Leading Sustainable Responses to Financial Pressure

Prompt: In the foreground: men and women in corporate attire sit at a boardroom table, planning together. Behind them, as if on a wall, are charts and diagrams representing sustainable growth. the style should be realist and modern, with a colour palette that creates an optimistic mood.

August 2024

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Today we will cover…

1. Some financial pressures that are impacting many organisations today
2. An overview of some sustainable approaches you might consider
3. Key elements of these approaches, and how you may go about pursuing them

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Financial pressures facing organisations today

1

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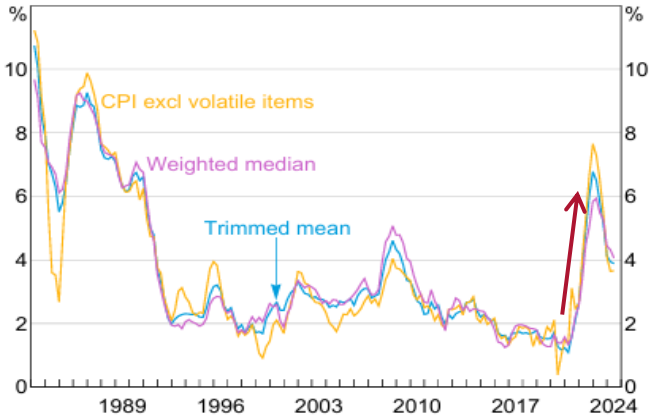
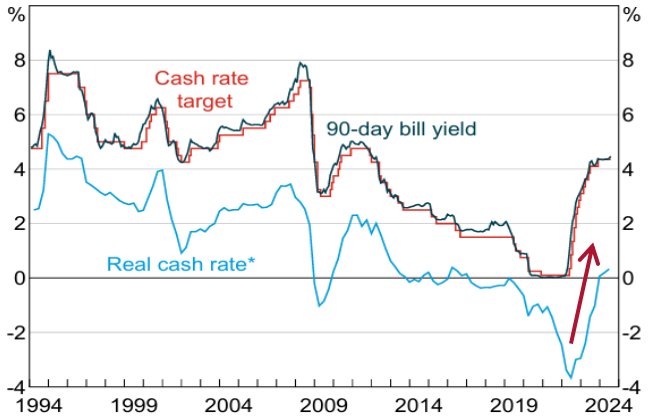
A combination of financial pressures are facing many organisations today…

