



Keeping us up at night

**The big issues facing
business leaders in 2020**



How You
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Introduction

Welcome to our third annual *Keeping us up at night* survey of Australian C-level leaders.

When we started this initiative at the close of 2017, the purpose was to draw on our research resources to reveal what was exercising senior minds as they considered the new year.

That remains our mission today. Our public debate continues to abound with claims about what our leaders are supposedly concerned about. This report cuts through that noise, uncovering the issues that are really on their minds.

Our continuity with this project means this year we can draw additional insight from the data by considering both how our list has shifted, and how it has remained stable.

Digital transformation, for example, remains our Number One concern for the third year running, with the related area of 'innovation and disruption' now in fourth spot (down slightly from second last year.) This indicates Australian leaders are acutely aware of the challenges and opportunities of the Fourth Industrial Revolution, and the transformative change that technologies like big data, the internet of things (IoT), and artificial intelligence will bring. Also linked to digital transformation is a concern about workforce upskilling, which moves into the Top Ten from 15th last year.

Concerns about regulation remain steady in the Number Three spot, perhaps unsurprising given the unabated public appetite for regulatory expansion and the potential for government overreach. The associated issue of public trust remains a leading concern, having ranked either sixth or seventh over the past three years.

There are interesting shifts in this year's survey as well. Australian leaders appear to be looking more nervously beyond our shores, with the global political and economic environment debuting in the Top Ten at Number Two, and sustainability and climate change shifting from 14th last year to fifth this year.

Domestically, leaders appear to be slightly more comfortable with concerns about political paralysis moving down from fourth spot last year to ninth. Our survey respondents are now, however, grappling with the challenge of leading, in the complex and diverse context of modern Australia, with leadership capability now into equal fifth spot.

Yet while the top line survey results are interesting, equally thought provoking are the short pieces our team of subject matter experts has assembled on each of the Top Ten concerns.

We hope you find this report valuable and that it contributes to your own thinking about the year ahead.



Alison Kitchen
Chairman
KPMG Australia



Gary Wingrove
CEO
KPMG Australia

2020 TOP 10

Most significant issues
facing Australia's leaders
in 2020

1
Digital
transformation



2
Global political
and economic
environment



3
Regulation
and regulatory
environment



4
Innovation
and disruption



5
Sustainability and
climate change



5
Public
trust



5
Leadership
capability



8
Customer and
citizen centricity



9
Political
paralysis



10
Workforce
upskilling



The Top 10 issues: analysed

Through the years

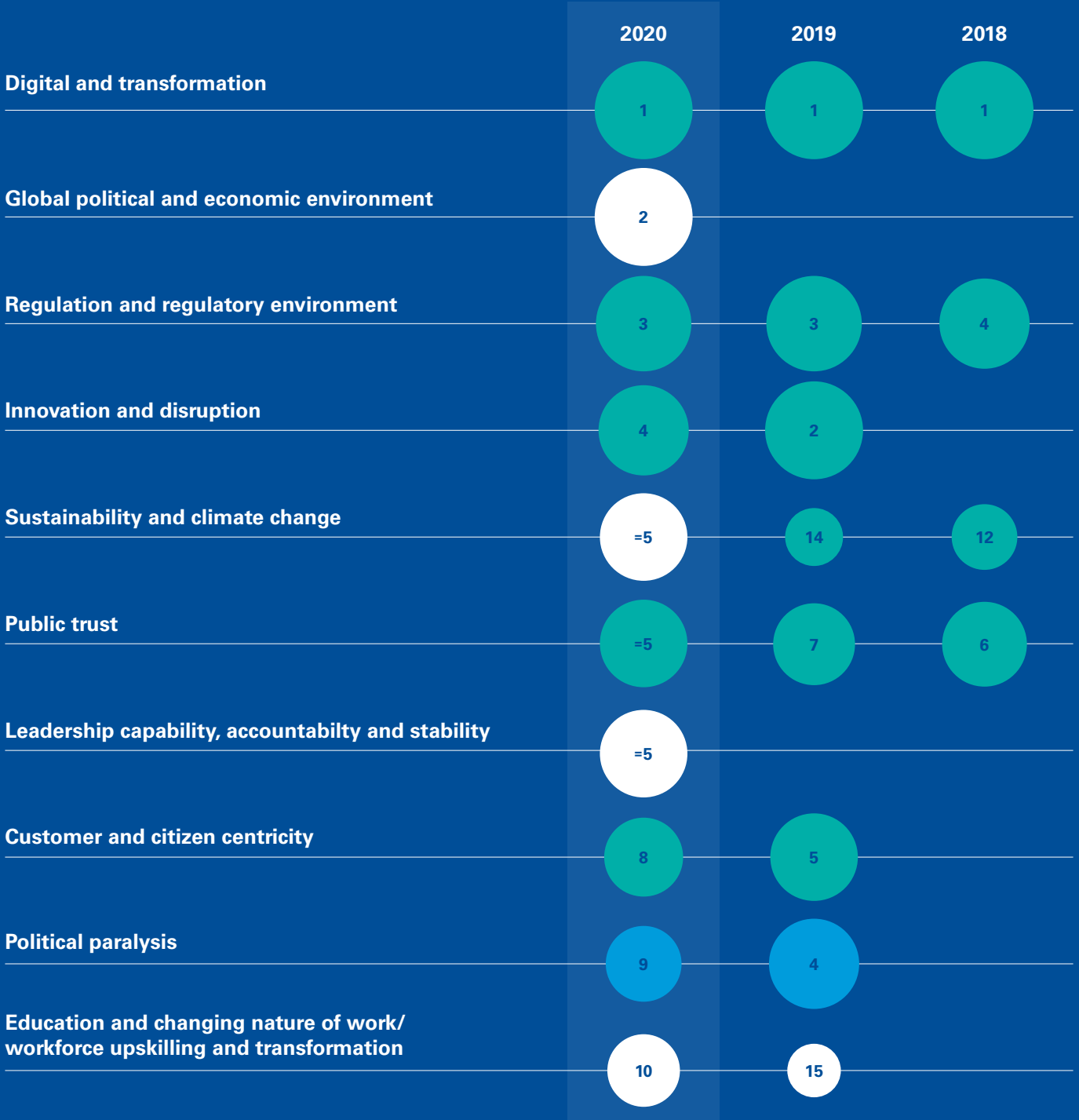
A look at how the top issues have shifted in focus since 2018

