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The Case for Statutory Cost Audits: Qantas' Dubious 'Middle Seat' Costings

CMA AUSTRALIA Certified Management Accountants

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THE CASE FOR STATUTORY COST AUDITS: QANTAS' DUBIOUS 'MIDDLE SEAT' COSTINGS

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This article makes the arguement that Qantas' cost and price calculations should be independently audited.

It is an indisputable fact that large-and small-scale businesses, NGOs and non-profit enterprises all need ***reliable cost information*** to take strategic decisions that will affect the future of their stakeholders. This is true also of Governments. The Australian Federal Government, whilst being deservedly praised for its handling of the COVID-19 crisis, still made a A$65 Billion calculation error because if its faulty forecasting of the impact of the pandemic.[1]

The Australian government's JobKeeper subsidy was originally forecast to support more than 6 million jobs. However, Dr Steven Kennedy, the Treasury secretary said that the original estimates were made in late March when it appeared the Australian economy could contract by almost 25 per cent in the June quarter. This was based on lockdowns similar to those put in place overseas that were forecast to result in 4.8 million people not working over a two-month period. This amounted to a subsidy of A$130 billion. This number was then confirmed when some businesses had responded to a question about numbers of eligible staff with figures that had erroneously inflated the number of expected recipients – which happened to be closely in line with the Treasury's own forecasts.[2] This double-costing-error luckily went in the government's favour giving it an opportunity saving of A$60 Billion.

In an article published on March 31 titled "**Financial Modelling Wars: COVID-19 vs. the Economy**", I used a management accountant's approach to calculating the cost of the economic impact, and showed that the government could save at least A$65 Billion in worker-support costs if certain immediate actions were taken. It has now come to pass that this is almost exactly the savings that the government will benefit from due to its economic forecasting error. Rather than taking the macro-costing approach of economists; the government would have had fewer red faces if they had taken the micro and granular costing approach of management accountants.

Hot on the heels of the A$60 Billion JobKeeper subsidy forecasting error; the Australian Government had to deal with another erroneous cost calculation referred to as **'***Robo-Debt'***.**

In 2016, Australia's Social Security agency, *Centrelink*, introduced a new automated system to try to detect overpayments to past and present recipients of its social security payments. A letter was sent advising past recipients of a potential debt and asked them to provide further information about their income such as payslips, etc. If a recipient did not respond, Centrelink obtained income information from the Australian tax Office (ATO) and *averaged it* over multiple fortnights to determine the existence of a debt. If additional information was provided, Centrelink took that into account when calculating a potential debt.

In late 2019, after losing a test case at the Federal Court, the Australian Government conceded that income averaging of ATO data was not a lawful way to accurately calculate a debt; and on May 29, 2020, announced that it will give refunds to about 470,000 wrongly-issued debts. The refunds are linked to about 373,000 Australians, as some people were made to repay Centrelink multiple times.

The government initial cost estimate was that the repayments were in the vicinity of $720 million. However, it has been revealed in media reports that internal Government estimates have shown that the total value will be close to $1.5 Billion – according to a source familiar with the refunds process.[3]

As one can see, the implications of getting cost numbers wrong is staggering. Faulty costings result in faulty strategic decision making in pricing, quality, marketing, supply-chain, product mix etc.; which then have a flow on effect in many related industries. Governments often make funding and other regulatory decisions to support various industries based on faulty cost information that are not subject to any statutory controls. These decisions can amount to millions of dollars of taxpayer funds.

The Qantas Case

Let us now look at the example of Qantas, Australia's largest airline. Many people, even in Australia, think it is government owned, rather than a public company owned by shareholders who naturally want a return for their investment via profits and dividends.

When the COVID-19 lockdowns severely disrupted the viability of Australia's two domestic carriers, Qantas and Virgin, the Australian government had to finalise a deal with them to underwrite a minimum domestic network, to the value of $165 million.[4] It is unclear how the costs of running a minimalistic domestic network were presented by the airlines to the government – e.g. were they based on full costs or variable costs; and were the indirect costs allocated based on volume, activity or time? One can only assume that the government accepted the numbers presented by the airlines without undertaking a fully independent cost audit, by a trained cost auditor.

Qantas, Virgin Australia and their respective budget arms Jetstar and Tigerair, have stated that they have cut their combined domestic flying to 128 return services per week underwritten by the government.[5] For Qantas, that is around 5 per cent of its normal schedule. The airlines currently enforce some social distancing on domestic flights by leaving one seat empty between passengers; which has been possible, they say, because of the government underwriting and because of very low passenger numbers.

However, this reprieve from the planes' dreaded "middle seat" could be short-lived as airlines prepare for interstate travel restrictions to ease. But Qantas and Jetstar have stated that they will no longer leave an empty seat between passengers to provide a level of social distancing on board; because, they claim, it is impractical, unnecessary and would result in exorbitant airfares.

Qantas Group medical director Dr. Ian Hosegood has claimed that the risk of catching coronavirus on a plane is extremely low due to the fact air in the cabin runs through hospital-grade HEPA filters every five minutes, removing 99.9 per cent of all particles including viruses, while also injecting fresh air from outside.[6]

This is an incredible statement on multiple grounds. COVID-19 is not an airborne virus per se, but one via droplet transmission which occurs when a person is in in close contact (within 1.5 m) with someone who has respiratory symptoms. Also, it can be passed on by direct contact with infected people and indirect contact with surfaces in the immediate environment.[7] As such, due to the hours spent huddled up to strangers and well-worn tray tables, planes have long been considered a hotbed for germs, with some passengers certain they suffer colds or other illnesses after lengthy flights. Anyway, the "virtually moisture-free" conditions inside a plane cabin mean one is extra vulnerable to airborne infection. Respiratory infection and viruses are all known to thrive in conditions of low-humidity, which includes everything from the common cold to far worse.[8] Another factor that goes against the Qantas Group medical director's low-risk view is that more than 59 Qantas employees (including 37 cabin crew) have become infected with the coronavirus; and they are exploring options, including a class action, alleging the airline failed to adequately protect them against COVID-19.[9]

With regards to the issue of seat configuration, the research led by Emory University's Vicki Stover Hertzberg et. al., should be considered.[10] Theirs was the first study to quantify transmission during transcontinental flights; by observing how people moved about the cabin, and how this movement affected the number and duration of their contacts with others. Their study found that passengers in window seats have the lowest likelihood of coming into contact with an infected person; and that illnesses are most likely to be transmitted only to passengers within one row of the infected person.[11] This and other studies have resulted in a growing concern about the possibility that international airline crews could become a vector for infections into the community.[12]

With national and international borders set to open in the near future, social distancing and seat configuration on aeroplanes has become a hot topic. Best practice can be achieved,[13] but at what cost; and how will it affect prices? The *International Air Transport Association (IATA),* the global industry trade group, is leading calls against the practice and warning it could cause airfares to jump by about 50 per cent.

This view is shared by Qantas, with its Chief Executive Officer, Mr. Alan Joyce, stating that:

Social distancing on an aircraft is impractical… an empty seat only provides a 60-centimetre gap between passengers. To provide the recommended 1.5-metre distance between people would mean Jetstar could only board 22 passengers on a 180-seat Airbus A320.That means airfares are going to be eight to nine times more than they are today.[14]

In this article we will demonstrate that the need for such exorbitant price increases is an exaggeration by Mr. Joyce; and is clearly meant to jolt the government into 'kowtowing' to the needs of Qantas' board and shareholders – rather than the safety of the passengers who elect to fly in an iconic Australian-branded airplane. The 1.5-metre distance between people is recommended only when there is no other physical barrier. With other barriers, such as plastic screens between seats, and innovative seating arrangements, the load capacity can be significantly increased to around 70-75% of full capacity. Some suggested strategies to achieve this will be discussed later in this article.

Qantas' strategy in putting profit before the safety of their customers is no different to the recent corporate scandals at Boeing and Volkswagen.[15] The Boeing case is particularly relevant to the current Qantas strategy. Boeing used the MCAS software in its 737 Max – which was a cost minimizing way to fix a nagging design problem. Then, as the U.S Congress had mandated its Federal Aviation Administration (FAA) to "delegate fully" safety functions to the industry itself, Boeing 'self-approved' its own faulty design. By putting short-term profit ahead of social responsibility; the

company, once-venerated for the safety and integrity of their aircraft, may well go into liquidation for the loss of this reputation.

Qantas, like all airlines, is at a watershed moment. It has an enviable reputation for safety built over exactly hundred years.[16] It could all be lost if it chases profits by putting its customers and crew at risk of infection.

The Australian government has an important role to play in this saga. It can "delegate fully" the in-cabin social distancing decisions to the aviation industry; or develop stringent government regulation not only to ensure that its citizens are protected when they fly; but also, to ensure that there is no price gouging by the dominant players in the industry.

Qantas, will have no domestic competition should Virgin cease to operate. It has already flagged "eye-watering" airfares, if it is required to adhere to social distancing expectations.[17] Is this cost-recovery or monopolistic pricing? To answer this question, we need solid, reliable, and independently verified cost information.

What Does It Cost to Operate an Aircraft?

A study published in a peer-reviewed journal in 2006 by William Swan and Nicole Adler gives us a very good starting point to make an estimate.[18]

The paper disaggregates aircraft operating costs into various cost categories and provides background for an engineering approach used to compute a generalized aircraft trip cost function. Engineering cost values for specific airplane designs were generated for a broad spread of operating distances, enabling a direct analysis of the operating cost function. The resulting data points were used by the authors to calibrate a cost function for aircraft trip expenses as they vary in seating capacity and distance.