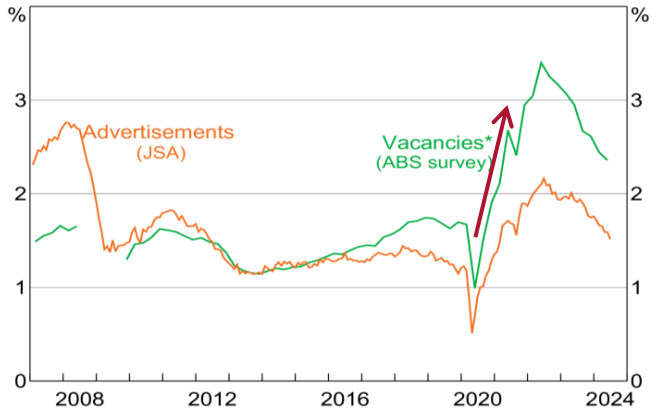
Inflation



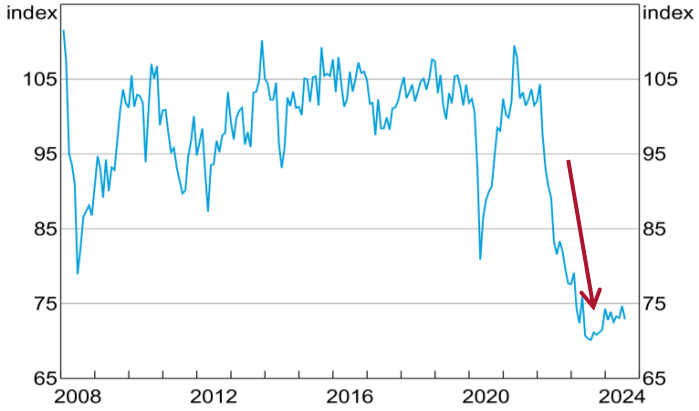
Rising interest rates



Labour shortages



Poor consumer sentiment



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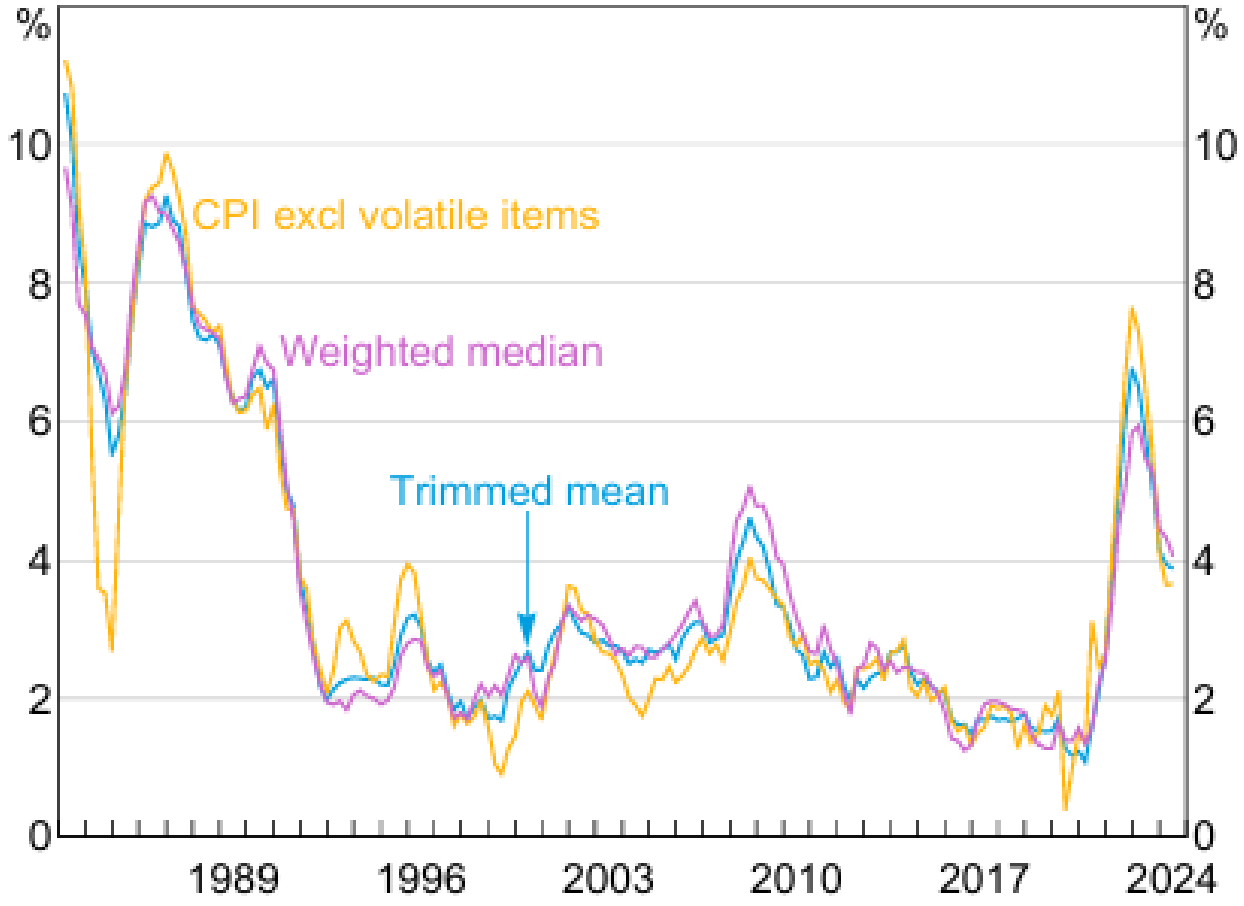
Though it has cooled from recent post-COVID highs, inflation remains higher than it has been for most of the last three decades…



Inflation *

Insights

- Multiple macroeconomic factors have resulted in elevated inflation rates in the past few years
- Geopolitical events and global economic instability have contributed to increased prices via supply chain disruptions
- Though inflation has softened somewhat from its post-COVID high, it remains near the level following the Global Financial Crisis of 2008

* As at year end. Excludes interest charges prior to September 1998 and deposit and loan facilities prior to September 2011; adjusted for 1999-2000 tax changes.

