Keeping us up at night

The big issues facing business leaders in 2019

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Foreword

What’s really top of mind (when there’s no axe to grind)

What are Australian business leaders really concerned about when they look toward 2019?

Certainly, there’s no shortage of theories.

In fact, scan the news on any given day and you’ll find dozens of voices exclaiming how a particular issue is absolutely the most pressing concern weighing upon the nation’s business community.

The problem with this noise is it’s hard to draw a neat line between self interest and fact.

We hear an awful lot of declarations about what’s worrying ‘business leaders,’ but rarely see any rigorous attempt to ask or verify them.

We wanted to challenge this.

So our research practice, KPMG Acuity, engaged a broad spectrum of C-level leaders from a diversity of industries to think about the main issues exercising them when they consider 2019.

220 leaders – some with fewer than 50 employees, some running companies with revenues of over $1 billion a year – took time out to respond. Most were from the private sector, but the public sector is represented as well.

The result is an objective, dispassionate, and interesting ‘Top 10’ of the most significant issues facing Australia’s leaders in 2019.

We then asked relevant thought leaders from across KPMG to contribute their insights on why an issue made the Top 10, where it’s headed in 2019, and how it should be tackled.

In the process of collating these issues, broader recurring themes were revealed which cut across categories.

One of these is undoubtedly the issue of trust. No longer some woolly discussion point, trust has burnt its way into the consciousness of senior leaders and is increasingly being recognised as the license to operate. As a result, organisations are asking themselves fundamental questions about their purpose, their mission, and how they present themselves to the world.

Another key theme permeating most categories is customer-centricity. The customer as king is no longer an aspirational value, but a hard reality that needs to be baked into any organisation’s planning.

The other persistent theme is the significant need for innovation – an issue that continues to mature and gain complexity. Organisations are looking to approach the challenges in more strategic and nuanced ways.

We hope you find this report valuable, and that it contributes to your own thinking about how to lead your organisation in 2019.

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The TOP 10 most significant issues facing Australia’s leaders in 2019

1. Digital transformation
2. Innovation and disruption
3. Regulation
4. Political paralysis
5. Customer centricity
6. Cost competitiveness
7. Public trust
8. Cybersecurity and data privacy
9. Big data
10. Infrastructure and liveable cities

Interestingly, issues that didn’t make the top priorities included energy; government efficiencies; climate change; health, aged care and disability; education and the changing nature of work; and fiscal sustainability. Other issues ranked lower included trade and protectionism; tax reform; social cohesion and inequality; affordable housing; defence and security; and Indigenous engagement.
The Top 10 issues: analysed

“The results highlight the increasingly tough agendas that CEOs are facing. They see a mandate for digital transformation, innovation, and changing their business models to better meet increasing customer needs and expectations – that is, to become more nimble and responsive; at the same time, they recognise this needs to be done in a period of potentially increasing regulation, political uncertainty, and with continued cost pressures. It can be seen as a difficult balancing act.”

Amanda Hicks,
Partner, KPMG Acuity
Issue 1

Digital transformation

Ian Hancock
Guy Holland
Karen Parkes
Just about every forward-looking Australian leader would agree digital transformation is important.

But tease this apparent consensus out just a little and you start to realise digital transformation means very different things to different people.

Depending on who you ask you could be talking about investments in new back-end systems to improve reliability of the user experience, digitally connecting and automating processes, developing new digital products, using data to make predictive decisions, or about completely transforming the business model. And for many, digitally transforming the employee experience is just as important as improving the way the organisation serves its customers and citizens.

In 2018, the term ‘digital transformation’ means so many things there is a very real risk that this lack of clarity is causing confusion, leading to diverse agendas and ultimately missed opportunities.

So how do we remove the confusion?

Let’s break the term down into its constituent parts: “digital” and “transformation.”

First, “digital” can be considered as the use of advanced technologies, typically in the front and middle office that enable the broader transformation. Examples include improvements in the online user experience, using cognitive decisioning tools to automate marketing processes, and streamlining the integration of front and back office technologies.

Second, “transformation” can be considered with a broader reach. It includes investments in digital technologies, but also spans the modification of an organisation’s functions, its ways of working, its back office technologies, and occasionally forging a completely new business model. True transformation should also include culture – often the poor cousin behind the more visible technology investment. True digital transformation must encompass instilling a customer and digital first culture among your employees and partners.

We are not suggesting that one form of digital transformation is ‘good’ and another ‘bad.’ Context is everything. Much depends on the characteristics of the organisation, and the dynamics of the sector in which it operates.

A hospital management board may, for example, concentrate its efforts on functional transformation. Its core business of patient care is unlikely to be fundamentally uprooted by digital technology. But many of its systems, processes and products can and should be transformed.