Key

- Increasing ranking
- Similar ranking
- Declining ranking

Number ranking (#1 being highest)

Proportional representation of number ranking





Issue 1

Digital transformation

Sarah Vega

National Managing Partner, Innovation,
Solutions & Ventures





The fact that digital transformation has once again topped the list of leading concerns is understandable, given it is both profoundly necessary and monumentally difficult. There are two key drivers for digital transformation: maintaining ongoing relevance in the market by continuing to meet customer expectations, and the reduction of operating expenses.

Heading into 2020, most Australian CEOs now have a firm grasp on what digital transformation really means. They appreciate it has to extend well beyond a shiny new app.

They understand that real transformation means reimagining their organisation for the digital era.

Leaders are asking themselves questions such as are we connecting our customers with compelling value propositions, opportunities and interactions? Are we empowering our employees to deliver on the customer promise? Are we connecting our ecosystem of business partners to jointly deliver on commitments to customers? And are we connecting to market dynamics and digital signals?

Customers today expect seamless, connected experiences, and the connected enterprises of the future will create whole new ways of working. Customers are also expecting more for less, are more frequently shopping around for a good deal and are less loyal to any one brand. This puts more pressure on organisations to lower their operational costs and the digital agenda is frequently seen as the way to achieve this.

Leaders appreciate the tantalising opportunities available to those who pull it off. They know the future belongs to the organisations that most effectively achieve:

1. Digitisation of their front, middle and back office systems.
2. Extraction of value from data.
3. Innovation with emerging technologies such as blockchain, and artificial intelligence.

Little wonder then that Australian organisations have invested many millions on digital transformation programs. Several generations of CIO's have launched ambitious simplification and digitisation agendas yet the hard reality is most of these transformation initiatives have failed to deliver the benefits envisioned.

Why is it that digital transformation is such a tough egg to crack?



The myriad pitfalls of digital transformation

The answer, in a nutshell, is interwoven complexity.

The leaders that cite digital transformation as a primary concern (as opposed to an opportunity) tend to run organisations with a large amount of legacy technology. Many years of customer focussed innovation has resulted in hundreds of products or services. Each of these has a range of features and each of those features drives process variants, all supported by a combination of legacy technologies and human operations.

The whole organisation, from the marketing to sales to IT to ops is involved in delivering the products or service to the customer. Each of the teams have different leadership, different incentives, different priorities and personalities.

So when a leader says: 'I want to transform my whole organisation into something that's future fit,' it requires complete organisational unification on the mission. Such a job requires buy-in from all levels of leadership, and willing cooperation within and across divisions.

It doesn't work if the divisions are running projects to generate revenue (adding more products and features and therefore complexity) while the CIO is trying to simplify and digitise. Perhaps this phenomenon might help explain why rapid tech advance in Australia has not been coupled with predicted advances in national productivity.

Traditionally, digital transformation has been a job allocated to the CIO often without the resources necessary which can be massive, because while the unit costs of technology are coming down, the scope and volume of what is required is rapidly going up.

Interestingly, a lot of digital transformation heartache seems to stem from a misinterpretation of customer-centricity. Organisations tend to forget that truly serving the customer does not necessarily mean aiming all digital transformation initiatives directly at them.

Too many transformation initiatives in recent years have tended to forget about staff, overlooking the fact that great customer outcomes stem from empowered, engaged employees with the right tools to do their jobs effectively. Instead the lives of employees across banking, education, and retail – to name just a few sectors – have been complicated with a myriad of outdated systems that are not fit for purpose. To be successful into the future, CEOs will need to leverage the latest technologies to connect the front, middle and back offices.



Hitting Reset

So faced with the scope of this challenge, and the poor historic odds of success, what's the leader of an organisation to do?

Well, many are starting to initiate the reset option.

Big companies that have invested significant resources into digital transformation, without the desired results, are not just considering the option of building from scratch but are moving to action.

The banking sector – not just in Australia but around the globe – is a good example. Legacy banks are starting to build or purchase new digital-only banks. Should the digital bank prove operationally resilient, traditional banks will migrate their legacy customer books to the new entity. This move replaces legacy infrastructure with new technology, without the complexity of engaging the entire organisation and helps solve the agility and customer experience issues that banks struggle with.

So how can organisations decide what kind of digital transformation is right for them? There are some pivotal questions that can help leaders plot a course.

Do you have top down, CEO led sponsorship for the transformation? Is your entire business aligned with these goals and have you updated incentive systems to align? Have you had more than one previous program that was unsuccessful? Do you have lots of other competing priorities? Is your legacy environment so complex that you can't understand it?

The biggest question, however, comes from facing squarely up to the epic challenge of complete digital transformation and asking: do we have it in us? An honest answer could be pivotal to the future you start moving your organisation toward in 2020.

Issue 2

Global political and economic environment

Grant Wardell- Johnson

Lead Tax Partner,
KPMG Economics & Tax Centre





Concern for the geopolitical and economic environment has risen considerably in the last twelve months, and now ranks Number Two on our list heading into 2020.