Sources: ABS; RBA.

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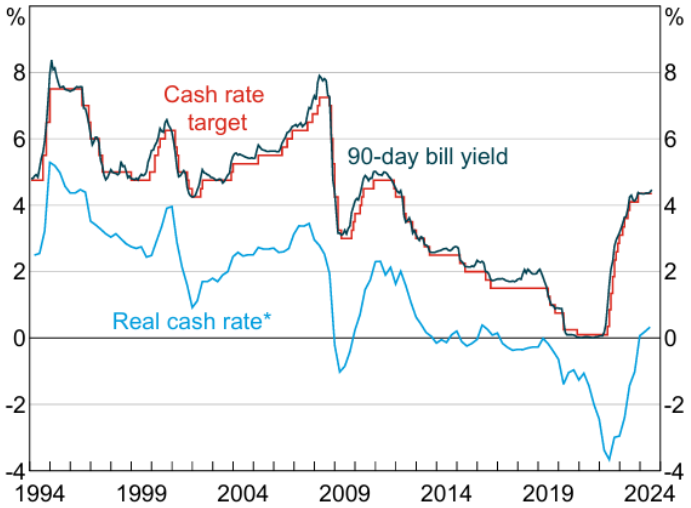
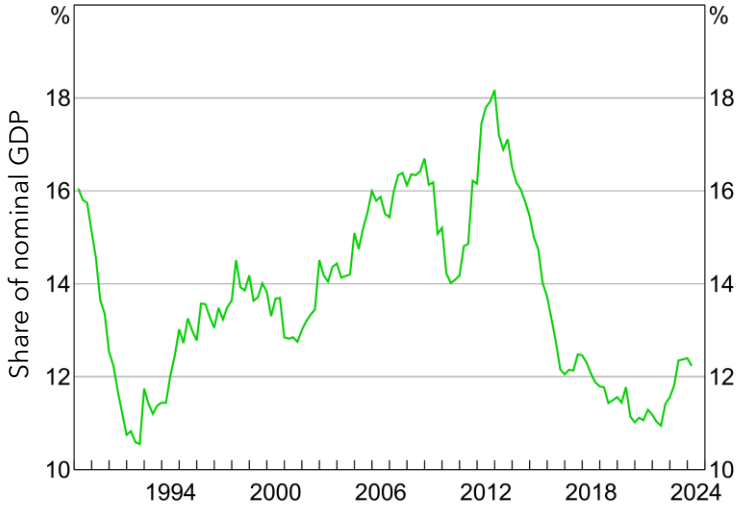
Interest rates also remain relatively high…

Australian cash rate and 90-day bill yield *



Business investment ˜



Insights

- Interest rates have rapidly climbed after many years of loose monetary policy, subsequently increasing borrowing costs on many organisations' balance sheets
- Consequently, levels of business investment have also remained low in the last 10 years

* Calculated using average of year-ended weighted median inflation and year-ended trimmed mean inflation.

˜ Adjusted for second-hand asset transfers between the private and other sectors.

Sources: ABS; AFMA; ASX; RBA.