Compare this with the building management and construction industry. Organisations in this sector need to think at an enterprise-wide level. It is entirely possible to reimagine the core offering using digital technologies such as using virtual reality technology to experience spaces prior to their construction, and embedding intelligent building sensors to automate building management.

So the threshold question when considering your strategy is “where do we sit on the digital transformation spectrum?”

We have identified seven attributes of a market segment that in isolation or combination indicate the potential need for digital transformation:

1. Systemic cost pressures exist.
2. The potential for industry disruption is high.
3. A changing competitive landscape is the norm, often with low barriers to entry.
4. Competition for customers is intense, driving a need for unique customer experiences.
5. There are high transaction volumes.
6. There is a need for real-time analytics and predictive decision making.
7. Advanced technologies such as machine learning, AI, and IoT are in accepted use.
Once you’ve applied this checklist you then need to consider what it is you want digital transformation to achieve, and your organisation’s ability to effect and absorb change. The detail will obviously vary considerably, but there are five primary things any digital transformation worth its salt should be helping you do:

1. Connect to your customers and employees with compelling value propositions, opportunities and interactions.
2. Connect and empower your employees to deliver on the customer promise.
3. Connect your front, middle and back offices to execute on the customer growth agenda.
4. Connect your channel and business partners to jointly deliver on commitments to customers.
5. Stay connected to market dynamics and digital signals.

Notice the repeated word here: connect. Digital transformation is not a slick new app. It’s the way the customer’s interaction with that app and how it connects through the entire organisation and back again.

Failing to appreciate that is one of the most common traps you see organisations falling into today. You see many go to market to crow about a new digital customer experience. But that customer experience fails to deliver when they try to hook it into their supply chain, their middle office, or their back office. It fails to connect seamlessly.

Ultimately, these organisation are making a customer promise they can’t keep. And that’s a surefire way to lose trust.

As organisations head into 2019 opportunities for digital transformation abound. Huge amounts of powerful computing power can be obtained. Massive amounts of data can be stored cheaply. The mass proliferation of internet-connected devices continues. Combine this with emerging tech like 5G, machine learning, and artificial intelligence and the smorgasbord of options is truly massive.

The key to harnessing them will be acting strategically and holistically.

When these technologies are properly connected and linked in a thoughtful way, they unleash exponential power. But blending is the key.

A superficial or cosmetic digital transformation is no real transformation at all.

What is ultimately important is the achievement of a “connected enterprise” – digitally connecting customers, employees, and partners into an ecosystem, with priorities and at a pace that are both well thought through.

“We have an ongoing and transformational organisation that is very competitive, that is Australia wide and we are under constant pressure to ensure that we are capable of entering the future.”

(survey respondent)
Issue 2

Innovation and disruption

James Mabbott
Ken Reid
Yesterday’s futurist buzzwords have become reality.

The cloud now holds not just our vital data, but many of the services we depend on such as our travel, health, banking, shopping, entertainment, lifestyle planning and communication applications.

Blockchain tech is popping up everywhere, from crypto currency to provenance authentication to contract law.

And when Google demonstrated how an AI assistant could now book a haircut over the phone, the world took another leap forward in understanding the potential of what’s now possible.

With all this change afoot, it’s little wonder innovation and disruption remain front of mind for Australian leaders.

The fear of disruption, on its most elemental level, is straightforward: the constant worry that your competition will use new technology, new methods and new business models to do what you are not. But as we look toward 2019, we see the modern dilemma is actually more immediate, more tangible, and more complex.

One reason for this is the current global marketplace has made it abundantly clear that the network effects of the innovation race tend toward winner-takes-all. There are disproportionate growth opportunities for the lucky few – and the potential to get left behind for everyone else.

This raises the stakes enormously. There would be few businesses not looking over their shoulder, checking either for a new disruptive competitor to descend from the heavens or a giant in an adjacent industry to bust into their market.

The reality though is that the most likely competitor or giant will actually come into Australia from overseas, and already exists. More likely it will be the arrival of Alibaba, Tencent, Amazon, Google or another company like those that will reshape our business reality. When these overseas giants move with determination into our market, they will be using the data that they’ve accumulated on customers and users overseas to drive better results than their Australian counterparts (who are still in the process of trying to clean data and break down silos). This is a very real issue for Australian business leaders.

Yet in 2019 a response might not be as simple as rushing headlong into bold new advanced tech and organisational practice.

That’s because the population has developed a general sense of scepticism about whether the benefits of ‘innovation’ and ‘disruption’ are really for them, or rather for a small elite who can generate an outsized payoff.

So any business leader looking to prosecute an aggressive innovation agenda in 2019 will likely be met by stakeholders (including employees) wary about what this actually means for them.

So how best to approach the challenge?

Perhaps a good start is to take a leaf from the book of the King Kong of global disruption, Amazon chief Jeff Bezos. Bezos feels disruption fear, but focuses it.