This is particularly important to note, as such a direct operating cost approach avoids the problems associated with allocations based on historical financial reporting frameworks and practices such as *Generally Accepted Accounting Principles (GAAP)* and *International Financial Reporting Standards (IFRS)*.

In their paper, the authors explain how they created two formulas for estimating the cost of operating a commercial flight in the United States. The costs are in US Dollars. There are separate formulas for short-haul flights operated by narrow-body aircraft, such as Boeing 737s, and long-haul flights on wide-body aircraft like Boeing 747s. The two formulas are needed because smaller aircraft can take off and land more efficiently, while long-haul aircraft are more efficient when cruising at altitude. The formulas take into account the flight's distance and the number of seats on the aircraft.

Their formula for a *short-haul aircraft* average trip cost is simplified as follows:

1. ([Distance in km] + 722) x ([number of seats on plane] + 104) x 0.019

The formula for calculating a *long-haul aircraft* average trip cost is simplified as follows:

1. ([Distance in km] + 2200) x ([number of seats on plane] + 211) x 0.0115

[Calculations pertaining to some selected Qantas aircraft and routes will be provided later in the article.]

These formulas account for the cost of one aircraft trip, considering costs including pilots, cabin crew, fuel, insurance, airport and air traffic control fees, maintenance and aircraft ownership costs. In reality, aircraft trip costs only account for 50-60% of an airline's total operating costs – many of which are fixed. The overall cost to an airline of operating a flight, taking all of the airline's other expenses into account, is obviously higher; and this is where there are often creative allocations made to show regulators (such as those in the Telecommunications and Petroleum industries) that the costs of running their businesses are high; in order to justify approval of price increases by the regulators.

Of course, the Swan and Adler paper was published in 2006, and the costs are just averages for aircraft at the time. Newer aircraft may be more fuel efficient, some airlines may pay their staff less, and so on. Planes with high-density configurations – which are typically low-cost carriers – also have a lower operating cost on a per-seat basis.

Assuming that the formulas are still, by-and-large, relevant in 2020, it would cost an airline just over A$10,500 to fly a short-haul aircraft like the Boeing 737 from Sydney to Melbourne, meaning they needed to make at least A$60 in revenue from each seat to make a profit. For an aircraft like the Airbus A380, it costs almost A$200,000 to run an ultra-long-haul flight such as Qantas' Sydney-Dallas route. These are the results calculated by type of aircraft for some of the routes:

Aircraft type	Origin	Destination	Distance (km)	Seat Capacity (All Classes)	Trip cost (USD)	Trip cost (AUD)	Average cost per seat (AUD)
Boeing 737	Sydney	Melbourne	705	175	$7,565	$10,510	$60
Airbus A330	Sydney	Melbourne	705	270	$16,069	$22,326	$83
Boeing 737	Brisbane	Auckland	2298	173	$15,894	$22,083	$128
Boeing 737	Sydney	Denpasar	4618	174	$28,206	$39,189	$225
Airbus A330	Sydney	Denpasar	4618	271	$37,792	$52,508	$194
Airbus A380	Sydney	Dallas	14566	484	$134,002	$186,181	$385

The exact price depends on a whole range of factors. Many of these factors change daily such as the price of fuel, exchange rates and the weather.

As one can see the 'cost' per seat is averaged over first, business and economy class seats in the formulae given. These costings could be further refined by the area taken, and the extra services provided, by each class of seat. Despite these possible refinements to the basic formulae; it is unlikely that the maximum increase in terms of cost per seat for business and first class would be more than twice that of an economy seat – although the pricing can be 5-10 times higher depending on class of travel. In a budget airline with only economy class seats (thus more overall seats and packed tighter), the cost per seat will be significantly lower. However, obviously, the 'price-per-seat' is a different matter; depending on the class of travel.

How to Solve the Seat Capacity Issue?

From the above discussion, it can be seen that the 'cost per seat' which is averaged across the aircraft is different from a 'price-per-seat' which is dependent on class of travel.

If the airlines are going to continue with the middle-seat empty policy, then on aircraft with a 3-3 seat configuration, there will be 2 seats free per row, i.e. 33% of available capacity. On a wide-bodied aircraft with a 3-4-3 seat configuration, there will be 4 seats free per row, i.e. 40%. However, this does not, by itself, provide the recommended 1.5-metre distance between people for social distancing. It must be enhanced by with other physical and logistical barriers, such as:

- Compulsory face masks and easy access hand sanitizers;
- Transparent plastic screens in the middle of the empty middle seat (s) and in the aisle-side of the seat; designed for easy access by crew members during meal times;
- Protection screens provided between rows at the widow seats;
- Economy seats prevented from being lowered more than a few centimetres, to provide additional protection to the person in the row behind;
- Staggered meal servings (e.g. every other row is served during multiple meal times)

To increase capacity on long-haul flights; the seating configuration could be modified in the 4-seat section in the middle of a row (i.e. seats D, E, F & G). Every other row can have the plastic screen in the middle of either Seat F or E. This will leave seats D&E (or F&G, depending on the row) for couples who are not socially distancing from each other. Similarly, families can book 3 or 4 seat configurations in both long-haul and short-haul flights, if they do not need to socially distance from each other. [Those in adjoining rows will be protected by the plastic screens on the aisle seats].

Such innovative seating arrangement will increase seating capacity on wide-bodied long-haul flights by at least 60 seats (or +12%) and on short haul flights by at least 20 seats (+12%). This will increase maximum load capacities to 70-75% and still maintain a reasonable social distancing regime. The passenger flying experience may not be as bad as it sounds, if there is no passenger in the dreaded middle seat in economy class.

The costs per flight per aircraft per destination with the reduced capacities are given below.

Aircraft type	Origin	Destination	Distance (km)	Seat Capacity (All Classes)	Trip cost (USD)	Trip cost (AUD)
Boeing 737	Sydney	Melbourne	705	175	$7,565	$10,510
Airbus A330	Sydney	Melbourne	705	270	$16,069	$22,326
Boeing 737	Brisbane	Auckland	2298	173	$15,894	$22,083
Boeing 737	Sydney	Denpasar	4618	174	$28,206	$39,189
Airbus A330	Sydney	Denpasar	4618	271	$37,792	$52,508
Airbus A380	Sydney	Dallas	14566	484	$134,002	$186,181

As one can see, the trip costs remain the same, but as expected the costs per seat increase. Even if such cost increases are passed onto consumers, they are not as 'eye-watering' as claimed by Qantas. The maximum for an ultra-long-haul flight is just A$96. Airfares need not be eight to nine times more than they are today, as the Qantas CEO, Mr Joyce claims, unless airlines resort to price gouging under the pretext of social distancing. This could well happen, of course, if there is a lack of competition in the Australian domestic market.

Conclusion

A financial audit of past transactions has very little decision information to make strategic decisions, especially if the past is very different to what the environment is going to be in the future. In a world of uncertainty, the one thing we are certain about is that the Post-COVID-19 business environment is going to be very different from anything experienced in the past. Yet, governments have placed statutory obligations on financial statement auditors in auditing the past; but cost auditors have no such statutory backing in auditing numbers that affect future performance.[19]

A strategic cost audit is an in-depth review to determine whether a company is meeting its organizational objectives in the most efficient way. Additionally, it examines whether the company is utilizing its resources fully and in an environmentally sustainable manner. A successful strategic cost audit is beneficial to any company. It ascertains the accuracy of cost calculations to ensure that they are in conformity with cost accounting principles, plans, procedures and objectives.

Faulty costings result in faulty strategic decision making in many business areas especially pricing and supply-chain management. Using the Qantas case as an example, it is demonstrated that governments need independent verification of costs and prices, in order to ensure sound regulatory oversight of companies that come to them lobbying for bailout funds, tax incentives, reduction of tariffs and the like.

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

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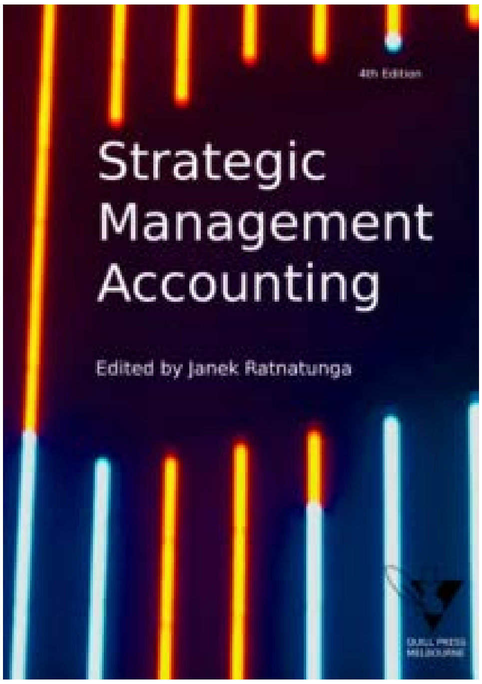

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FUNDING MANUFACTURING POST COVID-19: A NATIONAL SECURITY ISSUE

The $60B JobKeeper 'Windfall' – Best Used to Boost Local Manufacturing Capabilities

It is good to be right; even if it's for the wrong reasons! In my article entitled, "**Financial Modelling Wars: COVID-19 vs. the Economy**", published on March 31, 2020, I said that the government could save at least $65 Billion in worker-support costs if certain immediate actions were taken. It has now come to pass that this is almost exactly the savings that the government will benefit from, due to a large reporting error in estimates of the number of employees likely to access the JobKeeper program.[1]

Of course, my reasoning was based on management accounting cost calculations rather than a self-reporting error by 1000's of Australian businesses.[2] I suggested that by boosting the number of ICU beds and offering financial incentives to home stay/isolate during the 'peak' for 2 months will enable the Australian economy to come out of hibernation about a month after the peak in about 3 months; rather than the then projected 6-months of isolation. It is a fact that ICU bed capacity was indeed boosted by all Australian States, especially Victoria; and that in 3 months since the start of the 'lockdown', i.e. by the end of June, all Australian States expect to come back to a semblance of normality.