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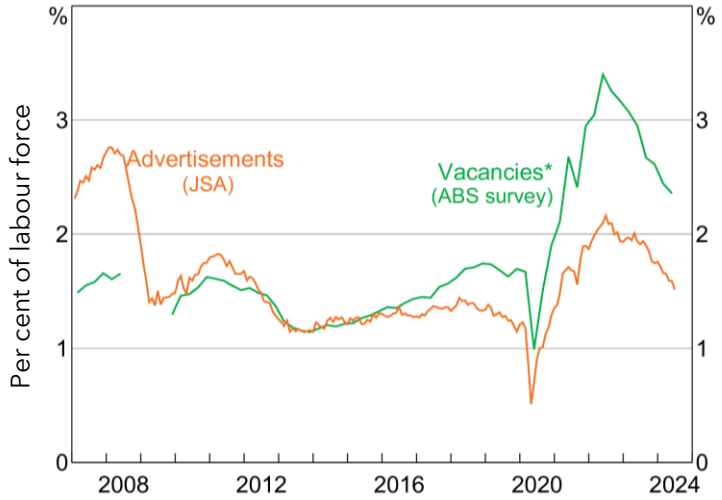
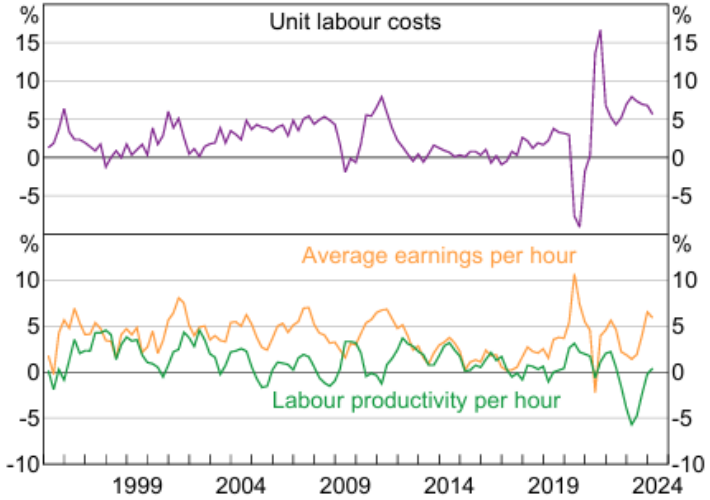
Many are feeling the impacts of labour cost pressures

Job vacancies and advertisements *



Growth in labour costs ˜



Insights

- Job shortages and vacancy rates remain high, leading to sustained under-resourcing issues for many sectors and industries
- At the same time, organisations are getting less economic value from labour, since wage costs have increased whilst productivity levels have fallen

* This survey was suspended between May 2008 and November 2009.

˜ Non-farm, year-ended

Sources: ABS; RBA; Jobs and Skills Australia.

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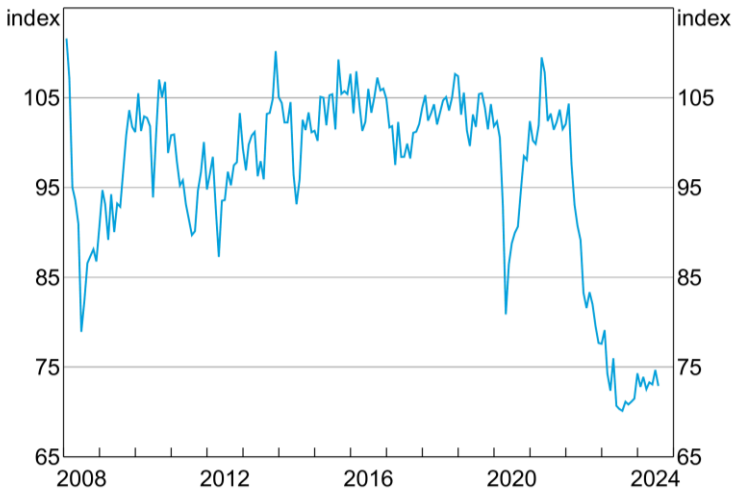
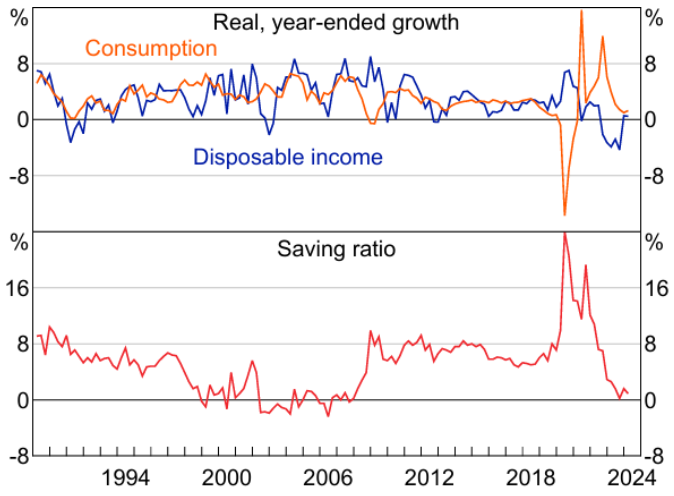
Consumer sentiment is low, and some consumer segments will be under cost-of-living pressure