“I constantly remind our employees to be afraid, to wake up every morning terrified. Not of our competition, but of our customers,” he has said.

“Many if not most accept innovation and disruption is necessary, if not essential, to our future. The key issue for me is despite this few have the courage to step forward to lead the required initiatives.”

(survey respondent)
Our customers have made our business what it is, they are the ones with whom we have a relationship, and they are the ones to whom we owe a great obligation. And we consider them to be loyal to us – right up until the second that someone else offers them a better service.

This is the key – a customer-centric focus that permeates every level. The challenge is to focus innovation efforts on forging genuine intimacy with your customers.

Which, of course, is easier said than done. Because intimacy is about more than customisation or personalisation. It’s more than just saying, “someone like you bought something like this so you might like it too.”

It’s about creating an experience so useful and intuitive that the relationship with your customer takes on meaning and value. AI, machine learning, blockchain, big data – all of these are incredibly powerful technology. But they should not be deployed for their own sake. They should be used in the pursuit of customer intimacy.

In the past we may have thought about innovation and disruption as somewhat synonymous with tech advancement. But that cannot persist, because tech is not enough and on its own, won’t guarantee success.

But although we should be vigilant about the challenges, that does not mean we should be pessimistic. Indeed, Australian business has shown in 2018 that it is eminently up for the challenge.

Australia is now one of world’s leading jurisdictions with the introduction of the New Payments Platform, a global case study for how the private sector can work with regulators to deliver meaningful innovation. Australia is one of the most cashless societies in the world. Only 3 percent of all our transactions are in cash. That means 97 percent of our transactions are digital/online and can now be executed in real time.

In 2019, as long as an organisation maintains focus on the fact that the customer is everything, there is plenty of reason for optimism and excitement. The real truth then is that for innovation in new technology to work, it needs to be in service of customers, employees and communities. If you get this right then you are also serving the interests of all stakeholders, including investors. It is the interrelationship of these that unlocks business value, and new technologies all have the potential to make this real.

“New technologies are disrupting traditional distribution methods and audience habits. We need to adapt our products to take advantage of the opportunities and avoid being disrupted by others.”

(survey respondent)
Issue 3

Regulation

Astrid Raetze
With an avalanche of new regulatory requirements bearing down on Australian organisations, there’s no doubt compliance will be a significant burden for most, especially financial institutions, in 2019.

But for those willing to see the opportunity in a challenge, the shake-up could actually provide the impetus to build customer engagement, trust, and growth.

**The silver lining**

Failure to comply with regulation can trigger a range of negative consequences, but the damage most keenly feared is to your reputation.

The trick to extracting a positive from the new influx of regulation is to flip this fear, and consider what compliance can do to actively enhance the reputation of your organisation.

It is possible to approach the regulatory challenge from a customer-satisfaction angle if you view the regulatory work as driving a specific goal – building deep trust with your customers, and hence loyalty.

Financial advice, for example, is a very heavily customer-engaged activity. While the new regulatory burden on financial advisers is arduous, there is also an opportunity here for those who lean into it and look to really reshape their offering to the market. Can they be a leading example of a new type of financial advice that truly focuses on the customer and the customer’s best interests – and thereby be fully compliant with regulations?

Looking for ways to simultaneously comply, and reinvent, has the potential to drive growth and revenue, because customers will want to come with you, rather than your competitors.

An emphasis on compliance and putting the customer first will also likely foster innovation, especially in the digital space. This in turn can drive value.

**The regulation avalanche**

There’s no doubt the next 12 to 18 months will see a huge pile of regulation fall upon Australian organisations.

The most obvious gorilla in the room is the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. In its Interim Report, the Commission identified dishonesty and greed as the two main drivers behind the misconduct to date.

It suggested the newly-introduced Banking Executive Accountability Regime (BEAR) should be extended. It also flagged potential new regulation around mortgages, credit cards, and insurance contracts.

But the regulation avalanche goes well beyond the Royal Commission, and well beyond banks.

ASIC will be given greater enforcement powers as well as riding orders to move away from its existing preference for negotiated outcomes over civil proceedings.

More prescriptive ASX guidelines will also come into play, including a key change to a company’s obligation to “act ethically and responsibly” to instead “instil the desired culture” in the organisation.

The ACCC is also having greater impact in its focus areas – ensuring there is genuine competition in financial services; the proposed intervention in the energy sector, and the impact that its activities will have on corporates.

**What about growth?**

All this focus on regulation arguably leaves little room to focus on much else.

Indeed, organisations heading into 2019 are so caught up with how they are going to address this massive book of compliance work, they are spending relatively little time on how they plan to grow, develop and thrive.

Risk appetite plummets. Compliance teams will have their hands full, and will therefore have little inclination to engage with anything remotely new or adventurous.
Can tech ride to the rescue?

