers expected to make four equal payment every two weeks. If you miss a repayment to Afterpay, you will be charged $10, and a further $7 if the payment remains unpaid seven days after the due date.

So late fee could really add up. On a debt of $150 (the average order, according to Afterpay) just one $10 late fee translates to an effective interest charge 6.67% for the fortnight. Just consider what having to pay a couple of late fees would equal in terms of an effective annual interest rate.

A growing reliance

As the above comparative chart of revenue sources indicated, late fees make up a larger portion of Afterpay's than other BNPL providers.

The proportion of its annual revenue coming from late fee has also been increasing as its total revenues escalate. In the 2016 financial year, late fees contributed 16.25% of Afterpay's revenue. In 2018 it was 24.6%.

By way of comparison, late fees, on average, comprise less than 1% of revenue for Alinta Energy, and 7.35% for credit card companies.

Encouraging irresponsibility

About 75% of Afterpay's customers are aged 17 to 37, according to the company. This means its customer base is skewed more towards younger people than BNPL providers generally. ASIC estimates 60% of BNPL users are aged 18 to 34, and 40% earn less than A$40,000 a year.

The nature of BNPL services encourages customers to make impulse purchases. As a result, ASIC's research has found:

- 81% of users agreed BPNL arrangements allowed them to buy more expensive items than what they could afford in a single payment
- 70% agreed BNPL allowed them to be "more spontaneous"
- 64% agreed BNPL enabled them to spend more than they normally would, and
- about 16% had either become overdrawn, delayed bill payments or borrowed more money because of a BNPL debt.

What this suggests is there are good grounds to close the legal loopholes that allow debt providers to operate under a different set of rules to credit providers.

Saurav Dutta, Head of School at the School of Accounting, *Curtin University* and Lien Duong, Senior Lecturer in Accounting, *Curtin University*

HOW TO SUCCESSFULLY ASK FOR A PAY RISE

57% of Australians say a salary increase is their number one career priority this year, with 46% intending to achieve this by asking their boss for a raise.

But asking and receiving are two very different things. To ensure your pay rise request is successful, there are certain steps you must take, advises recruiting experts Hays.

“Asking for a pay rise can be nerve-racking,” said Nick Deligiannis, Managing Director of Hays in Australia & New Zealand. “Many people avoid it altogether because they find it too difficult to broach this topic, while others prepare incorrectly and so fail to maximise their worth.”

“But with the latest data showing that the overall value of pay rises is falling, Australians are increasingly prepared to have this tricky conversation with their boss in order to improve their earnings.”

Here’s Hays’s advice on how to successfully prepare for your pay rise request:

1. Gather your supporting evidence

“Firstly, for your salary increase request to be successful, you need to show your boss why you deserve a raise,” says Nick. “It’s not enough to say the cost of living is increasing or that you’re generally doing a good job. You must have specific and quantifiable evidence to present to your boss.”

Nick suggests you ask yourself, “What have I achieved since the last time my pay was increased that warrants a raise today?” To answer this question, prepare a list of your recent achievements that exceed your objectives. It may help to look back at your last review or your original job description. Then list any changed or rising work volumes or duties you’re now undertaking and consider projects you’ve been involved in.

For each accomplishment, list the resulting benefit to the organisation. The aim here is to provide strong evidence to justify a pay rise, so focus on outcomes. For example, perhaps you have brought in 22% more business year-on-year, are managing a 25% increase in the overall volume of work or were involved in a project that exceeded objectives.

“Whatever evidence you gather, the key point to remember is that it needs to demonstrate the greater value you now bring to your employer,” advises Nick.

2. Research typical market salaries

Next, research the salary you feel your performance and results are worth by reviewing a recent Salary Guide. This enables you to back up your request with evidence and demonstrate that the salary you are asking for is in line with current market rates. The **Hays salary check** is a quick and easy tool that helps you understand typical salaries and your potential earnings, based on your job details and location.