The nature of geopolitical risk is perceived as very diverse. It could be tectonic or it could be local. It might emanate from governments or civil society. In some cases, it has the potential for significant contagion. It is often fragmented and highly complex. It can be sector-specific or it can be completely general.

For businesses and institutions, its impacts can be multidimensional. It can affect consumers and sales. It can be operational and disrupt supply chains and production. It can diminish reputation.

Most short-term concerns centre primarily around economic risk. For example, many leaders express fear of the flow-on impacts of escalating tariffs. Business models tend to rely on stability and predictability in the political environment. Some of the uncertainty and volatility in the current global political environment is acting as an impediment to expansionary investment decisions. There is also concern about the global economy itself. There have been a significant number of year-on-year profit contractions for corporates, particularly in the US. In the past this has often preceded an economic downturn.

Of course, there is no neat demarcation between these concerns. Many leaders are understandably concerned with the general decline of 'economic logic' and the rise of 'political logic.' The increase in tariffs in the US and Brexit are excellent examples of this.

Populist sentiment has been rising throughout the world. Some of this is a result of increased globalisation and a belief that many are missing out on its benefits. There has also been a movement of power from the centre to the outside.

The resulting increase in nativism has meant that international norms and institutions which were once seen as secure are increasingly viewed as under threat. The relative vulnerability of the World Trade Organisation is an example. There is a perceived lack of global leadership with a decline in multilateralism.

Being forced to pick sides

This rebalancing of power within major economies, and the deep structural change this rebalancing precipitates, is a source of real concern for business leaders. There is, for example, a prevalent fear that a new Cold War dynamic could be emerging that will force economies to align with one or other of the major superpowers. Some Australian businesses and universities are now of the belief that, in future, it may be difficult to collaborate with both the United States and China on technology initiatives.

A few years ago, there was a greater focus on the cross pollination of ideas in technology, but this may be curtailed. The emergence of such a dynamic obviously has significant consequences for all Australian organisations, but for some the challenges are profound and immediate. What, for example, would such a situation do to the student numbers and business plans of universities?

While the potential for technology polarisation will be strongest in areas closely related to security, it could well go wider and extend to a battle for dominance in artificial intelligence between the major powers.

Engaging with the geopolitical challenge

It is easy to see oneself as a pawn in this environment. Indeed, many leaders see their organisations as lacking the tools and skills to deal with geopolitical threats.

The positive aspect of this story, however, is that one can take an active role in dealing with risks. One can look through the likely – and, indeed, unlikely – scenarios, consider appropriate options, and determine potential responses. Moreover, the changing and volatile environment may also present new opportunities as others are closed down.

There is, for example, the potential for new supply chains and new markets to develop. Thus, not only can geopolitics be integrated into general risk and strategy, it can give rise to new ways of thinking about one's business.

Issue 3

Regulation and regulatory environment

Stuart Fuller

Global Head of Legal Services, KPMG





That Australian business leaders consider the regulatory environment to be a significant concern heading into 2020 is no surprise, although their reasons will be varied and complex.

Part of the frustration will stem from the inadequate harmonisation of regulation across state and federal jurisdictions. Some leaders will be worried about dealing with the sometimes confusing and contradictory overlap or inconsistency between Australian and foreign regulation.

It is likely, however, that most of the pressure stems from the sheer weight of new regulation coming online. Australia is very much in a regulation 'on' phase. If the community and government today believe a sector is not running well, there is a tendency to step in and regulate.

The crumbling trust in institutions and organisations has eroded the benefit of the doubt that used to allow business to attempt to solve its own problems.

At the pointy end of much of this is the continued fallout from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The Federal Government's response to date has been to identify some 41 separate pieces of legislation that will be introduced.

When this much legislation gets introduced there is often the risk that some aspects of it will overlap, some aspects may be inconsistent, and some aspects may have unintended consequences.

Yet this is the environment in which Australian business is now operating. Gone are the days when regulatory change used to be preceded by extensive rounds of consultation with industry and relevant experts.

This trend toward more – and more stringent – regulation is almost guaranteed to continue well into the 2020s. Government will remain under community pressure to get tough, introduce more laws, and to enforce them more vigorously.

So if you're one of the majority of business leaders who consider this to be area of concern how can you usefully approach the challenge heading into the New Year?



Operating effectively in a regulation 'on' environment

The first and most important action any organisation can take is to ensure it is doing the right thing, and being seen to be doing the right thing.

An element of this is looking to modernise, standardise and digitise existing legal, risk, regulatory, and compliance functions into a unified and proactive function that has regulator engagement and management as a core of its strategy.

Fundamental questions will need to be answered here. What is the right strategy for your organisation? Is it openness, transparency, and full engagement? Certainly this is common in jurisdictions like the US. American institutions, upon identifying a problem, will tend to self-report and then look to manage the rectification process in cooperation with the regulator.

But this requires a culture of trust between the regulator and the regulated. It's fair to say such a culture is uncommon in many areas of Australian business, where a more antagonistic dynamic has tended to evolve.

So where does this leave Australian business leaders, given that maintaining a defensive crouch is hardly an appealing long-term prospect? One alternate option is to engage more with fellow organisations in the sector, as well as community stakeholders and consumer groups, and start mapping out what a modern, customer-centric approach – and regulatory framework – looks like for your particular industry.

Defining what good and ethical practice looks like through a customer-centricity lens is an area in which organisations have a uniquely powerful perspective.

If organisations engage openly and in good faith to define and pursue customer-centric reforms, it could open up pathways for industry and regulators to work together to come up with frameworks that work better for end-users and business alike.