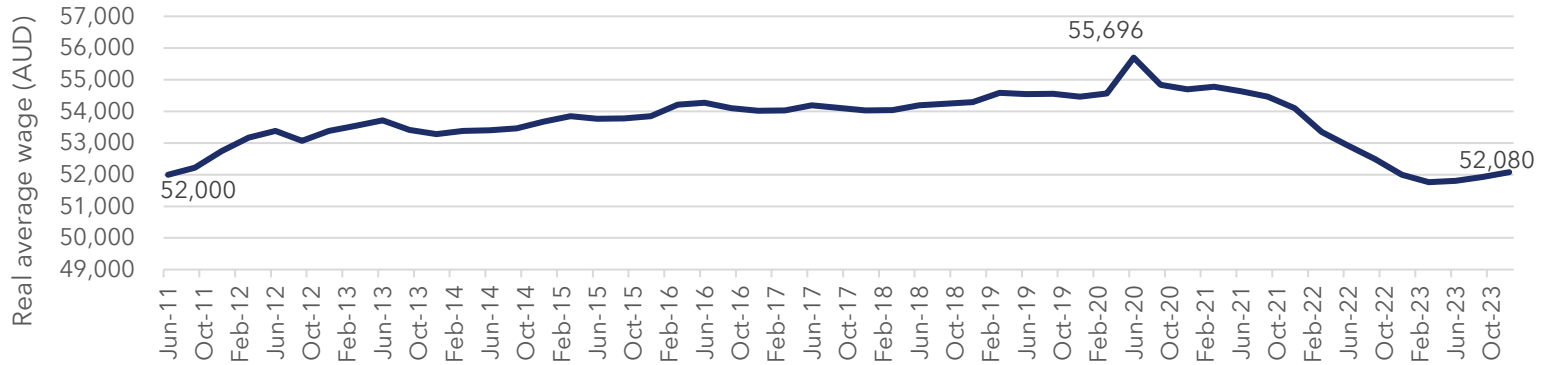
Consumer sentiment *



Household income and consumption ˜



Average wage (in June 2011 dollars)



Insights

- Consumer sentiment has plummeted to levels far below GFC and COVID periods
- Falling real wages and rising interest rates have exacerbated cost of living pressures and forced consumers to spend more on necessities
- We are seeing no growth in disposable incomes and consumption, and a falling savings ratio

* Average of the ANZ-Roy Morgan and Westpac-Melbourne Institute consumer sentiment measure of respondents' perceptions of their personal finances relative to the previous year (average since 1980 = 100); ANZ-Roy Morgan index rescaled to have the same average as the Westpac-Melbourne Institute index since 1996.

˜ Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation.

Sources: ABS; ANZ-Roy Morgan; RBA; Westpac and Melbourne Institute.