In that March 2020 article, I also said that based on all the epidemiological and economic modelling that was made available to the public by the Federal government at that time, that *"Australia is flying blind".* It has now come to pass that Australia was not flying completely blind, but with severely faulty instrumentation – which ultimately resulted in an A$60 Billion, decision error. This was, thankfully, an error in the Government's favour, that now has many interest groups lobbying for a piece of that extra JobKeeper funding pie.

Special Interest Groups Lobbying for a Piece of the Action.

This brings us to the discussion on how best to spend the A$60 Billion 'windfall'.

Companies around the world who are severely affected by the COVID-19 pandemic are asking their governments to bail them out. Virgin Australia wanted $1.4 billion from the Australian Government. Qantas claimed that if Virgin gets such a bail-out due to poor strategic planning, then it should receive $4.2 billion for good profit management.[3] This claim had nothing to do with needs, or that the $4.2 billion could be spent on boosting other essential industries and services.

Whilst not making a value judgement on the merits of any of the claimants for this $60 Billion 'saving'; it must be remembered that Australia has lost a lot of its manufacturing base (and the expertise that goes with it), and needs Federal government support to be revitalized. This article makes a case for a large part of the JobKeeper savings be utilised to boost targeted manufacturing companies that have been shown to be important for our national security.[4]

Australia's car industry that was once the backbone of manufacturing in Australia since 1925, now lost (along with its related know-how). Australia's minerals are exported to other countries, especially China, to manufacture products and sell them back to us. Our wool is imported by China, not for its own consumption, but to value-add and export to the world. The list goes on. Our supply chains are dominated by very few countries; whose interests may vary from ours. Australia has been subjected to 'bullying' by being over-dependent on some countries that import large quantities from its agriculture and mining sectors.

Using JobKeeper Savings for Investing in Manufacturing Capability

Australia, like the USA, became a manufacturing powerhouse after World War II. However, manufacturing expertise and ingenuity was slowly eroded when cheap labour overseas, coupled with efficient global supply-chains, moved Australia's manufacturing capability offshore to Asia in the 1980s and 1990s. Because of its high labour costs, Australia's manufacturing businesses assumed they could not be competitive in manufacturing; but instead could just live off its service, education and financial sectors, cushioned by the worldwide demand for its staples in agriculture and mining.

This mindset has been confirmed by the latest *Economic Complexity Index (ECI)* published in October 2019 by the Kennedy School's Center for International Development at Harvard University. The ECI exposes an under-appreciated truth about Australia; i.e. the enormous wealth generated by iron ore, coal, oil and gas, has masked an economy that has failed to develop the industries needed to sustain its position among the top ranks of the developed world.[5]

On the primary metric used in the database, i.e. an index of economic complexity, of a database of 133 economies, Australia fell from 57th to 93rd from 1995 to 2019, a decline that is accelerating. Australia's top trading partner, China, rose from 51st to 19th over the same timeframe. The top 5 countries are Japan, Switzerland, Republic of Korea, Germany and Singapore. Australia is wedged between Senegal and Pakistan.

As the industrialist Sanjeev Gupta says, "Australia has had it far too easy for decades, relying on our resources sector to make it rich and largely abandoning manufacturing. Dig and load and be comfortable; it has not been forced to add any value, to create anything."[6]

It must be remembered that manufacturing, although in a state of decline, is still a vital part of the Australian economy. It is Australia's seventh largest industry for employment and sixth largest for output. It accounts for 11% of annual export earnings and employs close to one million people across 47,530 employing companies.[7]

According to the ABS Labour Account data, the long-term decline in manufacturing employment was at its lowest in 2019; but was expected to abate over the next five years (Figure 1).[8] But that was before the COVID-19 pandemic.

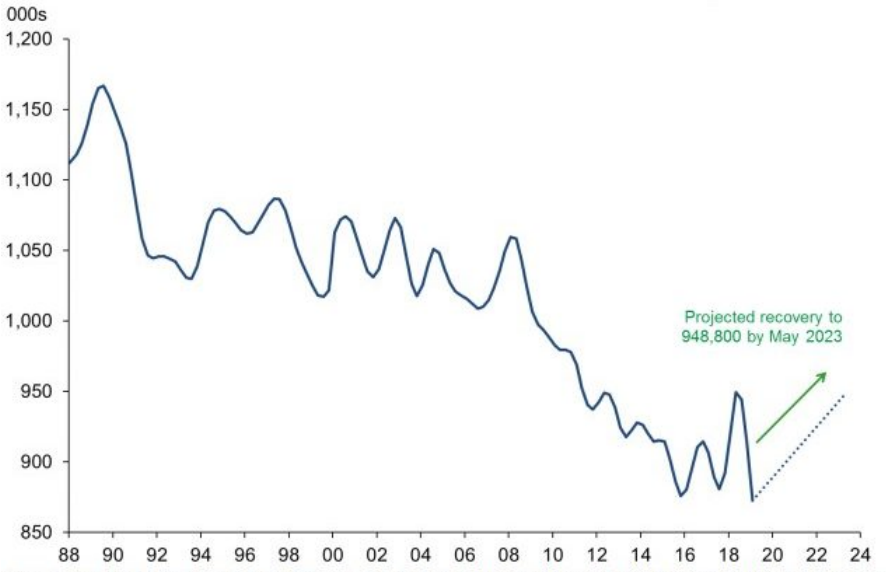
Australian manufacturing has had many challenges over the past decade, including: the Global Financial Crisis; an extended period of relatively high exchange rates (which reduced from a high of 0.79 vis-à-vis the USD only from January 2018); the rapid rise of China as 'the world's factory' and Australia's largest trading partner; the end of local automotive assembly operations in 2017; the onset of digitalisation and 'the fourth industrial revolution'; and large increases in local energy and other input costs.[9]

Skill-Level and Technology Intensity

Clearly, there is an urgent need in the longer term for Australia to expand from an economy that extracts and farms to one that adds value and manufactures complex things in a sustainable way. In the long-run, Australia needs to support advanced manufacturing, not just primary production. This means that Australian companies must manufacture complex products such as drones and robotics, renewable energy, processed food for export and the like, so they can scale up to become global powerhouses that can compete on quality, not on price. This article is focused, however, on Australia's immediate manufacturing needs that need to be boosted for ensuring self-sufficiency in essential products.

The United Nations Conference on Trade and Development (UNCTAD) splits exports of manufactured goods into four categories, based on their level of skill and technology intensity:

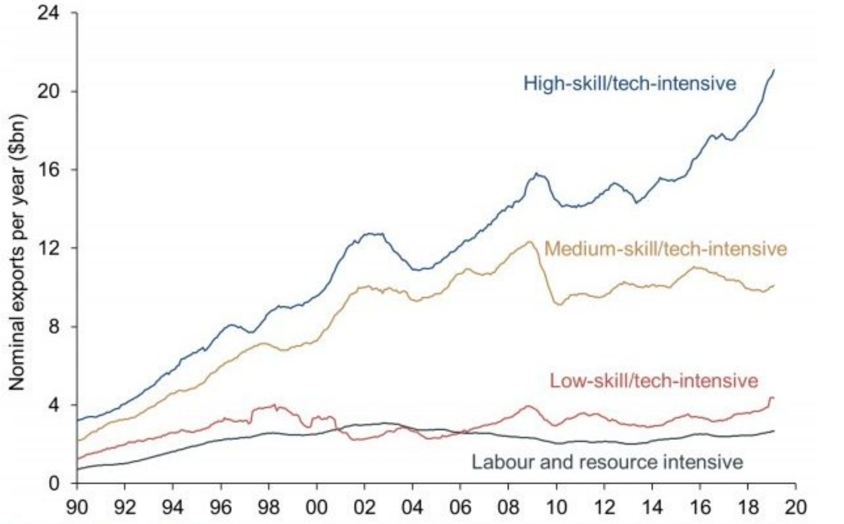
- labour-intensive and resource-intensive manufactures;
- low-skill and low technology-intensive manufactures;
- medium-skill and medium technology-intensive manufacturers; and
- high skill and high technology-intensive manufactures.



Sources: ABS, *Labour force Australia, detailed quarterly*, Feb 2019; Department of Jobs and Small Business, *Employment Projections*.

Figure 1: Manufacturing Employment Trends

4Applying this UNCTAD classification to ABS data suggests that in 2018, 55% of Australia's exports of manufactured goods can be classified as 'high skill and technology intensive' and 27% can be classified as 'medium-skill and technology-intensive'. Only 18% of manufactured goods exports were 'labour and resource intensive' or 'low skill and technology intensive' in 2018 (See Figure 2).



Source: ABS, *International Trade in Goods and Services*, Feb 2019; UNCTAD Product Classification, *Manufactured goods by degree of manufacturing groups (SITC Rev. 3)*.