No end in sight

Such engagement becomes particularly important when you consider a salient fact heading into 2020: the regulation onslaught has not really begun as yet.

In many respects the new laws and tighter restrictions we are now seeing are a rearguard approach to old issues. We have not really begun to tackle the regulatory problems posed by new digital technologies like big data and artificial intelligence.

As the community and government become more cognisant of the risks and implications of emerging tech, regulation is sure to follow. But the process is very unlikely to be a tidy one.

After all, if large businesses – with their abundant resources, reach, and access to talent – are struggling with the vast implications of new tech how do we expect regulators to process the challenge?

Acknowledging this future truly underscores the importance of forging more cooperative relationships, starting in 2020.

Issue 4

Innovation and disruption

James Mabbott
National Leader, KPMG Innovate





Ten years ago, business leaders worried about a ‘killer application’ that might bundle a whole lot of separate functions into a single app that would threaten their market. Today, we think more about ‘category killers’ – massive entities that reinvent sectors and thereby blur traditional boundaries between them.

We enter 2020 on the cusp of the Fourth Industrial Revolution. Game changing tech developments like artificial intelligence, the internet of things (IoT), blockchain, and big data have the potential to pave the way to a new golden age for business. We will be capable of reimagining our world and ourselves. Transport, education, finance, healthcare – all will be transformed in fundamental ways.

The term ‘innovation and disruption’ speaks to this moment beautifully, because it captures the Janus-faced nature of the situation. The opportunity for near-limitless upside is countered by the threat of complete annihilation.

Little wonder then that it exercises the minds of so many Australian business leaders! But how to make a problem that can seem so nebulous practical?

We can usefully start by zooming in on one aspect, say, artificial intelligence.

Managing artificial intelligence before it manages you

Artificial intelligence is an excellent example of the double-edged sword of innovation and disruption.

It’s potential for good is truly unlimited. If we are to cure cancer in the next 20 years, artificial intelligence will be involved. If we are to boost human capabilities significantly through micro learning and tailored education programs, artificial intelligence will be at the heart of that. If we are to unclog our cities through the likes of smart cars, drone-based delivery, and new freight, artificial intelligence will be there.

Creating the capacity for machines to learn, adapt, and deliver solutions changes just about everything. It’s also potentially terrifying.

Future artificial intelligence will feed on the mountains of data being produced not just by existing products, but by IoT devices. There is no guarantee, however, that what artificial intelligence makes from all that data will be desirable or benign.

Amazon got an early taste of this recently when it assigned artificial intelligence the task of recruitment. The task management designed seemed sensible and straightforward. It told the artificial intelligence to assume that Amazon is successful because of its great people, and to therefore analyse these people and recruit new employees in the same mould.

What Amazon management quickly found is that this is a great way to limit diversity. Just like the unconscious bias embedded in humans, the artificial intelligence was not discerning in the way it tried to hire people ‘just like’ the ones already there.

What this little example underlines is the need for humans to be very careful about the way we proceed with artificial intelligence and the data we feed it.

We need to do something the tech industry is not culturally adept at: hastening slowly. You can’t ‘move fast and break things’ with artificial intelligence. Because you might well break something irreplaceable.



The responsibility of the driver's seat

Business leaders need to be cognisant of the truly enormous responsibility they have in this moment. With such enormous power within reach, the way we develop and harness that power will literally define the future.

Many established leaders in the market appear to be recognising this. Microsoft for example, recently made what could be considered an unusual move by calling for the regulation of a technology in which they are a pioneer – facial recognition.

Closer to home, the Australian Government recently drove a consultation process with artificial intelligence experts from business, academia, and community groups to develop a set of artificial intelligence ethics principles.

This is vital work. If we want to capture the benefit of artificial intelligence we need to do so in a way that protects people and society.

This principle applies to all business and civic leaders. If we want to reap the benefits of the Fourth Industrial Revolution, if we want to drive that growth, then we need to take our customers, our people, and our stakeholders with us.

It's a lesson we're working hard to absorb at KPMG. We spent much of 2019 working through an internal dialogue about these new technologies, which have huge potential for our business. But while we want to unlock the value, we also want to ensure that the prosperity we create is shared among all stakeholders. If the tide is going to rise we want ensure everyone has a boat.

Considering the consequences

Virtually every transformative tech presents business leaders with a challenge to avoid lopsided outcomes.

It's easy to imagine an Australian future, for example, in which transformative new health and education opportunities come online and revolutionise wealthy citizens in our urban areas, whilst Australians in regional and remote communities get left out of the process entirely.

What leaders across society need to recognise is that the choice is up to us. Tech advance is not destiny. For CEOs looking to steer their organisation through the fundamental shift of the Fourth Industrial Revolution, consideration of the communities in which they operate should be paramount.

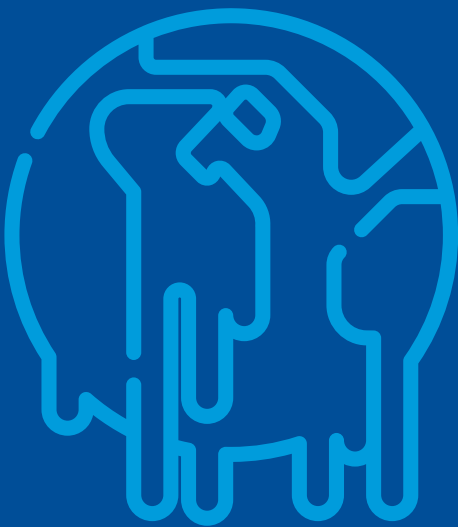
Accountability should never sit with a machine or an algorithm. Humans should always be in the loop and flesh and blood leaders should always be accountable.