There aren’t many questions posed today that are not at least partially answered with a tech solution. So can this apply to the regulation burden?

Certainly there is a growing body of work being conducted in so-called ‘RegTech’.

A range of new digital services promise to help with statutory reporting and uploading compliance policies. They offer chatbots for internal policy and can map and track product lifecycle. They can also look for profitability or fee anomalies.

Some of this new tech can also monitor your metadata to predict what might occur. Are there, for example, clusters of culture or conduct risk?

While much of this innovation is currently focused on financial services, overflow into other sectors is inevitable.

The problem for organisations heading into 2019, however, is that most RegTech remains in an early stage. For an organisation with regulatory issues today, it’s more one to watch. In the meantime, organisations need to consider now the appropriate balance between “human capital” and “tech capital” to achieve the right experience for their customers, efficiency in the business and regulatory compliance.

Of course full arrival of RegTech, and also LegalTech, will pose yet more questions and challenges. If you need to hire more people today to ensure you are compliant with regulation, what happens when RegTech swings fully into gear within the next few years? The time for responsible planning is now.

The future of regulation

It may seem that 2019 is a record peak for regulation – but in actuality we haven’t even begun to answer the truly huge new regulatory question of our time: how to deal with the Industrial Revolution 4.0.

New tech – especially in the fields of big data, machine learning, and AI – is booming, and regulation has not even come close to keeping pace.

The medium-term challenge will be to refocus our regulatory concerns on the impact new tech is having, and will have. We need to start having the conversation about where we are comfortable and where we are not. Where is AI allowed to play and where is it forbidden? How explainable is the way AI makes its decisions? What about imported AI? What cultural values and biases will it carry and how do we check?

When KPMG holds our inaugural Future AI Forum in February, these will be precisely the questions the attendees (academics, researchers, regulators, corporate representatives, Fintech/AI entrepreneurs and students) will focus on.

These are the real regulatory questions for us as a society – because they will shape the future of our children.

“The outlook for the next 12 months is better than it has been for a while. The challenge will be taking advantage of this favourable business environment given the regulatory hurdles.”

(survey respondent)
Issue 4

Political paralysis

Grant Wardell-Johnson
Exactly what caused Australia’s political paralysis is a matter of considerable debate. What is certain, however, is that a breakdown in engagement and trust has led to a compromise in the robustness of public policy. This in turn, is causing genuine headaches for Australian organisations.

Business leaders are concerned with growing polarisation and the difficulty of gaining support for complex reforms.

Good policy is evidence-based. It is subject to community discussion, involves consideration of the options, determination of the preferred course of action, and proper cabinet and parliamentary processes. If it involves the Federation – as many of our most complex issues do – there is the need for proper consultation with the states and territories.

We are experiencing what some have called the “powerlessness of power.” The capacity of our political leaders to present complex policy ideas in the public domain has been limited and often the attempt will be conveyed as weakness. Many business leaders referred to energy policy as an indicia of political paralysis. The problem was a trilemma – price, stability, and environment – but political discourse could not deal with the three issues and it drifted to one at a time depending on the political perspective.

Outsiders and the populists can succeed in the current environment by simply asserting “solutions” that are actually just descriptions of an imagined future state. In order to gain attention and support they are not required to show how they are going to get there. Much of political paralysis is the loss of the “how is this to be achieved?” part of our discourse.

The toxicity of our political climate has been steadily increasing. The word “liar” is now used routinely along with the clear misrepresentation of opposing positions. Outlandish claims are often left uninterrogated.

Another factor is the media cycle and the unfortunate decline of serious and genuine investigative reporting. Good policy media coverage is often replaced by “just-in” coverage. Speed and brevity have become critical.

A boom in information means we have ample opportunity to be less ideological and more evidence-based in our public policy processes, yet the opposite seems to be occurring. Bipartisanship is rare.

What are the solutions to our political paralysis?

Our Federation underpins Australian society, yet we have not been able to find suitable political infrastructure to deal with many of the problems associated with it. First amongst these is health, but education and infrastructure are also key. KPMG has advocated a permanent secretariat for COAG to consider the longer term issues for our Federation. Currently, it is substantially determined by the Prime Minister a short period of time before a Premiers’ meeting.

We need to embrace stronger codes of conduct in all our parliaments against false and misleading statements by politicians. Untruths and post-truths need to be called out by media associations and advertisers. This is a realm well beyond spin, but something where we believe society needs protection. It is more a question of exposing false political statements rather than denying free speech.

We need stronger intuitions to promote trust in our political lives. Our bureaucracy needs to be protected from additional politicisation and we need to admire this as part of our political DNA. Now more than ever we need “full, frank and fearless” advice from senior public servants. This needs to be complemented with deeper levels of trust between the public service and executive government and their advisors, along with stronger links between government and the private sector. Co-consideration and co-creation is needed, because relying on government alone to fix major problems within ever shortening cycles is simply not working. We need to value our independent think tanks more, the best of which are strongly evidence and reason-based in their arguments.