3. Set the meeting and remain professional throughout

You are now ready to ask your manager for a meeting to review your salary. Don't spring this conversation on your boss though, warns Nick. "She or he could be in the middle of an urgent task or their attention could be required elsewhere. Instead, book a time with your manager and clearly state that the objective of your meeting request is to present your case for a salary review."

When it comes time for this meeting, Nick suggests you keep it professional. "Take control, but stay calm and focused," he said. "Do not become emotional and do not talk of how much money you need, such as rising bills or the cost of living. Instead, clearly present the evidence you've gathered to support your pay rise request."

"If you've gathered appropriate evidence, you'll have strong grounds for an increase that are hard to ignore."

Nick also suggests that preparing a sheet of paper on which you document your evidence will help keep your boss from altering the trajectory of the meeting. "If you are feeling nervous, it will also provide you with notes to refer to so you don't forget to present all your proof."

Don't expect an answer straight away though. "In all likelihood your boss will need to review their budget, talk to HR and draft the necessary documentation before your pay rise becomes official," says Nick.

"At the conclusion of the meeting, let your boss know that you'll follow up with an email summing up your request. Your email should be a clear, concise and accurate summation of the main points you presented and discussed. This provides you with a written record of your conversation and ensures there's no room for confusion or misunderstanding."

4. Be prepared to negotiate

Your boss may want to negotiate the value of your salary increase. According to Nick, you need to be prepared to discuss, at length if necessary, the salary you feel your results are worth. "Throughout this discussion, keep in mind your justifications for asking for a pay rise in the first place. Also consider how much you are willing to compromise – it can help to have an ideal salary increase figure in mind as well as the minimum increase you feel your results are worth."

5. Have a fall-back position

"You should also have a contingency plan in case your employer comes back to you with the news that she or he cannot afford to increase your salary at this point in time," suggests Nick. "For example, can you agree a date for another pay review in three or six months? Or could your boss instead offer additional benefits, such as working from home or an alternative location one or two days a week, paying for additional study or membership of a professional body, or providing you with extra annual leave?"

The FY 2019/20 **Hays Salary Guide** is based on a survey of more than 3,400 organisations in Australia, representing over 4.7 million employees, in addition to a survey of 1,600 skilled professionals.

REGIONAL OFFICE AND BRANCH NEWS

CFO FORUM HELD IN INDONESIA

The ICMA (Australia) Indonesia Branch in collaboration with IAMI (Institute Accounting Management Indonesia) and sponsored by Culture Royale Group and Ismaya Group had a very successful CFO Forum on 27 April 2019 in Jakarta. The topic was *"CFO Strategy Growth Business from Local to Global in F&B Industry: The Success Story of the Ismaya Group and Culture Royale Group".*

The keynote speakers were Ms. Ervinawaty, MM, CMA, the Indonesian Best CFO 2019 (Business Analysis) and CFO Ismaya Group; and Mr. Rudy Pinem MBA, CA, CPA, CMA• CFO Culture Royale Group.

The Ismaya Group which has the brands: Djakarta Warehouse Project (DWP), Blowfish, Dragonfly, Kitchenette, Social House, etc.; and the Culture Royale Group has the brands: Culture Royale Premium Catering, Wedding Pantry, Dapur Panglima, Dill in the Box, Cait&Becs,Manumbing Heritage Hotel, Samisara grand ballroom etc.

In attendance were finance directors, CFOs, financial controllers, finance managers and finance professionals from various industry.

The recently re-elected Indonesian President, President Joko Widodo, with ICMA Indonesia Branch President, Mr. Daniel Godwin Sihotang.

From Left to Right: Ms. Ervinawaty, CFO Ismaya Group; ICMA Indonesia Branch President, Mr. Daniel Godwin Sihotang.and Mr. Rudy Pinem CFO Culture Royale Group at the CFO Forum in Jakarta.