Figure 2: Australian Manufacturing Exports by Skill-Level and Technology Intensity

As one can see from Figure 2, over the past two decades, export earnings from labour intensive and low-skill exports have been relatively flat. This likely reflects intense global competition for these types of products and the progressive relocation of production to emerging and developing economies with lower labour costs. High labour costs in Australia have resulted in a comparative disadvantage in producing these types of homogenous, labour-intensive goods. Medium-skill and technology-intensive exports rose from 1998 to 2008 but have fallen since 2008. The sharp decline in early 2009 reflects declining exports of passenger cars, which are included by UNCTAD in this category. In contrast, export earnings from high-skill and technology-intensive manufactured goods have more than doubled over the past two decades. Between 2008 and 2015 high-skill and technology-intensive export earnings were relatively flat, probably reflecting the high Australian dollar during the mining investment boom. Since 2015 however, exports earnings from these goods have risen sharply, increasing by 7.3% in 2018 alone. Australia's high-skill and technology-intensive exports in 2018 included medicaments, medicinal and pharmaceutical products, aircraft parts and aircraft equipment.[10]

Whilst Australia's manufacturing skill/intensity focus conforms to one of the most important concepts in economic theory, that of comparative advantage, the COVID-19 pandemic has shown up a major flaw in this foundational principle in the theory of international trade.

Comparative advantage is a fundamental tenet of the argument that all actors, at all times, can mutually benefit from cooperation and voluntary trade. But if trade between countries involuntarily ceases, even temporarily, as is what happened with the COVID-19 lockdowns, then high manufacturing skill/intensity countries are left without the basic essentials of living. These essentials are mostly produced by labour/resource-intensive and low-skill/technology-intensive manufactures. The outcome was that when China closed down, there was a run on toilet rolls in many high manufacturing skill/intensity countries!

Australia needs to regain our manufacturing capabilities in essentials. This does not mean that we have everyone working back on the farm or producing shoes and clothing in factories for 10% of today's wages. It however means that the government must fund via subsidies, tax incentives and other levers, the manufacturing of essential goods. The Australian government has for years funded essential health services via its Medicare program. The medical doctors are not paid third-world salaries, as the government funds universal health care in Australia.

Whilst in the long-run Australia needs to invest in high-value, high wage industries such as high technology, pharmaceuticals and advanced manufacturing as discussed earlier; COVID-19 has opened our eyes that we also need to be self-sufficient in producing essential manufactured goods. These would be mainly what is required for day to day life such as processed foods; and those needed to protect our health-care system, such as respirators, ventilators and face masks. For example, the Australian Defence Forces were deployed to boost by at least tenfold the output of *Med-Con*, Australia's only manufacturer of surgical masks, as a result of COVID-19 pandemic.[11] Some of the JobKeeper savings can be used to introduce more machines to its factory and increasing its workforce to cope with the demand.

Experts have warned of potentially deadly flaws in Australia's medical supply chain. And as such, Federal and State funds are already flowing to boost the manufacturing of health-related products. For example, a consortium of 30 manufacturers formed the *Grey Innovation* consortium to come together to produce the components and assemble the ventilators by the end of July, issuing a plea to politicians: "Make Australia Make Again". The consortium was awarded a $31.3 million contract by the Federal Government to build the ventilators, with the Victorian Government providing an additional $500,000 grant.[12]

Paraphrasing a famous quote *"Give a man a fish and you feed him for a day. Teach him how to fish and you feed him for a lifetime" (Lao Tzu)* – Australians should not be consuming, on a daily basis, overseassourced products; and instead learn once again how to make things ourselves, so that we need not be dependent on others for our essential manufactured goods.

I believe that the Australian federal government; must allocate much of its JobKeeper windfall saving of A$60 Billion in boosting domestic manufacturing; and put into place regulations and tax incentives that will encourage manufacturing innovation. These industries must also be protected from competition from products made with cheap labour in countries that have labour laws very different from our own.

The Role of Management Accountants

If Australia is contemplating boosting its manufacturing capabilities across all types of skills and technologies, this must go hand-in-hand with professionally qualified management accountants to provide reliable information for decision making. All organisations, especially manufacturers, need *reliable cost information* to take strategic decisions that will affect the future of their organisations. Such information is best provided by those who are professionally trained in strategic cost management.

Management accounting's origin is cost accounting; which can be traced back to the industrial revolution. The idea was to help the businessmen to record and keep a track of their costs and expenses. These costs related to labour, materials, and other overhead costs directly attributable to a product or service. However, when industrialisation took off, these businesses had more 'indirect costs'. These are costs that are not directly related to the production of goods or services. Allocating these indirect costs to the relevant products and services became of important to managers and owners for their decision making in product development, pricing and profitability. This was the origin of modern cost accounting.

In recent times, as manufacturing has become more complex with multiple lines of products and services, most costs are indirect costs. There are many methods to allocate such costs; and some traditional methods of allocation based on time and volume have been shown to provide widely inaccurate results that in turn lead to erroneous strategic decisions.

A financial audit of past transactions has very little decision information to make strategic decisions, especially if the past is very different to what the environment is going to be in the future. In a world of uncertainty, the one thing we are certain about is that the Post-COVID-19 business environment is going to be very different from anything experienced in the past. Yet, governments have placed statutory obligations on financial statement auditors in auditing the past; but cost auditors have no such statutory backing in auditing numbers that affect future performance.[13]

The implications of getting cost numbers wrong is staggering. Faulty costings result in faulty strategic decision making in pricing, quality, marketing, supply-chain, product mix etc.; which then have a flow on effect in many related industries. Going hand-in-hand with its investment in manufacturing capability, governments must also recognise the need for *statutory strategic cost audits,* to ensure that the resource allocations of government funds are made not only in the most strategic manner but also that value is created in a sustainable manner safeguarding the interests of the future generations.

#makeozmakeagain

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

[1] Michelle Grattan (2020), "Treasury revises Job Keeper's cost down by massive $60 billion, sparking calls to widen eligibility", *The Conversation,* May 22.

[2] A reporting error of that scale indicates a poor design of the form; which did not seem have some basic checks to ensure data consistency. For example, a simple ratio of revenue to number of employees would have uncovered this particular data input error where the money expected per employee ($1,500) was entered rather than the number of employees (1 employee).

[3] Mark Humphery-Jenner (2020), "7 reasons why a government bailout is not possible for Virgin Australia, Opinion, *University of NSW Newsroom*, 23 April. https://newsroom.unsw.edu.au/news/business-law/7-reasons-why-government-bailout-not-possible-virgin-australia

[4] Greg Bearup (2020), "Make Australia make again", *The Weekend Australian Magazine*, May 23, https://www.theaustralian.com.au/weekend-australian-magazine/can-australian-manufacturing-become-great-again/news-story/4500599fff4a0750697cca36806fd9eb

[5] Harvard University (2019), Atlas of Economic Complexity, *Kennedy School's Center for International Development*, October, https://atlas.cid.harvard.edu/

[6] Op. cit., Greg Bearup (2020).

[7] The Australian Industry Group Australian (2019) "Manufacturing in 2019 Local and Global Opportunities" *AI Group Report,* May, p.47. https://cdn.aigroup.com.au/Economic_Indicators/Economic_Outlook/Australian_Manufacturing_in_2019.pdf

[8] Australian Bureau of Statistics (2019), Labour Force Australia: Detailed Quarterly Employment Projections, *Department of Jobs and Small Business,* February, https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0

[9] Op cit., The Australian Industry Group Australian (2019).

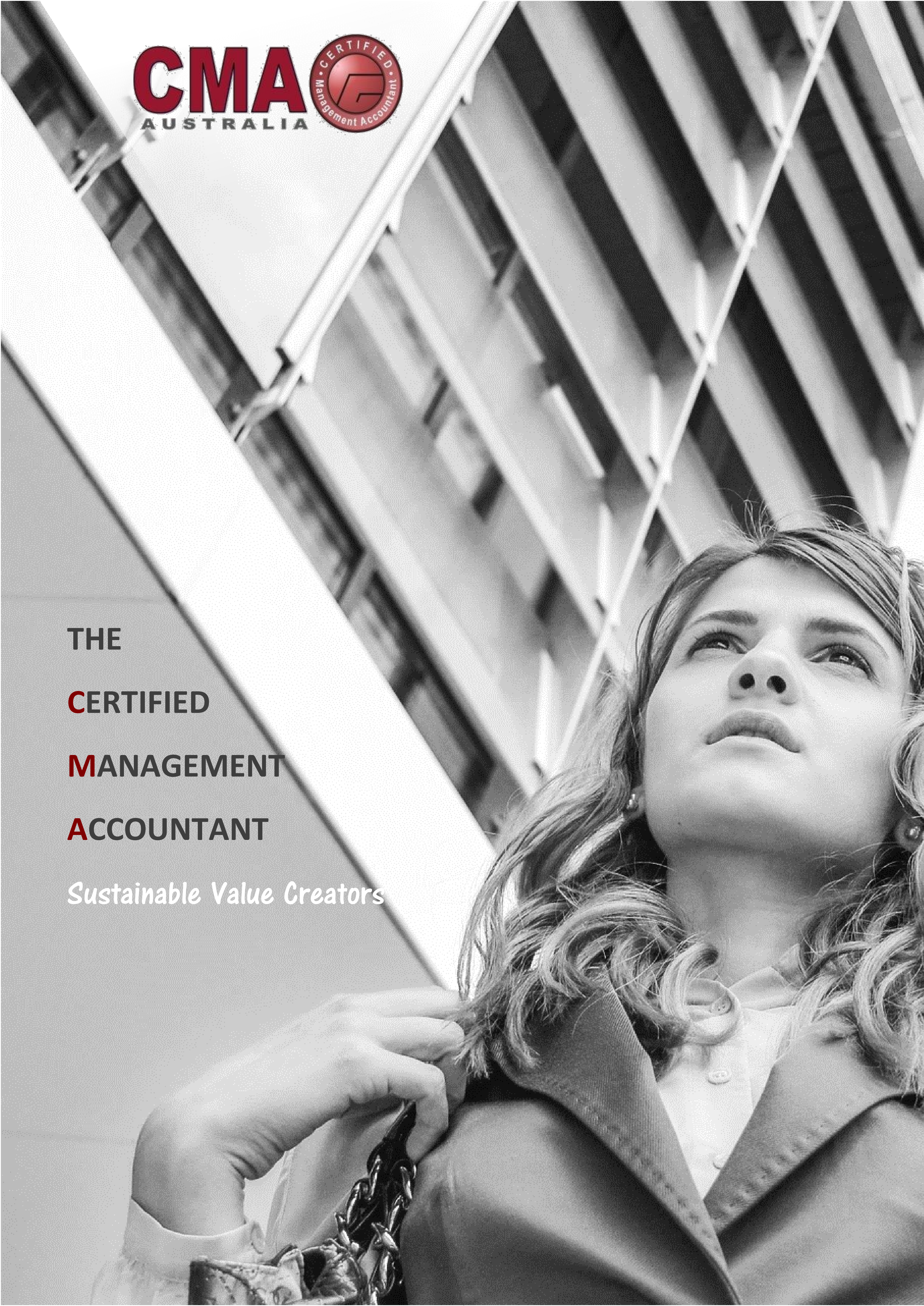
[10] Ibid.