Political paralysis is not limited to Australia. It is strongly evident in other major parts of the world, particularly in Europe and North America. It is important that business and community leaders consider the problem deeply, and call out behaviours that are not geared to the broader public interest. This is strongly required in current times, as the alternative to political paralysis may not simply be more failures in public policy, but some very negative attitudes from “outsiders” with the potential to cause damage to our strong social infrastructure.

With this in mind, it is unsurprising that our business leaders believe this is a major issue for our immediate future.
Issue 5

Customer & citizen centricity

Paul Howes
The customer is your new boss.

Now, I'm conscious this can sound like old news. After all, hasn't the customer long reigned as king?

Let's be honest: not really.

In most sectors, the customer has traditionally occupied a pretty weak bargaining position – weak on knowledge, weak on access to information, weak on options.

As a result, most organisations have not considered them first-order priorities. When companies have devised their forward-looking business plans they have often drawn them up in isolation from considerations about the impact on customers.

The customer experience – their journey – has generally been tacked on at the end and explored through management tools like Net Promoter Scores.

But that era is assuredly over. The customer today has grown genuinely strong – and expectant.

They have knowledge and easy access to relevant information. They have abundant choice. And they have the capacity to move fast.

Global disruptors like Uber and Airbnb are driving consumer expectations. The likes of Facebook, Amazon, Netflix, and Google – the FANGs – now have bite across myriad industries. They influence what is expected from government, from financial services, and from almost everything else.

So in 2019, when you hear a leader say the customer is their boss, there's a much better chance than ever before that they truly mean it.

But if we accept this truth, it necessitates fundamental change.

Organisations heading into 2019 will know a huge part of this has to be digital transformation. But digital is an enabler, not an outcome, and there is a trap of falling into a tech-first approach. Successful outcomes put the customer at the centre and respond to a human need.

Again I suspect this will not come as news to most. After all, “put customers at the centre” or “be customer-centric” are not uncommon refrains.

But today this is so much harder than it sounds.

It's not just because transforming a business to a customer-first mentality is a challenge.

It is also because understanding what customers want is far from easy.

What customers want

Unfortunately, it's not as simple as just asking them what they want.

Recently we undertook an in-depth study of close to 2,000 Australian customers as part of the 2018 KPMG Acuity Customer Needs survey.

The top line result we got was very clear and very unhelpful: customers want to pay less.

This applies across sectors.

The number one priority of banking and telecommunications customers is reduced fees and charges. For supermarket customers, it's lower prices. Even in superannuation, more customers said they wanted reduced fees and charges than better investment returns!

So obviously if companies focused on delivering what customers say they want, it would be a simple race to the bottom in which just about everyone goes out of business.

That's not an outcome customers – or anyone else – want.
So the impetus must be on getting a deeper understanding of customer needs and customer values.

This can be challenging because customers are not always straightforward and clear in articulating their needs.

A customer can’t tell you about how to innovate or disrupt – if they could they would probably be your competitor.

Customers can only tell you about what they don’t like about service offers at the moment, and how their needs are being unmet or are unsatisfied. Even then, you still have to be careful about how you interpret their comments.

Often they will tell you they want service to be faster and more efficient. But this doesn’t mean you can leap to the conclusion that they want a digital or automated solution.

Customers talk about outcomes, not necessarily service delivery models. They want the right mix of face-to-face human interaction and automation.

The companies that truly get it are those who understand there is no silver bullet. These companies understand they need to have engaged, helpful people delivering outstanding service. That these people need to be working in alignment with a great digital experience. And that it is this combination that drives loyalty, advocacy, and commercial performance.

So satisfying your new boss, the customer, is much more than asking them what they want and giving it to them.

Organisations heading into 2019 will have to deal with conflicting demands. Automation and human service. Personalisation and data security. A loose, open presence on social media, but without overstepping boundaries.

Customers want all of this right now – but then again, they are always changing.

Yet while the challenge cannot be underestimated, nor should it be feared. If you truly embrace customer-centricity as the all-encompassing necessity that it is, the focus then becomes about identity.

The choices your customers make will increasingly be about who they are and who they want to be.

Millennials in particular – the oldest of whom will soon be turning 40 – want to know that an organisation has a purpose, and that values and behaviours are embedded.

They want to know a brand is a good corporate citizen before they decide whether it is an organisation they want a relationship with.

Ultimately, authenticity cannot be faked. But it is the key to opening hearts, minds – and wallets.

“A lot of trust has been destroyed through the Royal Commission and the regulators and policyholders will need to see evidence that companies are serious about reforming their culture and conduct. These are not easy tasks, particularly if employees do not feel that companies’ policies, systems and processes facilitate such customer/citizen centric behaviour.”