Issue =5

Sustainability and climate change

Adrian King

Global Chair – Sustainability,
Climate Change and ESG Services





The big mover on this year's list is 'sustainability and climate change,' into the Top Ten for the first time at Number Five.

The 'impact of climate change' is a familiar phrase. But when Australian business leaders consider it properly they should be clear about two broad categories of risk: physical and transitional.

I expect that momentum upward to continue in subsequent surveys, because the impact of climate change on Australian business is not going anywhere soon.

Physical risk refers to the immediate and current effects of climate change: higher and more extreme incidences of bushfires, storms, drought, El Nino effects, and similar. It also refers to longer-term effects, like rising sea levels, biodiversity loss, the death of the Great Barrier Reef. The impact of these physical effects on business is clear.

Transitional risk, on the other hand, refers to how much a business model or product is going to be affected by a carbon constrained society. In a globalised world of complex supply chains and diverse stakeholders this is a challenging question. We can make some broad assumptions. Copper is likely to thrive, coal will likely decline. Battery technology will become increasingly important. Certain inputs will get more expensive, the likes of food products, high water-use products, airline products. But there is plenty of grey in the picture as well.

For business leaders there is something of a zero sum nature to physical versus transactional risk. If the world avoids one it's certain to face the other. Of course what we are likely to see in real life is a messy combination of both.

So the pertinent question for every leader is, 'how well is my organisation prepared for these uncertainties?'

Investors are already trying to provide the answer, of course. The financial system has a wonderful ability to bring forward the consequences of the future.

The risks, while hard to precisely define, are foreseeable. Businesses are required to acknowledge them. The ASX, APRA, ASIC, the Accounting Standards Board, the Auditing Standards Board, legal opinion and most recently commissioner Kenneth Hayne – all now consider that businesses needs to acknowledge, understand, and plan for the risks associated with climate change.



Preparing for a changing climate

So faced with such a complex and daunting challenge, what can business leaders do to prepare in 2020 and beyond?

While much depends on the kind of business we are talking about, some consistent rules apply.

First, it's absolutely critical that you perform in-depth analysis of the potential risks to your business and products. You achieve this by gaming out potential future scenarios including what the likely market, regulatory, and societal responses to those scenarios are.

You then need to consider strategies that can help your organisation manage its way through and, ideally, be transparent about those plans.

The salient point here is that organisations need to start grappling with climate change as a very material and practical problem. This can be hard because of the toxic politicisation and geopoliticiation of the topic.

Too often climate change is framed as a debate between 'planetary doomsday' and 'overblown fretting.' Neither end of this spectrum is an excuse for individual businesses to fail to actively plan and manage this risk.

The reality is we are all operating in a world now that will be largely defined by climate change and our collective response to it. Everyone will be affected, and everyone will play some kind of role.

The need for structural change

In a practical sense, business should start developing mature ways of managing and responding to emerging risks. This will be challenging, as many organisations have limited experience in having to deploy holistic and collaborative approaches to long-term problems.

Some businesses are simply not used to thinking about the natural environment as a critical factor. A telco, for example, is unlikely to have a well developed in-house environmental capability unlike, say, a mining company.

A big miner will be used to considering the long-term aspects of decisions made today, and factoring in risk over a decade or more. An online retailer may be more used to thinking about three years as an eternity.

The path ahead

When Bank of England governor Mark Carney says it's vital to 'bring the risks from climate change and the opportunities from the transition to a net-zero economy into the heart of financial decision-making' he may be operating from a markedly different perspective to a 16-year-old Greta Thunberg leading a rally of students.

What they both underscore, however, is the trajectory we are on in the short to medium term is fixed.

The factors leading decision makers in business, government, and civil society to take climate change seriously will persist and grow. Your organisation will need to shift accordingly.

Issue =5

Public trust

Alison Kitchen

Chairman, KPMG Australia

Professor Nicole Gillespie

KPMG Chair in Organisational Trust





One of the greatest collective challenges we face is the re-establishment of trust in our institutions.

This is a deeply practical problem. In a complex and unforgiving world where institutions are constantly under the spotlight, we need, now more than ever, structure, governance, leadership and culture to make things work effectively at the most basic levels. This provides the platform for a broad rebuild of trust which is required for society to function effectively.

Australian organisations need trust if they want to innovate, grow and make changes, to influence lawmakers, attract and retain the right employees and to maintain customers in a highly dynamic competitive environment.

So it's alarming that trust has declined over the past two decades. Although this drop has been more precipitous in some sectors than others, it has occurred across a diverse array of organisations and institutions.

This year's survey confirms that Australia's leaders are very much alive to the trust challenge. The problem for leaders heading into 2020 is forging a constructive understanding of how the trust challenge can be practically tackled right across their organisations and stakeholder ecosystems.

Business in Australia has a pragmatic culture. We are interested in achievable steps that lead to verifiable outcomes. So what practical steps can leaders concerned about trust take in 2020?

Practical steps toward building trust

Most organisations take a piecemeal approach to managing trust that keeps them on the back foot. Typically, responses are reactive, occurring well after trust issues have emerged and after trust has been materially eroded.

These responses are often narrowly focused on those directly affected, without consideration of the broader range of stakeholders who collectively influence the organisation's reputation.

This year, KPMG Australia published a new research paper in partnership with the University of Queensland Business School entitled *Trustworthy by design: A practical guide to organisational trust*.

In it, we learn that any organisation serious about building durable trust over the long term will need to proactively design trust strategies at the top that are then embedded throughout the organisation, brick by brick. This starts with getting some of the really basic functions right, such as aligning remuneration with the organisation's purpose.

Given the complexity of today's organisations, a connected approach is essential. Otherwise, an initiative aimed at one stakeholder group can have profound and unanticipated effects on another.