[11] Katie Burgess (2020), "Coronavirus: The Australian army is being subbed in to help make face masks, Canberra times, March 17, https://www.canberratimes.com.au/story/6684074/the-australian-army-is-being-subbed-in-to-help-make-face-masks/

[12] Brett Mason (2020), "Manufacturers say 'make Australia make again' as experts warn of flaws in nation's supply chain", *SBS News*, April 13, https://www.sbs.com.au/news/manufacturers-say-make-australia-make-again-as-experts-warn-of-flaws-in-nation-s-supply-chain

[13] Only organisations of a certain size in India, Pakistan and Bangladesh are subjected to a statutory cost audit.

CMA AUSTRALIA



THE CERTIFIED MANAGEMENT ACCOUNTANT

Sustainable Value Creators

EFFICIENT CASH FLOW CYCLES HELP LOCAL EMPLOYERS WITHSTAND SHOCKS

A first-of-its-kind study of ASX listed companies has found employers who manage their cash flow and short-term capital efficiently, can more easily survive financial shocks, and even increase their share price.

As the economic fallout of COVID-19 gathers steam, the study's lead author, Deakin Business School senior lecturer Dr Sagarika Mishra, said the findings can also help smaller non-listed local companies currently cash-strapped and struggling to stay afloat.

Noting a slew of high profile businesses in both regional and metropolitan centres have been closing down since 2019, Dr Mishra said it is imperative those weathering economic storms who need to pay staff wages before the government's JobKeeper payments begin in May, examine their day-to-day efficiencies.

The findings from 'Efficient working capital management, financial constraints and firm value: A text-based analysis' were recently published in the Pacific-Basin Finance Journal and could offer an important opportunity for Australia's struggling retail sector in particular. By the end of January, well-known brands with shopfronts in regional and city areas including Bardot, EB Games and Harris Scarfe announced the shuttering of scores of stores that provided local jobs, while Jeanswest entered voluntary administration.

"Our research shows sub-optimal management of cash flow and other working capital could be one of the important factors contributing to the retail slowdown and spate of store closures pre-COVID 19, which is arguably even more relevant now and could be for some time," Dr Mishra said.

"Effective management of a firm's day-to-day cash and liquid finances can help drive sales and keep staff in jobs even during financially constrained times, so it's critical that retail firms large and small, in regions or big cities, public or private, give due focus to this short-term liquidity."

"Our study showed that the shorter a company's cash conversion cycle, the lower the likelihood of future financial constraint for that firm. It's difficult to say why these firms weren't converting their stock to cash quicker, but we can see they don't get any benefit from storing their goods. Like some companies, it's possible their current processes and arrangements restrict them from solving this problem, they could simply be unaware of how much of a difference it can make, or they might not see it as a problem big enough to worry about."

Dr Mishra suggested Australian businesses focus on shortening their cash conversion cycle right now, because it can have an immediate positive benefit and in almost all cases it is totally in their control.

"This is not about outside opportunity, outside pressures or outside investment. If any business wants to manage their working capital better, they can do it. For most business, this means a far bigger focus on how much credit you're giving to people, how much inventory you hold and how quickly you can convert that to cash to meet your obligations, which may mean re-evaluating credit and working capital policies."

Dr Mishra said there was often a focus on long-term capital when assessing a company's strength and value, but her study showed working capital was a vastly under-utilised way companies could ensure their security.

"Our data also shows that investors reward effective management of working capital, by investing more. This is not just important for heading off future issues, but in turning the ship around for companies in difficulty," Dr Mishra said.

"Specifically, investors appear to recognise that effective working capital management helps firms overcome the effects of financial constraints, and these insights can help Australian businesses now as they navigate the weeks, months and years ahead when investment will be crucial. In further positive news, we found that financially-constrained firms with effective working capital management have higher one-year ahead share prices and analyst target prices, than firms with ineffective working capital management."

The study is the first in Australia to use an innovative method of identifying a company's likelihood of facing future financial constraints. The method looks beyond the numbers to evaluate the language used in company financial reports, identifying 184 words that show firms are under pressure.

"These are words like committed, bound, confined, depend, forbid, impose, limit, obligate, pledge, require, restrict and dictate," Dr Mishra said.

"The idea is that the language can give us a far better indication of a company facing financial constraints than quantitative measures, which are usually numbers, and the literature built up using this method in the United States confirms that is the case."

Dr Mishra said her study followed on from a PricewaterhouseCoopers (PwC) report in 2017, which calculated listed companies in Australia and New Zealand could unlock $90.6 billion by improving their working capital management practices. The report contended these companies would then have enough cash to more than double their capital investment without the need to access additional funding or put pressure on cash flows.

Dr Mishra said there were many smaller Australian enterprises who could similarly benefit.

"Our study shows that not only is there an enormous amount of value that can be released into Australian business for immediate continuity and investment, but those who better manage this short-term liquidity are also securing their longer term future," she said.

"This allows more immediate funds to be invested back into the business for things like new product development or talent recruitment; and simply keeping the business running by paying staff and suppliers during tougher times.

"Our data shows working capital management seems to be a big problem for local companies."

DELOITTE WARNS OF A POTENTIAL SPIKE IN BRIBERY & CORRUPTION DUE TO COVID-19

Deloitte warns of a potential spike in bribery and corruption across Asia Pacific in the wake of COVID-19. Launching the **Deloitte Bribery and Corruption Report 2020**, the professional services firm warned that the unique and intense commercial pressures from the Coronavirus outbreak have increased the bribery and corruption threat for companies, their workforces and executives.

"As markets reel from the impact of COVID-19, uncertainty and anxiety may well trigger an increase in risky behaviour," Oliver May, Forensic Director Deloitte said.

"As the threat to livelihoods accelerates, so do the vulnerabilities to dishonesty. Fraudsters, cybercriminals, organised crime groups and corrupt individuals will test your organisation's commitment to integrity. Employers need to support their people, organisations and the wider community by making sure they have anti-bribery policies and programs in place.

"Our report identifies the current areas of vulnerability across the region and offers approaches as to how best to mitigate them."

Deloitte's survey of 159 corporate, government and not-for-profit leaders across Australia and New Zealand presents seven key insights, with some stark findings including:

- One in 20 Australasian organisations have unclear approaches to bribery which do not specify 'no tolerance'
- Australasian organisations worry more about their people receiving, than paying bribes
- Some significant growth in conflicts of interest over the past five years.

Chris Noble, Managing Partner Deloitte Forensic Asia Pacific said: "Across Australasia and the Asia Pacific region, I encourage business leaders to recognise this time as one where your ethics will be well and truly tested.

"Clear, confident, unequivocal communication is so important to ensure the sustainability of your business and protect its reputation. The decisions leaders make now will affect their organisations long after the crisis has passed. We must make the right ones, and I encourage you to consider how the insights in our report can be used to protect your people and your business.

"The reality is that the 2020 Deloitte Australia and New Zealand bribery and corruption survey leaves no doubt that Australia's reputation has slipped over the last two years."

'Corruption' captures a range of forms of dishonesty, including conflicts of interest and nepotism. The Deloitte Report lists some actions to consider.

Most respondents to the Deloitte survey were from Australia and New Zealand, with many of their organisations operating supply chains and markets across the Asia Pacific region. **May** said: "Given that corruption risk can manifest in different forms across this remarkably diverse region, Australasian companies need to understand those environments and the multitude of different standards that pertain in each jurisdiction."

159 senior responders to the anonymous Deloitte survey between October and December 2019, included CEOs, CFOs, CROs, general counsels, and risk and investigation managers from a cross section of industries across the ASX200 and NZX50, public sector, Australian and New Zealand subsidiaries of foreign companies, not for profits, and other listed private companies.

The Deloitte Bribery and Corruption 2020 Report – *Navigating with Confidence* points to risk sensing as a key to assisting all those organisations operating in the region.