(survey respondent)
Issue 6

Cost competitiveness

Brendan Rynne
Cost competitiveness remains a key issue for many business leaders, who indicated government charges, taxes, raw material costs, energy prices, and labour costs make it challenging to compete in a globally competitive marketplace.

Analysis of employee compensation and labour productivity on a cross-country basis shows Australia sitting in the middle of the ‘first world pack’ of countries.

While the recent experience of wage stagnation in Australia has meant that labour costs have been contained, this low wage growth phenomenon appears to be occurring across many jurisdictions – which means our global competitiveness has not necessarily increased.

KPMG Economics has shown we suffer from poor labour cost competitiveness, particularly in the manufacturing sector, where labour costs typically represent between 40 percent – 60 percent of the cost base. Compensation costs in Australia have consistently grown faster than the value achieved for the output.

Labour costs have been added to in recent years by higher energy costs affecting businesses of all sectors.

KPMG’s research has shown that rising electricity and other energy costs have made Australia less competitive during the immediate past few years on a unit cost basis. This however does not take into consideration economic output from the perspective of energy intensity – how much energy is consumed within an economy to produce its economic output. On that basis Australia has recorded a comparatively below trend outcome.

While a changes in energy intensity and the developmental status of a country explain about half of the changes in real GDP per capita, the outcome for Australia does suggest our use of energy is less efficient in domestic production processes compared to many other countries. Our historically low costs for energy is likely to be one of the key contributing factors driving this outcome – but as energy prices have now risen it is no longer possible for Australia to remain globally competitive if we continue to use energy inefficiently in economic production.

Tax costs and rates are also a problem. While company tax rates are falling in some countries, only some rates have been reduced in Australia. Higher tax rates clearly acts as another cost burden to Australian businesses but this issue has seemingly been kicked into the political long grass.

Unfortunately, the continued concerns regarding the cost of doing business in Australia remain valid going into 2019. Reforms aimed at not only reducing costs, but also lifting productivity and improving our energy intensity outcomes should be a matter of priority for governments at all levels if the goal of being a competitive player in the global marketplace is to be realised any time soon.
Issue 7

Public trust

Alison Kitchen
In my first year as National Chairman of KPMG Australia I can scarcely recall a single client meeting in which the issue of trust has not come up.

It’s not just clients. Journalists, politicians, leaders of every kind are eager to discuss the issue.

This is welcome. Because the collapse of public trust in our institutions is, I believe, the defining challenge of our moment.

The deficit in public trust has widened due to movement on both sides of the divide. On one side, you have the examples of poor behaviour in the worlds of business and politics. On the other, you have growing public expectations and powerful new social media platforms that given ordinary people a place to broadcast their views and have influence.

This year I think we have seen a real sharpening in focus on public trust. Leaders have snapped hard to the fact that trust is not some amorphous discussion point, but rather a hard prerequisite for long-term success.

Trust in capital markets drives the decisions of investors. Trust in the quality of a product and the integrity of a company informs consumer decisions. Trust in employers determines whether a talented staff member joins or remains.

An organisation’s entire licence to operate is increasingly dependent on trust.

So for an organisation looking to build trust in 2019 where to start?

First and foremost organisations need to ask themselves fundamental questions about their mission, their purpose, and their values.

The public perception is that businesses see increasing shareholder value as their first, second, and third priorities. In many cases this perception has been actively reinforced by businesses themselves.

This is unsustainable. Businesses need to start giving as much thought to their customers, their employees, and their communities as they do their shareholders.

The reason is that efforts to build trust cannot be siloed. Trust needs to cut across categories if it is to have genuine value.

When it comes to customers, truly listening and then acting ethically is key. Transurban, which manages toll road networks in Australia and North America, has made inroads in this direction in 2018 and serves as an instructive example. This year it made the decision to apply a new ‘listen lens’ to all business activities. One result is a new hardship team that will help identity and assist drivers genuinely struggling with toll road debts. This builds public trust, with the added benefit of saving legal costs that would otherwise be incurred to recover fines.

When it comes to employees, consistency is key to building trust. The same values – and the same consequences – should apply to the top salesperson as to anyone else. Openness and transparency is also vital, especially around the likely impacts of organisational transformation.

When it comes to suppliers, the Business Council of Australia has made important steps this year with an industry-led Australian Supplier Payment Code, under which signatory businesses pledge to pay small business suppliers within 30 days of receiving an invoice.

These are obviously just examples. But they demonstrate how trust can be taken down from the theoretical and applied to the practical.

Building these kind of initiatives, brick by brick, will demand real diligence and application. But the effort will be worthwhile.

The successful organisations of the future will be those that are trusted – by their customers, employees, and community alike.
Issue 8

Cybersecurity & data privacy

Gordon Archibald
Kelly Henney
Cybersecurity

Gordon Archibald

No longer relegated to the status of an ‘IT issue’, organisations are now awake to the broad gamut of risk presented by cybercrime and cyber-espionage.