So an organisation looking to take a more systematic approach to building trust and mitigating risk first needs to break down what is meant by 'trust' and then apply this understanding to individual parts of the organisation's infrastructure.

Research shows that stakeholders trust organisations they perceive to have three key characteristics: ability ('I can rely on you to be competent'), humanity ('I believe you care about your stakeholders'), and integrity ('I trust you to do the right thing').



Diligence and honesty: the keys to exploring the trust challenge

Once this understanding is clarified, leaders can apply the model of organisational trust, which breaks organisations into six key components: Purpose and Strategy; Culture; Leadership and Management; Governance and Structure; Systems and Processes, and Products, Services and Operations.

With respect to each component organisations need to take a hard look in the mirror. For a component like 'systems and processes,' for example, first you need the basic controls in place to help people do the right things, in the right way, at the right time. Segregation of duties, sensible delegations of authority and appropriate review mechanisms are essential. Then, a key question to consider includes: 'Are there robust mechanisms that encourage the surfacing and resolution of trust issues before they escalate if something no longer looks and feels right?'

For the 'culture' component a key question is: 'Do staff feel safe to raise concerns in a timely way?'

This process needs to be diligently and honestly approached in a systematic manner. Because when it comes to trust, an organisation is truly only as strong as its weakest link.

Complex though the challenge is, it's important to recognise that the evidence suggests most major trust failures within and by organisations are predictable and preventable. Mitigation is achievable if trustworthiness is strategically embedded across the organisation.

Adhering to such rigorous principles and processes will be neither quick nor easy to implement. But it is key to achieving a resilient and sustainable reputation for trust.

Ultimately, of course, leaders must make peace with the idea that the task of restoring and maintaining trust is ongoing and requires continuous effort. Societal expectations will continue to evolve and organisations will have to evolve with them.

The organisations that establish sophisticated cultures and infrastructure capable of responding dynamically in a trustworthy manner will be the ones to survive and thrive.

Issue = 5

Leadership capability

Gary Wingrove
CEO, KPMG Australia





Modern Australia is one of the most diverse societies the world has ever known. That makes this country a hugely exciting place in which to operate in 2020.

Almost half (49 percent) of the Australian population were either born overseas, or have at least one parent born overseas.

Organisations need to be increasingly conscious of reflecting diversity. Long-term success will require omnivorous minds, plurality of experience, and the dynamism that results from clashing assumptions. That's where the best ideas happen and the best culture is created. And, as you may have heard, 'culture always eats strategy for breakfast'.

Most leading Australian organisations now recognise the importance of inclusion and diversity measures. Promoting inclusion is the smart thing to do to achieve better performance, drive stronger diversity of thought to address complex challenges, and to attract and retain great talent. It's the right thing to do for your people, your clients, and your community relationships. And now, increasingly, it's also the expected thing to do among your clients and stakeholders.

Inclusive leadership the key

The key to unlocking the abundant value in diversity is leadership. The benefit of different backgrounds, perspectives, and experiences cannot be effectively leveraged unless an organisation has leaders capable of harnessing it.

That means a commitment to inclusive leadership, a skillset that enables leaders to demonstrate curiosity and cultural awareness to create an environment in which people are enabled to reach their full potential.

This is a significant challenge. It is generally tidier and more straightforward to create environments in which homogeneity reigns. Inclusive leadership, on the other hand, demands that differences are not only accepted, but understood, explored, and used to create competitive advantage.

An inclusive leader needs the ability to step confidently and sensitively into conversations where different perspectives are meeting, whether they be generational, cultural, gender-based, or anything else. This requires an acute awareness of one's own biases and perspective.

And that cannot happen without deliberate action and applied effort. So how can leaders who want to pursue inclusive leadership in 2020 set about the task?



Forging a path to an inclusive leadership culture

Leaders wishing to become more constructively inclusive must start with an honest look at themselves and their biases.

Human beings will, for example, tend to gravitate toward those with whom they share identifiable characteristics. One doesn't have to be actively discriminatory for this to apply. Unconscious bias is, after all, unconscious. But it's undoubtedly powerful.

There is a reason that diversity in many Australian organisations starts strong at a graduate level, and incrementally thins out as you get closer to the top.

Leaders have a tendency to self-replicate. Referrals and connections can be beneficial, but they will often ensure you hire people much like yourself.

We all carry a set of leadership archetypes that we value and respect. For most this happens subconsciously. Which means we often fail to recognise that what we consider to be 'leadership qualities' may be subjective and limited.

An inclusive leader recognises that effective leadership comes in many different forms, and these forms might be affected by the likes of cultural background or gender. They might also be affected by the nature of your skills and educational background.

As organisations look to fill emerging roles, like data scientists and cybersecurity experts, leaders should be mindful of the fact that outperformance and promotion paths may well look different within these fields.

Not everyone aspires to graduate out of their specialty and into a generalist management role. Many of those with hard technical skills may require different incentive paths in order to extract their best efforts and retain them within the organisation.

Above all, inclusive leaders need to recognise how critical their leadership is when it comes to diversity. Simply throwing a diverse group together is unlikely to unlock value for an organisation. It requires careful management.

At KPMG, we are very focused on building inclusive leaders, but like most organisations, there is still much work to do. The leaders who are able to learn about the differences that make the members of their team tick, listen with humility, and be vigilant about personal bias will be the ones to leverage the benefits of diversity in the 2020s and beyond.

Issue 8

Customer and citizen centricity

Amanda Hicks

Partner in Charge, Customer,
Brand & Marketing Advisory and National
Managing Partner, Brand & Marketing





Customers expect more from the brands they interact with than ever before. The rapid advance of technology means customer expectations are sky high and getting higher. Customers want to spend minimal time and effort to get what they want, and they expect authenticity, directness, and personalised service.