Some of the Participants at the CFO Forum in Jakarta. The event was organised by ICMA (Australia) Indonesia Branch in collaboration with IAMI (Institute Accounting Management Indonesia) and sponsored by Culture Royale Group and Ismaya Group.

DUBAI BRANCH DELIVERS 25TH CMA PROGRAM

The 25th CMA program was conducted by the SMART Education Centre in Dubai, UAE in April 2019. The program was again facilitated by and Dr Chris D'Souza, ICMA CFO, who covered the *Strategic Cost Management* subject; and Professor Janek Ratnatunga, the CEO of ICMA Australia who covered the *Strategic Business Analysis* subject.

Participants busy undertaking the production simulation game; where each group has to make products of an acceptable quality and compete against other groups

It was a lively 7-days of intensive leaning on the strategic issues of management accounting. Once again, the participants were extremely senior professionals from leading companies in the Gulf region. The countries from which the participants came from included Saudi Arabia and Sudan; and all regions of the U.A.E.

The Participants of the 25th CMA program in Dubai. In the picture are Professor Janek Ratnatunga and Dr. Chris D'Souza who facilitated the program

7TH INTENSIVE CMA PROGRAM IN CAMBODIA

The 7th Intensive CMA program has commenced at the Phnom Penh Hotel, Phnom Penh. Prof Janek Ratnatunga facilitated both the *Strategic Cost Management* course from May 13-15, 2019. And the *Strategic Business Analysis* course from May 18-21, 2019.

A one-day Continuing Professional Development (CPD) program was conducted for CMA members in Cambodia by Prof Janek Ratnatunga on the subject of "Enterprise Risk Management" on May 19 2019. Many CMAs attended the program which was also a great networking event.

Some of the Participants of the 7th CMA program in Phnom Penh, Cambodia. In the picture is the program facilitator, Prof. Janek Ratnatunga.

1Some of the Participants of the CPD program on "Enterprise Risk Management" for CMA members in Phnom Penh, Cambodia. In the picture is the program facilitator, Prof. Janek Ratnatunga.

Cambodia is one of 50 countries which has members in ICMA Australia, Australia's only post-graduate level management accounting professional association, and ICMA Australia has around 17,000 members globally.

SINGAPORE MANAGEMENT UNIVERSITY ACADEMY (SMU ACADEMY) DELIVERS THE 1ST CMA PROGRAM IN SINGAPORE

The first CMA Intensive program in Singapore, *Strategic Cost Management* was conducted by Professor Janek Ratnatunga at the Singapore Management University Academy (SMU Academy) in Singapore in May 27-29, 2019. The course was organized by the excellent team at SMU Academy led by Mr Cary Chan. Those who complete the assessments will also be awarded the *Certificate of Proficiency in Strategic Cost Management* jointly by ICMA and SMU Academy.

Prof Brendan O'Connell will be facilitating the *Strategic Business Analysis* course on July 18-19, 2019 (Part 1); and again, on September 2-3, 2019 (Part 2). Those who complete the assessments for Part 1 will also be awarded *Certificate of Proficiency in Marketing & Pricing Analysis*. Those who complete the assessments for Part 2 will also be awarded the *Certificate of Proficiency in Driving Strategic Value* jointly by ICMA and SMU Academy. The successful completion of all 3 Certificates of Proficiency will satisfy the academic requirements for the CMA Certification.

The course received excellent reviews from the students, which has prompted SMU Academy to schedule the second intake for *Strategic Cost Management* on October 24-26, 2019; and *Strategic Business Analysis* November 1-4, 2019.

Some of the Participants of the 1st Strategic Cost Management program at the SMU Academy in Singapore. In the picture is the program facilitator, Prof. Janek Ratnatunga, and the Regional Director for ICMA in Singapore, Dr Zahabar Ali (4th from Left).

Some of the happy female participants of the 1st Strategic Cost Management program at the SMU Academy in Singapore. They insisted on taking this picture with the program facilitator, Prof. Janek Ratnatunga.