The ASX 100 Cyber Health Check, run by KPMG, identified a significant uptick in reported cyberattacks.

Yet as awareness of cybersecurity threats increases, so too does the exposure to risk. More personal identifiable information, more intellectual property, and more data in general is being moved around in potentially vulnerable ways.

Protecting that data is becoming more complicated, and presenting more of a difficulty to business.

For example, as most organisations become increasingly dependent on third-parties for all manner of digital services, the risk of a cybersecurity breach potentially balloons.

To add yet more risk, this year the Privacy Amendment (Notifiable Data Breaches) Act 2017 (NDB scheme) became effective, making breach disclosure mandatory. Unsurprisingly it was associated with a near 400 percent increase in reported breaches. While some were accidental, most were malicious.

The NBD scheme has complicated the situation considerably for organisations. Being a target of a cyberattack is not a crime, but now the way you report it could be. Organisations should be aware that if they don’t communicate enough they could fall foul of the law. But communicate too much and there’s also the reputational risk to consider.

So what can be done to mitigate cybersecurity threats as we head into the new year?

A lot of Australian organisations today have very solid cybersecurity polices, but poor implementation.

Critical systems are often missing patches and updates. Default passwords and shared accounts are still common. Digital hygiene is relatively poor across most environments.

But this kind of sloppiness is also extremely natural in any busy working environment. So how to battle human nature?

This is where automation and continuous monitoring come into play.

More and more tech is coming online, allowing organisations to shift away from pure reliance on the diligence of every staff member.

There are new platforms that integrate multiple types of security controls and can identify risk and verify when it has been remediated. Continuous controls-based monitoring of systems can better identify obscure issues that are then flagged for fixing. New Software as a Service (SaaS) options even offer to manage third-party risk.

Of course, when leaders say they are concerned about cybersecurity, that concern may well extend beyond the boundaries of their particular organisation.

The nation’s critical infrastructure – electricity, water, transport – is potentially vulnerable to cyber-espionage, particularly from hostile nation states. A serious attack on any one of them could have a catastrophic effect on most organisations.

Cybersecurity systems – like all security systems – are only as good as their weakest link. In our increasingly networked economy, cybersecurity is a threat we need to take seriously and collectively in 2019 and beyond.

“Our business is the custodian of much personal information about individuals. Our entire reputation hinges on our ability to demonstrate our capability to respect their privacy.”

(survey respondent)
Data privacy

Kelly Henney

Data is fast becoming one of the most important intangible assets for organisations, enabling better product development and personalised service offerings. However, the growing commoditisation of data and the advent of serious data breaches has called for sweeping regulatory change to codify accountability and transparency.

Boards increasingly face data related risks and issues around areas such as governance, regulation, consumer trust, security and preparation, response and data strategy, and technology innovation. They need to balance regulation and community expectations with their strategic objectives for digital transformation, reducing operational costs, and retaining competitiveness. Data leaks and organisation-wide practices need to be understood, and the controls for ethical use and protection of this data need to be monitored and communicated at all levels.

In May this year, the EU General Data Protection Regulation (GDPR) introduced significant requirements for Australian entities operating in Europe. Organisations must understand data processing activities (records of processing), provide significant data subject rights such as the right to be forgotten, and report data breaches within 72 hours from the point of awareness. Broadening the brush stroke of this regulation are the scale of the fines, from €20 million to 2–4 percent of annual global turnover, whichever is higher.

In raising the bar for transparency and accountability for personal data managed by organisations, these regulations are also a source of many unknowns for non-EU organisations as the enforcement has yet to be tested by privacy regulators. More rules are coming. In Australia, the upcoming Consumer Data Rights regulations will start with Open Banking and ultimately be implemented across the entire market, with Energy and Telecommunications industries next cabs off the rank.

As the pace of automation, investment in new technologies and machine learning solutions accelerates, new regulations and community expectations will need to be navigated to ensure personal data is adequately protected. New regulation and the fear of customer expectations should not be a hindrance to evolving business practices. The organisations that succeed will be those that are courageous in exploring analytics and designing tailored products for consumers that offer price, choice and flexibility competitiveness.

With consumer awareness of data privacy currently at its highest measured levels, organisations need to finely balance these heightened expectations with meeting efficiency and competitiveness objectives. They should not be afraid to use the data they have, as long as they have confidence that it is well protected, backed by lawful processing and anonymised or pseudonymised where appropriate.

Building consumer trust by enforcing strong policies around data governance, protection and consumer control will be the difference between organisations that thrive and those that fall behind the pack.
Issue 9

Big data

Anthony Coops
The volume of data continues to skyrocket and technology has made the collection, storage, analysis and sharing of data far easier than before.