May pointed out that: "Moving away from a 'best guess' estimate to carefully examining operations and shoring up the gaps is important. More informed due diligence assisted by new data analytics technologies will help organisations be more confident as they navigate their supply chains and markets. Some of the survey findings do give us cause for concern."

Data Analytics is still in the hands of early adopters. Remarkably, given the breadth of available technology, only 9% of respondents with known incidents use detection data analytics. "Australasian organisations need to seize the opportunity to gain early warning of incidents and better understand their increasing risk indicators," said May.

Culture is king, but few organisations are adequately investing. While most respondents see culture as their primary focus over the next two years, only 27% reported a clear investment in anti- bribery and corruption cultures.

Noble added: "Corruption resilient and bribery aware cultures require investment. Australasian organisations need to understand their risks and invest in managing them accordingly."

COMPREHENSIVE TAX REFORM: TIMING IS EVERYTHING

Returning the Federal Budget to surplus following COVID-19 may take an additional 19 years, and reaching zero net debt an additional 27 years, without comprehensive tax reform, according to projections undertaken by PwC Australia.

While now is the time to plan for significant reforms to address this challenge, PwC has also cautioned that the country's health and economic situation must be stabilised before commencing implementation of any changes.

New PwC forecasts show pre-pandemic budget projections of reaching zero net debt in 2029-30 will be delayed until at least 2056-57, due to ballooning deficits, creating additional government debt.

At the end of March 2020, the Commonwealth's net debt was around $430 billion - around $37 billion higher than the most recent forecast for the end of the financial year, according to the Parliamentary Budget Office.

This burden will grow with PwC predicting that Australia will not be able to return the Commonwealth budget to balance for the next 19 years, and not reach the surpluses needed to pay down the new debt associated with the COVID-19 lock down.

Based on the modelling, an 18 year-old entering the workforce in 2020 would have always been working under federal budget surpluses, had COVID-19 not emerged, and would have expected zero net debt when they reached 28 years of age. Now that same worker cannot expect to see a budget surplus until they are at least 37 years old, with net debt not predicted to hit zero until they near 55.

The forecasts are outlined in PwC's latest publication Where next for Australia's tax system? In it we consider the important role that the tax system plays in supporting a longer-term recovery and how it will need to adjust to support the future prosperity of all Australians post COVID-19.

PwC Tax Partner Paul Abbey said tax reform will be needed more than ever in post-COVID-19 Australia as the country looks to generate revenue to support ongoing government expenditure, encourage economic growth and provide employment.

"Now is the time to be planning for comprehensive changes to the tax system - but implementation of these reforms should wait until after this crisis has passed.

"Tax reform in the middle of an economic shock will pose further disruption to householders and businesses that are already being asked to change on many fronts, and may give rise to reforms that will need to be recalibrated once some stability returns. But that does not mean that we should be doing nothing - now is the time to plan for reforms as we emerge from the immediate crisis."

Chief Economist Jeremy Thorpe said: "Australia began 2020 with an economy that was growing at a slower pace than desired but with relatively low debt, compared with other nations, and a Federal Budget on the verge of surplus - but even then the tax system was not equipped to adequately support the growth required.

"The recent lockdown in Australia combined with social distancing measures and closed borders have exacerbated the ongoing challenges to increasing economic growth in the future as we continue to navigate the uncertainty currently unfolding," he said.

PwC argues that tax reform should be undertaken through a transparent process, building on the public trust that has been established in the way Governments, business, unions and community groups have come together to respond to the COVID-19 crisis.

"The COVID-19 pandemic in Australia introduced a new openness in how the Government has dealt with the public, who in turn have understood the need to place the economy into temporary hibernation to ensure their health and safety," Paul Abbey said.

"The tax reform process needs to be seen as fair and equitable. This also means that excluding certain taxes or concessions from any review will undermine trust and affect the acceptability of any final package of reforms."

Subsequent papers in this series will identify tax reform options for the GST and issues for intergenerational equity. These proposals will be put to a range of stakeholders from across the Australian community to engage them in the discussion.

THE 9 TO 5 WORK DAY IS OVER

We now have a short window to reimagine work for the better

As COVID-19 restrictions ease and business determines how to return to work, corporate Australia has a short window to reimagine what the new world of work will look like and how to make it better than before, with a stronger focus on wellbeing, says Deloitte.

In its 10th annual 2020 Global Human Capital Trends report, "The social enterprise at work: Paradox as a path forward," Deloitte examines the top workforce trends for 2020 and ways business leaders can better blend technology and people to create lasting value for themselves, their organisations, and society at large. Having surveyed approximately 55,000 business leaders over 10 years, this is the largest longitudinal study of its kind.

The top two global trends this year are wellbeing and belonging. Seventy-nine percent of global respondents said fostering a sense of belonging in the workforce was important or very important to their organisation's success in the next 12-18 months. On the belonging front, corporate purpose will be the glue that brings workers together, back into the office, post COVID-19.

Eighty percent of organisations globally said worker wellbeing is important or very important for their success over the next 12–18 months, but only 12 percent say they are very ready to address this issue.

"The world's greatest working from home experiment has shown many of us the value of technology," said Deloitte Australia Human Capital Leader, Pip Dexter, "but it has also amplified the human element of work, and life – showing colleagues the inside of our homes on video, giving us the ability to engage with anyone from anywhere rather than flying, and reducing commute times to give us more time to exercise or be with family.

"The challenge and opportunity now for business leaders is to ask: how do we avoid going back to what we had before? How do we make work better for humans, from a wellbeing perspective, as well as continue to use technology in a way that enriches the human work experience? Beyond the practical social distancing requirements, leaders need to be deliberate about taking this time for purposeful reflection: what is it that we want to retain about how we work now? How might we reimagine our work? How can we use technology more deliberately? Can we use this opportunity to redesign work around life, not life around work, to help our people be more productive? Ultimately, the key question to ask is: how do we reinvent work to be better?"

The Deloitte research notes that while many organisations have wellbeing programs, these typically focus on the health and wellbeing of individuals, rather than considering the wellbeing of the entire worker population through the redesign of work. Seventy-nine percent of this year's respondents report that their organisation's strategy does not explicitly seek to integrate wellbeing into the design of work—representing a huge missed opportunity.

Some of the ways business can weave wellbeing into how we work in the future include:

Providing the technology to enable people to work from anywhere (as many have done during the pandemic)

Increasing flexible working practices (e.g. 4-day work weeks, staggering start and finish times)

Introducing wellness behaviours into everyday work (e.g. walking meetings, meditation and mindfulness practices)

Redesigning the physical workspace (e.g. standing desks, social distancing measures, meditation rooms, on-site gyms).

"Our research shows that a business focus on wellbeing can be achieved by making thoughtful adjustments to how, when, where, and by whom work is done," said Pip Dexter. "It could mean structuring work so that performance does not depend on any single individual, making it possible for all workers and leaders to take meaningful leaves of absence. Or it can mean giving workers more control over when and where they work, so that they can work at the times and places that they feel most productive.

"There are mixed feelings about the post-COVID workplace: some people can't wait to go back to the office, while some don't want to return at all, they prefer working at home. So, with people's wellbeing now of paramount importance, leaders need to ask: what does the hybrid workplace look like? How do we create a virtual workplace and what will the purpose of our physical workplace be?"

In 2020 professional development will focus on building resilience, not just skills

As well as giving workers the opportunity to reflect on their work life balance, the COVID-19 crisis has forced many businesses and workers to rapidly reinvent themselves in order to survive.

"While this crisis has been very difficult in a number of ways, it has made many of us realise just how quickly we can reskill and how resilient we actually are," said Pip Dexter.

"Smart organisations will start teaching resilience as part of their professional development, giving their workers new skills to adapt to an increasingly technology-driven future and also the aptitude to manage (and thrive) in an uncertain world. In the future, adaptability will be a key, in demand, skill – the ability to adapt to change rapidly is a key requirement now. Those who can adapt faster, will thrive."

The Human Capital Trends survey noted that even before the pandemic, organisations were struggling to navigate the fast-changing skills landscape, with 53 percent of respondents saying that between half and all of their workforce will need to change their skills and capabilities in the next three years. Seventy-three percent of respondents saw organisations as responsible for workforce development, compared with just 19 percent seeing this as the role of educational institutions.

There are five shifts that organisations need to make to help build better resilience for themselves and their workers:

From building skills to cultivating capabilities – the ability to learn new skills quickly will become increasingly important for professionals to remain relevant

From focusing on short-term skill gaps to better engaging workers' desire to learn and grow – 54 percent of global respondents believe individuals are responsible for their own professional development—putting workers in the driver's seat to own their careers.

From formal learning to learning on the job – research shows that learning through experience yields better learning gains and retention than traditional classroom instruction.

From being paid to work, to being paid to learn – given the importance of continual reinvention to an organisation's business strategy, organisations need to create incentives that motivate people to continuously learn, adapt, and improve, both at the individual level and the team level.

Prepare your people to benefit society, not just the business – the most effective organisations will employ an approach to workforce capability building that considers not only their business needs but the needs of the workers, suppliers, customers, and communities in which they operate.

Robots won't take your job. They will make it better

With the rapid introduction of artificial intelligence (AI), workers are facing new realities of how they can work together with technology to bring out the best in one another. Using AI is now a business priority: 70 percent of respondents said that their organisations were exploring or using AI at some level.

Encouragingly, most organisations are not looking to replace workers with machines, with only 12 percent of survey respondents saying their organisations are primarily using AI to replace workers, while 60 percent said their organisation was using AI to assist rather than to replace workers.