Even for organisations accustomed to factoring in customers as a priority, the now required shift of focus toward true customer-centricity is a major challenge. But the shift in expectations applies to all organisations, even those with no real tradition of considering the ‘customer first’.

A particularly interesting case study is government. The traditional service-led model of human services delivery, for example, has been described as a ‘medical’ mode, because it positions individuals as problems. Service delivery under this model has been population based, with a one-size-fits-all offering typically focused on pre-defined services or support.

But a customer-centric model demands services that are tailored toward the individual’s specific needs and desired outcomes. The service provider must listen to the individual to better understand their needs, and then respond in a more integrated way.

This represents a significant transition for both the organisation, and for the individual. The individual shifts from being a passive recipient of services to becoming an informed, active customer. It is also a fundamental challenge for governments, whose agencies are often constrained by traditional delivery models and inflexible legacy systems.

Understanding the nature of this challenge is contextually illuminating for all leaders exercised by the customer-centricity challenge.

From customer-centricity to citizen-centricity

So what are the fundamental differences between the customer-centricity and citizen-centricity?

Perhaps most obviously a ‘customer’ is assumed to have a level of choice about their interaction with a private company that a user of government services may not. On the other side of the equation, companies are able to segment the market and choose their customers – a luxury not available to public services.

But fundamentally a customer differs from a citizen by the way their satisfaction is defined. A company is able to consider a customer’s interests within the scope of their interactions with that company. A citizen’s satisfaction, however, must necessarily be defined more broadly – beyond the boundaries of any individual service provider in question.

Delivering citizen-centric public services therefore requires a more detailed, nuanced and holistic understanding of citizen expectations, the tools and skills to engage and co-create with end-users, and an integrated approach to service delivery.

With many government agencies at all levels already on a path to change, how can they tackle the challenge of keeping pace with their more nimble commercial counterparts?



Paths to citizen-centricity

The introduction of consumer-led models of service delivery – where consumers are empowered to exercise choice and control over their lives and the services they use – is a fundamental challenge to traditional models.

The changes extend well beyond the cosmetic and the structural. At its heart it involves a shift in the power balance between the consumer and the service provider by recognising that the consumer's lived experience is a source of useful insights into what supports will be effective.

This model promises many benefits, including faster innovation, higher consumer satisfaction, and improved outcomes. But when you up end a model of citizen-focused service delivery there is also risk to consider – especially where vulnerable people might well be involved. The NDIS is a great example of this point. It has completely flipped the model to provide customers with more choice and control over their care packages. This philosophical evolution has meant both government and the NFP sector has had to change its mindset about how to meet customer needs.

What governments must realise is that if the abundant benefits of customer-centricity are to be realised, a level of defined risk must be accepted. The flipside of providing an incentive for people to exercise true choice is that they must be trusted to make that choice appropriately.

The NDIS has shown that this principle doesn't have to mean giving people unlimited freedom to spend their allotted budget on whatever they want. But it does mean genuinely listening to an individual's experience and trusting they may know better than you about how best to spend their budget. That has to be true even when those choices lead to services or solutions that a traditional human services delivery model would not have provided.

The leap is likely to be worth it. Providing choice drives service providers to be more innovative in the services they deliver and the value they add.

Of course creating this flexibility means service delivery models will need to be re-designed to enable people, in a practical sense, to make real choices and exercise real control. They need to be enabled to navigate the system and access the outcomes they need.

The NDIS has shown that one way for authorities to address this issue is through specialist and knowledgeable intermediaries. Based on the consumer's desired outcomes, such service can helpfully guide customers towards the best range of options for the care they seek.

New data-driven technologies, as well as emerging tech like artificial intelligence, have enormous potential to assist in this process. However government providers should also be mindful that there is unlikely to be a satisfactory substitute for the human touch at any stage in the foreseeable future.

Issue 9

Political paralysis

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2020 will mark a relative rarity in 21st century Australian politics. It will begin without the shadows of an election for the first ten months of the year and stability within the senior ranks of executive government following the outcomes of the 2019 federal election.

This provides for a rare period of stability in the political cycle. Since the last *Keeping us up at night* survey, in which 'political paralysis' was ranked as the Number Four concern, voters have returned governments at a national level, and in Australia's largest states of New South Wales and Victoria.

This seems to have provided business leaders, and the nation, with a moment for a deep breath. Perhaps this is why we have seen 'political paralysis' drop as an issue of concern for Australian business leaders to ninth spot this year.

With the high-stakes political drama taking a rest, the window for a refocusing on policy stewardship seems to have opened. It's long overdue but also temporal.

The past decade has seen Australian businesses grow increasingly frustrated with our political incapacity to forge lasting and effective reform on critical issues like energy, infrastructure, and education and skills.

Business leaders know the Fourth Industrial Revolution is upon us and will demand levels of agility we have not required before. In terms of preparation, Australia's record of progress in recent years is not a source of comfort.

Green shoots of better co-operation

Heading into 2020, however, there is cause for cautious optimism. Governments are increasingly recognising the imperative to work cooperatively with new perspective.

The Federal Government, for example, which has not traditionally concerned itself with the improvement of urban areas, has recognised it needs to play an active role in shaping the cities and towns in which 90 percent of Australians live.

Australian Federal Governments of the past may have considered their infrastructure obligations ending with regional roads, along with some rail, freight, and logistics. But this is a 20th century model of thinking.

Meanwhile, new partnerships between federal, state, and local governments on the future of cities are being conducted in a more open and collaborative spirit than has traditionally occurred.

In some respects, the challenges thrown up by the Fourth Industrial Revolution are forcing governments to start thinking in new ways which, in turn, is creating opportunities to imagine new forms of cooperation and co-investment.