Yet other headwinds are blowing. KPMG’s 2018 Guardians of Trust survey, for example, revealed one in four Australian C-level executives do not actually trust the way data is used in their own organisation.

Leaders are increasingly being asked to make major decisions based on the output of an algorithm they did not create, and may not fully understand. As we enter an age of “governance by algorithms,” organisations must think more about the governance of algorithms, in much the same way as they think about the governance of other business decisions.

For any leader feeling overwhelmed about the potential impact of data, a good approach is to narrow the focus. The single guiding question should be: how can the data I have access to be creating real value for my customers?

The potential answers in 2019 are exciting – as well as mind-boggling.

Today’s game-changing tech, like machine learning and AI, is fuelled by data, and lots of it. So data is moving from something you store, manage and govern really well, to something that is fuelling competitive advantage, engagement and growth.

This is a point not lost on consumers, who are getting genuinely savvy about what their data is capable of doing. Their expectations are continuously increasing and they don’t mind sharing more, but they expect you to keep it safe, be relevant and get the timing right. Trust is critical in today’s digital economy.

So what to do in 2019?

Like any large problem the trick is to break it down. Indeed, if you think the mountain of data to be mined today is huge, you ain’t seen nothing yet.

Key questions for leaders are:

• What is unique about the data I have (or have access to)?
• Am I leveraging it in a safe and secure way?
• What data in my organisation is not being shared, that should be?

A data explosion is coming in 2019 as digital, IoT, cloud and edge computing continue to proliferate across the data universe.

And while the data we collect at the moment is somewhat throttled by the systems that create it, expect the future of data to constantly flow through voice, video, sensors and physical gestures. With voice driving a majority of interactions in the coming years, data will become even bigger and easier to extract insight from than ever before.

With more and more case studies and tangible results becoming evident, big data is impacting every conceivable aspects of business. It’s exciting – provided you get moving.

“Myriad systems not designed to work together to efficiently collect, analyse and interpret data, particularly in relation to customers. Opportunities are apparent but the pathway there is not simple or clear.”

(survey respondent)
Infrastructure & liveable cities

Brendan Lyon
Piers Hogarth-Scott
Leaders across the government and business sectors are showing gathering frustration about the challenge posed by fast growing cities and the frayed infrastructure which underpins them. After a decade of political narrative about finding ‘innovative’ government finance to pay for new ‘smart’ infrastructure, Australia’s cities are still struggling.

Business leaders are calling out urban transport congestion and wider transport as key problems for Australia’s cities; and speak also to the challenge of implementing meaningful changes that deliver actual solutions, without political will to lead and explain major changes and find the money to fund them.

Transport congestion in our major cities is now overlaid by a waste ‘crisis’ and challenges in efficiently providing electricity, water and human services to support growing, ageing populations.

By any objective measure, it’s clear that better functioning cities are a challenge that Australia has yet to surmount.

A key issue is that while we can narrate infrastructure problems in our cities, we cannot evidence them. An interesting aspect of infrastructure is that we do not measure cost, quality, condition or capacity – or overall performance of infrastructure systems and networks.

Another problem is that even if we could accurately locate and evidence infrastructure problems in our cities, the constitution and intergovernmental financial arrangements mean it’s unclear about which level of government is accountable for fixing them.

The Commonwealth has been keen to position for a role in urban planning and infrastructure, like its Smart Cities Plan of 2016, but the constitution and practical considerations mean Canberra has no concrete ability to influence city performance, without agreement and execution by sovereign states and their subsidiary local governments.

Experiences like the national competition policy payments show that the best way to drive reform across sovereign states is to link state performance to federal payments – effectively ‘cash for competitiveness’.

The fundamental opportunity offered through smarter infrastructure is about identifying the problems we have – and using that evidence to drive political will toward the major interventions needed to fix them.

Modern technologies give us billions of new data points that can tell us about how, where, when and how much infrastructure is needed – and who will use it.

New technologies offer fundamental opportunities to understand what infrastructure we have, the condition it is in – and what new infrastructure we need. A true ‘Smart City’ with ‘connected infrastructure’ means a fundamental mind-set shift – embedding smart principles, practices and technology within the very fabric of a city’s operating model.

As the industrial revolution was powered by water and oil, the Fourth Industrial Revolution will be based on extracting, managing and refining data into information. Those cities best able to capture data and turn it into practical insights and new services will deliver the best functioning cities and economies.

It’s time to move Australia from narrating our problems, to a new approach of ‘measured’ improvements. Business leaders in Australia recognise that functional, liveable cities are a key competitive advantage to win skills, sustain positive migration policies and underpin vibrant investment.

New technologies offer break through opportunities to understand what infrastructure we have, the condition it is in – and what new infrastructure we need. Measuring current performance will be a first step to arming the cities and infrastructure debate to move from only adjectives, to verbs.
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