Fifty-nine percent of organisations say the redesign of jobs to integrate AI technology is important or very important for their success over the next 12 to 18 months, but only 7 percent say they are very ready to address this trend.

"We believe that organisations are at a crossroads with respect to workforce strategy and transformation," said Cameron Pitt, Deloitte Lead Partner for Workforce Transformation. "We are seeing two type of organisation emerge. Firstly, organisations that manage humans the same as they have in the past, treat AI as a technology implementation, and make moderate gains in efficiency. Secondly, organisations that choose to redesign work and the workforce, and strive to seamlessly integrate human intelligence with AI into what we call collective intelligence (Hi + Ai) or 'Superteams', and create a significantly faster, smarter, leaner and more agile workforce.

"Superteams are combinations of people and machines leveraging their complementary capabilities to solve problems, gain insights, and create value. For example, many companies are using chatbots to assist customer service representatives; or utility and mining companies are using remote sensing involving drones to collect information on remote pieces of infrastructure, which human workers can then interpret. Putting AI onto teams can enable organisations and individuals to reinvent themselves and work together in new, more productive ways."

Looking to the post-COVID world of work, the Human Capital Trends research identifies three characteristics to help organisations better prepare for the future: purpose (deepening the mission and values connection amongst teams, individuals and the work itself), potential (tapping into workers' capability to contribute in new ways) and perspective (making bold decisions at a time of persistent change). Each requires significant shifts in workforce strategies and programs, but offers a clear path that organisations can follow to enable them to recover and thrive.

VISIONARY LEADERSHIP – DRIVING POST COVID-19 SUCCESS!

"Visionary Business Leadership post GCC is taking responsibility for and caring for your employees, your customers and your environment."

Dr. Chris D'Souza
CFO & COO (Int), ICMA Australia

In a recent article I had concluded that *post the Global COVID-19 Crisis (GCC), corporate success will be driven by visionary leaders who, along with teams of well-trained employees, will create processes* that ensure *sustainable products and services which* in turn *will create great moments of truth for their customers!*

This conclusion makes the case that while customer focus, employee focus and sustainability are the three key drivers ensuring corporate success post the GCC, it will require visionary leaders to navigate and drive these drivers through and beyond the crisis! Who are these visionary leaders and what does good leadership look like?

My favorite quote on leadership is *"Leadership is a responsibility. It's not about being in charge. It's about taking care of those in your charge." -Simon Sinek.* The key takeaway from the quote is that leadership is about 'taking care' and in the context of visionary business leadership post GCC I would say the – *"Visionary Business Leadership post GCC is taking responsibility for your employees, your customers and your environment. It's about taking care of your employees, your customers and your environment"*. Let's look at all these three aspects of visionary business leadership.

Visionary Business Leadership is caring for your Employees

"Wars may be fought with weapons, but they are won by men. It is the spirit of men who follow and of the man who leads that gains the victory." – General George S. Patton

A lot of research has been done to find out what makes a company great. What are the secrets of success? What makes a company world class?

We might be tempted to assume that great products or processes or technology makes great companies. But most research shows that it is the people that makes a company great. So, the best companies are those that attract the best employees. The best employees are drawn towards companies with a caring culture. A caring culture is created by caring leaders. Success post Covid-19 requires visionary leaders who genuinely care for their employees.

Richard Branson said, "Take care of your employees, and they'll take care of your business". Branson genuinely believes that people should be appreciated, praised, not criticized, and given feedback so they have a chance to do a great job. He goes on to say that "The person who runs the company is critical. If you choose somebody who genuinely loves people and looks for the best in people, that's critical and if you bring someone in who isn't good with people then you can destroy the company very quickly."[1]

Leaders fail when they portray a total lack of empathy and caring for their employees. Lack of empathy in leadership becomes evident from the record rate of high staff turnover. An overwhelming majority of people around the world will agree that the 45th President of USA – Donald Trump is among the worst leaders of all time. One of the reasons for his failure is his total lack of empathy and caring for his employees and this is evident from the record rates of staff turnover[2] in his administration.[3] It is no surprise then that under his leadership the response of USA to Covid-19 was arguably the worst in the world. His lack of empathy and caring comes across very clearly in his response to the pandemic. In contrast the best response to the crisis has come from Jacinta Arden the caring Prime Minister of New Zealand. The good news for leaders today who lack empathy is that it seems to be a trait that leaders can develop once they are convinced of its efficacy in ensuring success. Though it would be too much to expect President Trump to become genuinely caring; The Australian Prime Minister Scott Morrison is an example going from a leader lacking in empathy during the bushfire crisis to a caring leader credited with success of the Australian Covid-19 response.

Caring for employees normally starts with the hiring process and consequently the People and Culture team (formerly known as HR) play an integral role in good leadership. During the Covid-19 crisis, hiring may not be the primary concern of leaders — but ensuring that the morale and well-being of the employees is maintained during and after the crisis is significant. Terminating the employment of employees might be the hardest task of a caring leader. During the Covid-19 crisis there will unfortunately be many unavoidable terminations. A caring leader will not terminate unless absolutely necessary; and where necessary will ensure that this task is carried out with care and compassion providing the employee with whatever help is available that ensures their future success. And they certainly will not do it

with the callous attitude which Trump uses in his TV serial which made him synonymous with the words 'Your Fired'. As a leader, ensure the employees who you have to let go will carry with them a favorable impression of you and your organization.

Once good employees are hired, visionary leadership will invest in their continuous learning, ensuring that the team is always up to date while simultaneously refreshing and updating previous knowledge. Then a visionary leader will trust his employees and allow them to do their job resisting the temptation to interfere or micromanage.

Steve Jobs famously said "It doesn't make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do." Of course, a visionary leader will ensure that he invests in his team to equip them with the knowledge and skills that ensure wholistic success.

However caring employers will still be willing to take responsibility and have the back of their employees when things go wrong.

"Leadership consists of nothing but taking responsibility for everything that goes wrong and giving your subordinates credit for everything that goes well." — Dwight D. Eisenhower

When you genuinely care for your employees you will lead by example. You will not ask your people to do something that you yourself are not willing to do. In Australia. we see all our leaders maintaining safe physical distance at all times. I have seen this often being flouted in other countries specifically in the US. It is not just the US President Trump but also his Vice President Mike Pence was heavily criticized for showing poor leadership by refusing to wear a mandatory mask while visiting a health care facility. For example, if you want your people to wear masks, set an example by wearing a mask yourself. If you expect your people to wear a uniform step out in the uniform on to the shop or factory floor occasionally to set an example. One of Australia's largest companies, Bunnings, has a policy which requires every single manager (even the CEO and the CFO) to wear the traditional Bunnings apron and work on the shop floor for a certain number of days every year. True leadership not only leads by example but also, and more importantly, true leadership can step into the role of its subordinates with ease and utmost professionalism.

Personally, I have evolved into a much more caring and empathetic leader over the years. In the last 2 corporate management roles that I have held, I have had the privilege to have been in charge of two excellent finance teams. I do not think my younger self was as empathetic or caring as I am now. Working from home (WFH) has suddenly become very fashionable and many managers are now discovering how productive and effective it can be. I had introduced regular WFH in my teams going as far back as 2005 simultaneously with the introduction of cloud accounting. In one of these companies, which regularly surveyed the happiness of staff in different teams; my finance team was the happiest in the company. Senior Managers in that team now tell me that the happiness of the team was a result of my caring for them. Simple gestures like buying them chocolates or coffee occasionally, made a big difference to staff morale during difficult times - they tell me.

If you want to be an effective leader become a genuinely caring leader. Understand that the success of your organization, especially post covid-19, will depend upon the people who work for you. You can motivate them and get the best out of them by genuinely caring for them.

You cannot fake it; you have to genuinely care for your people. Like it is said about Richard Branson "you quickly realize that he has a high degree of empathy that you don't see too often. While some might give off the impression that they can turn empathy on and off like a tap, with him, it seems much more authentic. It almost feels like his mission is to make all people happy."[1] So my suggestion is for leaders to sow the seeds of happiness among your people and reap the rewards of success post Covid-19.

Visionary Business Leadership is caring for your customers

"It is the customer who determines what a business is...The customer is the foundation of a business and keeps it in existence. He alone gives employment." - Peter Drucker in the 1970's published this definition of business in his book, Management: Tasks, Responsibilities, Practices.

There is only one valid definition of business purpose Dr Drucker emphasized - *To create and keep a customer*.

The Value chain of business starts and ends with the Customer. It starts with identifying what your customer needs and ends with satisfying your customer's needs. Consequently, as a visionary leader you will quickly realize that the entire value chain that supports your business is all about genuinely caring for your customers – it's all about customer satisfaction!

"So how is this mission of customer satisfaction achieved – primarily by getting the processes that drive it right! And how does a corporation get the all-important processes right – by making sure it has the right people in the right places to drive the processes. So, it's not profit or market share, stupid – rather focus on your customer and get the right processes and people in place to satisfy the customer – the profits and market share will automatically follow.

An inspiring true story of customer focus leading to improve processes and products is that of the late Sumant Moolgaokar who was CEO of the Tata Engineering and Locomotive Company (TELCO), who would forgo his plush five star office executive lunch every day to have lunch at small roadside restaurants (dhaba) frequented by truck drivers so that he could discuss the working of TATA trucks with the end users of the vehicle. He used the meticulous notes he took from these 'customer and product focused' meetings to improve on the vehicles that TATA produced. A great example of Customer Focus leading to process and product success. This customer focus is probably what has helped TATA to achieve considerable success in the automobile Industry. It can be noted that in 2008 TATA acquired the iconic British company Jaguar from Ford and turned its fortunes around[4]."