Digital disruption, the harmonisation and alignment of laws, sustainability and climate change – none of these issues can be approached by a single level of government acting unilaterally.

There remains a long way to go. Business is still justifiably frustrated at the lack of relationship strength between levels of government, as well as the absence of agreed and articulated goals to ensure alignment of efforts.

But it's also fair to say that some of the traditional lines of demarcation are starting to blur. This is an excellent development that offers great potential if action is swift.



The uncertainty of sector reform

Coupled in the same category as 'political paralysis' in this year's survey is 'effective government planning and response.'

In some respects, this represents the other end of the spectrum of concern for business. While political paralysis is frustrating, extreme overcorrections in response to emerging issues is disconcerting.

A rolling sequence of Royal Commissions has pumped the very human dimension of some of our institutional failures into the public sphere. Australians are disillusioned and governments are eager to be seen responding.

So what can organisations do to help mitigate the risks of this uncertain environment?

Firstly they can step into the ring and own a portion of advocacy in the sector. Recognise challenges, acknowledge past failures, and articulate potential solutions. Get some legitimacy in the public debate and you won't be caught flat-footed. If you are used to defining what does need regulating, for example, you'll be in an infinitely stronger position to argue against what does not.

To achieve this, business leaders need increasingly to consider their role as civic leaders, with a business point of view on the economic, social and environmental future of the nation.

For this to be authentic will require a reconsideration of whether traditional economic evaluation techniques provide sufficient scope to address a wider suite of outcomes.

The modern ROI equation needs to be inclusionary, considering the wider benefits that can be unlocked, and perhaps even tempering immediate commercial return in exchange for greater consideration of the long term.

In the modern context this kind of approach, in which business instinctively looks for alignment with government and the community, is going to be necessary to maintain a social license. It will also increase the trust and legitimacy of business which in turn can assist with keeping tension on governments to discharge their obligations.

Issue 10

Workforce upskilling and transformation

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The fact that digital transformation is once again the Number One concern for Australian business leaders is understandable. The advance of technology will fundamentally reshape the economic landscape.

But digital transformations are also likely to be concerning leaders because they are so often unsuccessful.

I would argue a huge part of the reason for this patchy record is an inadequate focus on workforce up-skilling.

Machines can't drive digital transformations. They might be able to automate a process or two, but that's not the big game. True transformation requires people with the right skills, the right training, and the right motivation.

The stakes could scarcely be higher. Take agribusiness as an example, which we estimate has the potential to grow from a \$57 billion industry today to \$100 billion by 2030 thanks to new technology. But machines won't do it on their own. The benefit will only be realised if we significantly raise the skills of the sector.

Changing the Australian mindset on skills

To truly grapple with our workforce challenge we need to shake off a cultural mindset that has traditionally told us we don't need to worry too much about skills gaps.

Australian organisations may consider it preferable to hire from the domestic market. But if that proves too difficult a common belief is you can always import skills, especially from the Asia Pacific region. Medicine is a classic example.

But as we head into 2020 we should recognise that most of the most sought-after new jobs – think data scientists, cybersecurity analysts, and artificial intelligence specialists – are in demand everywhere.

The skills crunch applies from the US to Europe, from Singapore to Dubai. Globally mobile talent can take their pick, and there's simply no guarantee they will pick Australia.

This means Australian business will need to fundamentally rethink traditional attitudes to creating the right skills mix.

The most recent TAFE Enterprise Skills and *Australian Businesses Report* found that half of Australian businesses would rather hire new talent (including contractors) over training existing employees.

It's understandable that this option seems cleaner and easier at first blush. In reality, however, it's enormously expensive.

The direct costs of staff turnover is estimated to be up to 2.5 times their annual salary. In fact, the cost of turnover in Australia for new employees in only their first 12 months has been estimated at \$3.8 billion in lost productivity.

In addition, of course, hiring and firing negatively can damage employee loyalty, performance and culture, along with customer and community outcomes. It may also lead employees to resist digital transformation initiatives designed to improve productivity. Who wants to cooperate with the machine that is going to get you fired?

To take just one example, a large Australian company recently made approximately a quarter of its workforce redundant, costing some \$1.7 billion in redundancies as well as negatively affecting share price and market reputation.

The company then had to try and hire approximately 2000 people in the modern roles they required, including high-demand jobs like cybersecurity specialist and data analyst. Unsurprisingly, this has proven a difficult task.

The question that's worth asking is what could have been achieved if that \$1.7 billion had been invested in up-skilling the workforce?



Not every redundant employee can be retrained into what you require, but a couple of billion dollars buys you a lot of education.

Organisations heading into 2020 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.

Rethinking our approach to education and training

To unlock this potential however we need to reimagine the way we approach education and training by breaking roles down into their constituent parts.

The old paradigm of someone spending a few years in university learning a profession that can form the basis for a lifelong career is over. What we need is to fragment roles into their constituent parts and look for synergies.

A classic example here is the accountant. Tech is now starting to encroach on many basic accountancy functions, threatening many of these jobs. But the fundamental skills an accountant possesses, looking at patterns of information, looking at how factors comply with one another, spotting trends, and detecting anomalies – these are skills related with a profession that happens to be in high demand: the cybersecurity specialist.

Your organisation's accountant can't become a cybersecurity specialist overnight, but with the right employee pathway and an open mind it is not implausible either. With a little planning, it may well prove to be more advantageous than trying to source such specialist on the open market.

If we want to make such transformations possible we need to create a broader and deeper ecosystem of learning providers so that employees can progress.

We will also need our employers to change their mindset from considering education as an individual responsibility to seeing it as a function worth handling proactively.

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