INDONESIA BRANCH SIGNS MOU WITH LEADING INDONESIAN UNIVERSITIES

In April 2019, ICMA signed MoU with a number of universities in Indonesia. The first was *Universitas Katolik Dharma Cendika (UKDC) Surabaya.* The signing was done on April 18 2019 by Dr. Y. Budi Hermanto, M.M., the Rector of Universitas Katolik Dharma Cendika (UKDC) Surabaya and Mr. Daniel Godwin Sihotang, CMA Indonesia Branch President ICMA Indonesia.

On the same day, on April 18 2019, an MoU with ***UPN Jawa Timur.*** The signing was done by Prof. Dr. Ir. Akhmad Fauzi, MMT, Rector of UPN Jawa Timur and Mr. Daniel Godwin Sihotang, CMA Indonesia Branch President ICMA Indonesia.

On 20 April 2019, an MoU with ***Universitas Negeri Surabaya (UNESA) Jawa Timur.*** The signing was done by Dr. Anang Kistyanto, S.Sos., M.Si., Dean of FE at UNESA and Mr. Daniel Godwin Sihotang, CMA Indonesia Branch President ICMA Indonesia.

CMA EVENTS CALENDAR

- 1st CMA Train-the-Trainer Program, conducted by STRACC Learning LLP in Delhi, India **6 July 2019**
- Certificate of Proficiency in Strategic Analysis (SBA part 1), SMU Academy, Singapore **18 July 2019**
- 5th CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting. **18 July 2019**
- 1st CMA Intensive Program at Grand Mercure Hotel, Medan, Indonesia, organised by Inspire Consulting. **21 July 2019**
- Certificate of Proficiency in Driving Business Value (SBA part 2), SMU Academy, Singapore **2 September 2019**
- 47th CMA Preparatory Program, conducted by Business Sense Inc, Manila, Philippines **7 September 2019**
- 2nd CMA Train-the-Trainer Program, conducted by Workplace Skills Development Academy (WSDA), Dhaka, Bangladesh **11 October 2019**
- 1st CMA Train-the-Trainer Program, conducted by Academy of Management Accountancy, Kathmandu, Nepal **18 October 2019**
- Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore **24 October 2019**
- Certificate of Proficiency in Driving Business Value (SBA part 2), SMU Academy, Singapore (2nd Intake). **3 November 2019**
- 26th CMA Preparatory Program, SMART Education Group, Dubai, UAE **9 November 2019**
- Hall of Fame Awards Dinner, Melbourne, Australia **20 November 2019**
- Frontiers of Accounting Symposium 2019, Melbourne, Australia **21 November 2019**
- ICMA 'Hall of Fame' programs in Indonesia, the Philippines, Vietnam, Hong Kong, Thailand and Singapore. **6 December 2019**

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Syme Business School, Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Singapore Management University Academy (SMU Academy)

Business Sense, Inc. , Philippines

HBS for Certification and Training, Lebanon

SMART Education Group, UAE

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

TOP Academy, East Malaysia

Segal Training Institute, Iran

Ruwan Hulugalle & Co., Mekong Delta (Cambodia, Thailand, Myanmar)

PT Angka Bisnis Indonesia (Business Number Consulting), Indonesia

Inspire Consulting, Indonesia

ManAcc Consulting, New Zealand

STRACC Learning LLP, India

Workplace Skills Development Academy (WSDA), Bangladesh

Ra-Kahng Associates Ltd, Thailand

Academy of Management Accountancy, Nepal

Singapore Training Institute, Singapore

Blue Globe Inc, Japan

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MEMBERSHIP RENEWAL

ICMA Membership Renewal emails will be sent to your nominated email address starting early May for your July 2019 – June 2020 membership.

If you renew before 30 June you will be able to avail the Early Bird Discount.

For more information on your renewals, contact the head office on info@cmawebline.org

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