As a visionary leader who cares for your customers you will know your customer well enough to understand what they need and set about organizing the fulfilment of that need at a price that they are willing to pay.

Post Covid-19, this is not going to be easy. It will require a passionate leadership focused on the mission acting with speed and resilience combined with flexibility and agility plus all the other leadership qualities the visionary leader can bring to the table. But as long as leaders remain customer focused, aided by employees -- who share the same mission, vision and passion -- the organization has a greater chance of success.

Unfortunately, corporate history of the 21st century is rife with instances of myopic leaders sacrificing customer and employee welfare in pursuit of short-term profits. Johnson and Johnson in the US, the major car manufacturers of Europe and the big four Australian banks are all guilty of Corporate Myopia in the 21st Century which I have exposed in my article last year[4]. The mindless pursuit of short-term profits has driven the once powerful USA into a basket case led by a narcistic myopic self-interested President with zero interest in the wellbeing of his people. His inaction is responsible for the deaths of thousands of his countrymen. Covid-19 has exposed the myopic nature of American Capitalism where corporate greed has ensured a health care system unprepared to deal with the Pandemic. More balanced countries like Germany and some Scandinavian countries in Europe, South Korea and Sri Lanka in Asia and the two Anzac countries of Australia and New Zealand have all fared much better.

There is a lesson that Corporate leadership needs to learn from Covid-19 – that exploiting customers for short term gain is neither profitable nor sustainable in the long run. Long term sustainable value creation requires companies to put the interests of Customers above that of short-term profits. Sustainable value creation will only come from genuinely caring for your customers.

Visionary Leadership is caring for your Environment

Enjoying life costs little, chasing a lifestyle is expensive! Our planet has enough to satisfy human need but nowhere near enough to satisfy inhuman greed. One of the lessons we can learn from the GCC crisis is that just like the Covid-19 virus destroys life by unsustainable growth, our unsustainable greed is destroying our planet. Sustainability is going to be the key to long term success post the GCC. The Covid-19 crisis almost completely demolished the Global economic order and our way of life. We can, and we will, eventually overcome this virus and things will get better. But the crisis of Global warming and wildlife/ endangered species trade on the black market will destroy not just our economies and way of life, but also our planet. This Covid-19 crisis has sent the world scrambling for a cure and vaccine. While global warming continues to do long term/permanent damage, what challenges will the next virus bring? Is there a vaccine to prevent climate change?

Visionary leaders will look on the Covid-19 crisis as a wakeup call and learn from this experience. They will take this break from 'business as usual' as an opportunity to rebuild their business sustainably.

The Covid-19 crisis has presented organizations with the opportunity to reboot and reset their businesses. Visionary business leaders will take the time that this crisis has afforded and use the opportunity to make their business sustainable. The Sustainability focus should cover every aspect of the business from the product throughout its entire life cycle from womb to tomb and include every aspect in the supply chain process required to make it a winner in wholistic business.

Is there a Choice – Employee, Customer or Sustainability?

No, it's not a matter of selecting any one or two of them – visionary leadership will understand that they go together hand-in-hand. You can't have one without the other. All three are equally important. Richard Branson said that he put employees first and customers second. I am not sure that he was expressing himself very well as by focusing on the wellbeing of his employees he was ensuring that they would put the customer first. And likewise, if you genuinely care about the wellbeing of your employee and customers you cannot do it without also being genuinely concerned about the planet which is their home. So, it is not a matter of choice or of putting one above the other. Visionary leaders will realize that all the three will be equal pillars that are the foundations of successful business going forward.

Jan Carlson's in the 1980's when he was CEO of SAS Airlines coined an interesting term 'Moment of truth' as the point where the customer of an organization comes into contact with its frontline employees. My theory is that it's not just frontline employees but all employees of the organization being focused on their customers is what creates this 'Moments of Truth' which leads to Corporate success. But as I said earlier when you focus genuine care on your Customer and your Employee, you cannot be unconcerned about the safety and sustainability of the environment in which they exist.

A new post Covid-19 World – make it better, brighter, fairer and Sustainable!

Pre-Covid-19 our lifestyles were not sustainable and neither were our business practices. Our lifestyle was consumeristic, and our businesses were myopic in pursuit of short-term profit maximization. Both the lifestyle and businesses that promoted it were driven by greed. Growth cannot be without limit otherwise it becomes a virus like Covid-19 – and eventually destroys the business. However, in our frantic and mindless pursuit of growth we had lost sight of our destination. We were like the absent-minded professor who jumped into a cab and shouted, "Hurry! At top speed!" As the cab sped along, he realized that he hadn't told the driver where to go, so he shouted, "Do you know where I want to go?" "No, sir," said the cabbie, "but I'm driving as fast as I can." Like the cab, before Covid-19 our business world was speeding along at breakneck speed unmindful of the damage it was doing to our planet and without knowledge of its destination.

The covid-19 crisis might well be a blessing in disguise for businesses as it has given them a chance to reset and reboot. Visionary leadership will take advantage of this break to plan to rebuild a business focused on the trifecta of employees, customers and sustainability.

"The dogmas of the quiet past are inadequate to the stormy present.

The occasion is piled high with difficulty and we must rise with the occasion.

As our case is new, we must think anew and act anew."

– Abraham Lincoln

"I don't measure a man's success by how high he climbs but how high he bounces when he hits bottom….

Pressure makes Diamonds

– General George S. Patton

[1] Pavel Krapivin - Sir Richard Branson's Five Billion Reasons To Make Your Employees And Candidates Happy Forbes July 9, 2018 https://www.forbes.com/sites/pavelkrapivin/2018/07/09/sir-richard-bransons-5-billion-reasons-to-make-your-employees-candidates-happy/#7c6434956710

[2] https://www.brookings.edu/research/tracking-turnover-in-the-trump-administration/

[3] https://www.nbcnews.com/politics/white-house/charts-white-house-turnover-breaking-records-n1056101

[4] Dr Chris D'Souza – Corporate Myopia in the 21st Century – On Target 1st July 2019/ https://www.cmawebline.org/ontarget/corporate-myopia-in-the-21st-century/

A WARM WELCOME TO NEW MEMBERS (APRIL & MAY 2020)

Africa, Marjorie

Bagsik, Rosalyn

Bajgain, Rebina

Castroverde, Renante

De Jesus, Jose

Goh, Ivan

Gonye, Conrard

Hezeabu, Lahari

Ho Kaiser, Chan Sau

Ho, Cheung Fai

Karimatsenga, Farai bothwell

King, Renee Francesca

Langman, Scott

Laqui, Czyrah Angelica

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Leung, Chi Ho

Leuterio, Baby Zazha

Marei, Yahya

Mok, I Leng

Mustafa, Magdy

Nalakam Paramba, Nishad

Obiacoro, Rosart

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Osman, Arif

Pascual, Ariane

Ramos, Jeanilyn

Santos, Laila

Shan, Jinfeng

Siu, Chui Lan

Sunny, Amalu

Valamparampil, Lekshmi

Weliwapathiranage, Ridmi

Yan, Sui Tong

Yeung, Man Kin

Yu, Kin sun

CPD OPPORTUNITIES

Registration link: https://www.cmawebline.org/ontarget/

Webinars (Free for members)

The Rising Importance of Integrated Reporting, Climate Change Reporting & Environmental Management Accounting 6 May 2020

The Social CRM: Taming the Wild Child of Big Data and CRM 27 May 2020

Post-Covid Opportunities for Businesses and How Senior Finance Professionals Can Help 4 June 2020

Visionary Leadership – Driving Post Covid-19 Success! 10 June 2020

Costing Life: Air, Water and Food 24 June 2020

Finance Leadership during a Crisis: Respond, Recover and Reimagine 2 July 2020

Online CPDs

Business Valuation

Enterprise Risk Analysis

International Business Analysis

Project Finance Analysis

Project Management Analysis

(Special Promotion Members get 90% off for a limited time)

CMA EVENTS CALENDAR

- Webinar – The Rising Importance of Integrated Reporting, Climate Change Reporting & Environmental Management Accounting 6 May 2020
- [Postponed] CMA Program in Kathmandu, Nepal organised by Academy of Management Accountancy Nepal 17 May 2020
- Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore (3rd Intake) 6 June 2020
- [Postponed] CPD – International Business Analysis Workshop 17 June 2020
- [Postponed] Strategic Business Analysis, conducted by Workplace Skills Development Academy (WSDA), Dhaka, Bangladesh 24 June 2020
- Webinar – Costing Life: Air, Water and Food 24 June 2020
- Webinar – Finance Leadership during a Crisis: Respond, Recover and Reimagine 2 July 2020
- [Postponed] CMA Preparatory Program (intensive), IPMI Business School, Jakarta, Indonesia 4 July 2020
- 2020 Certificate of Proficiency in Strategic Business Analysis, SMU Academy, Singapore (3rd Intake) 10 July 2020
- CPD – Business Valuation Workshop 16 July 2020
- [Postponed] 7th CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting 25 July 2020
- [Postponed] CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting 1 August 2020
- [Postponed] CPD – Enterprise Risk Analysis Workshop 19 August 2020
- [Postponed] Strategic Cost Management, conducted by Workplace Skills Development Academy (WSDA), Dhaka, Bangladesh 20 August 2020

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