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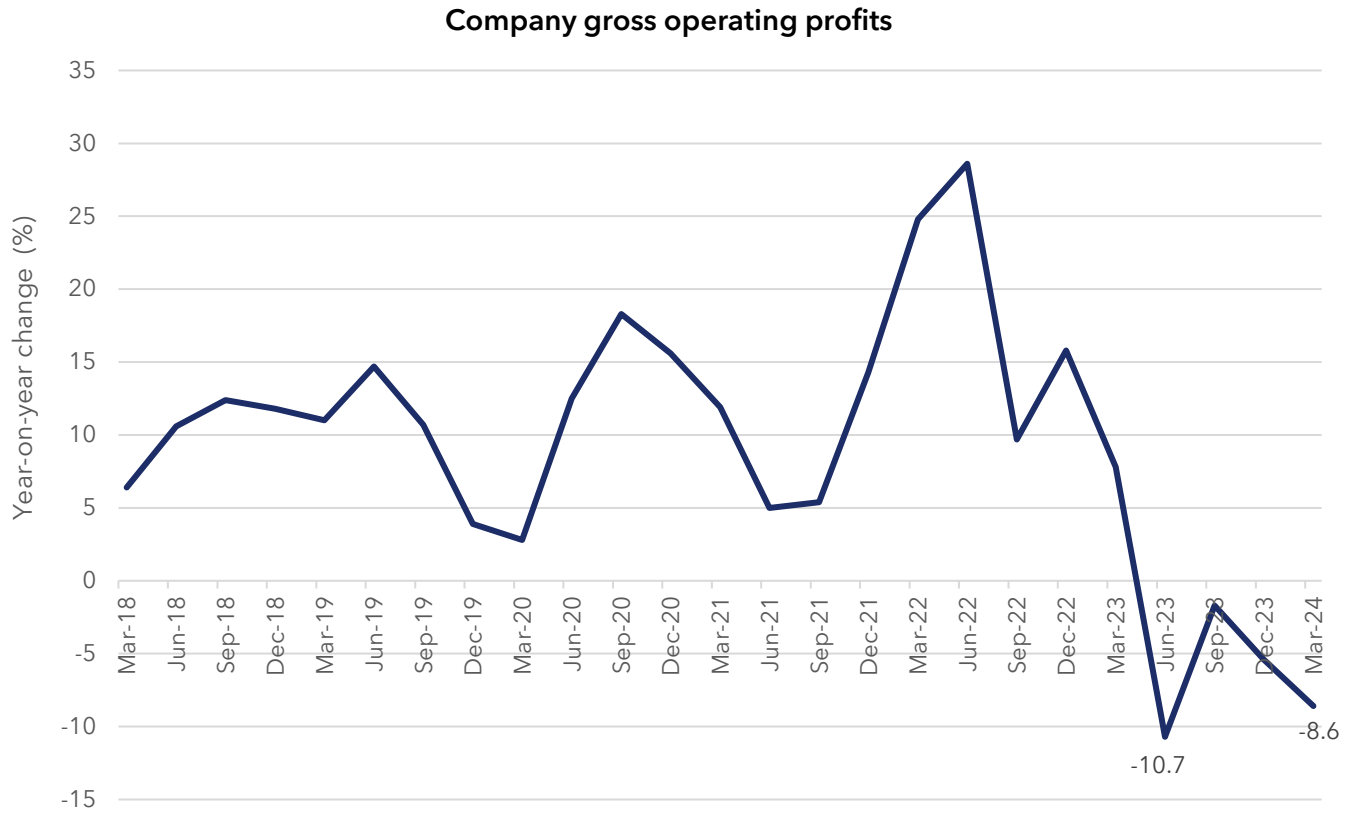
These factors have been having a significant impact on the profit margins of Australian organisations



Source: ABS, Business Indicators, Australia – March 2024

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So, how can we respond?

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We want to be careful, or even suspicious, of short-term thinking in our responses – certainly, we need to test for their ongoing impacts

- In this kind of turbulent environment, organisations often look to cut costs quickly
- Some actions taken may include…

Reduction of discretionary spending

Service level adjustments

Aggressive inventory management

Recruitment freezes

Pressuring suppliers

Rebalancing permanent / contingent workforce

Emergency price rises

Rapid restructures

- **Unfortunately, some popular approaches can have undesired medium- to long-term consequences,** harming organisational resilience and soon leaving the organisation in a worse place than it was to begin with

Elements of Organisational Resilience

Diversity

To create more ideas

Adaptability

So the organisation can respond to new pressures

Efficiency

To execute in an economically sound way

Cohesion

So even loosely connected parts can support each other

Source: *Fiksel, J. (2003). Designing Resilient, Sustainable Systems. Environmental Science and Technology, 37(23), 5330–5339. https://doi.org/10.1021/es0344819*

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The good news is, your organisation almost certainly has inefficiencies that are independent of the current macro-economic climate

Common inefficiencies include:

Process inefficiencies

Capability gaps

Excessive manual effort (no automation)

Flexibility challenges

Ineffective structures

Legacy technology challenges

Addressing these inefficiencies can provide a sustainable solution that helps you navigate the currently tough environment, while also setting you up for greater success in the future…

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Bevington Group recommends adopting rational, strategic responses based on the nature of the issue

Process inefficiencies	→	Process re-engineering
Excessive manual effort (no automation)	→	Process automation
Ineffective structures	→	Restructuring (within operating model redesign)
Capability gaps	→	Role re-design (possibly with restructuring)
Flexibility challenges	→	New ways of working
Legacy technology challenges	→	Modern architecture & AI*

*The details of this topic are beyond the scope of this webinar

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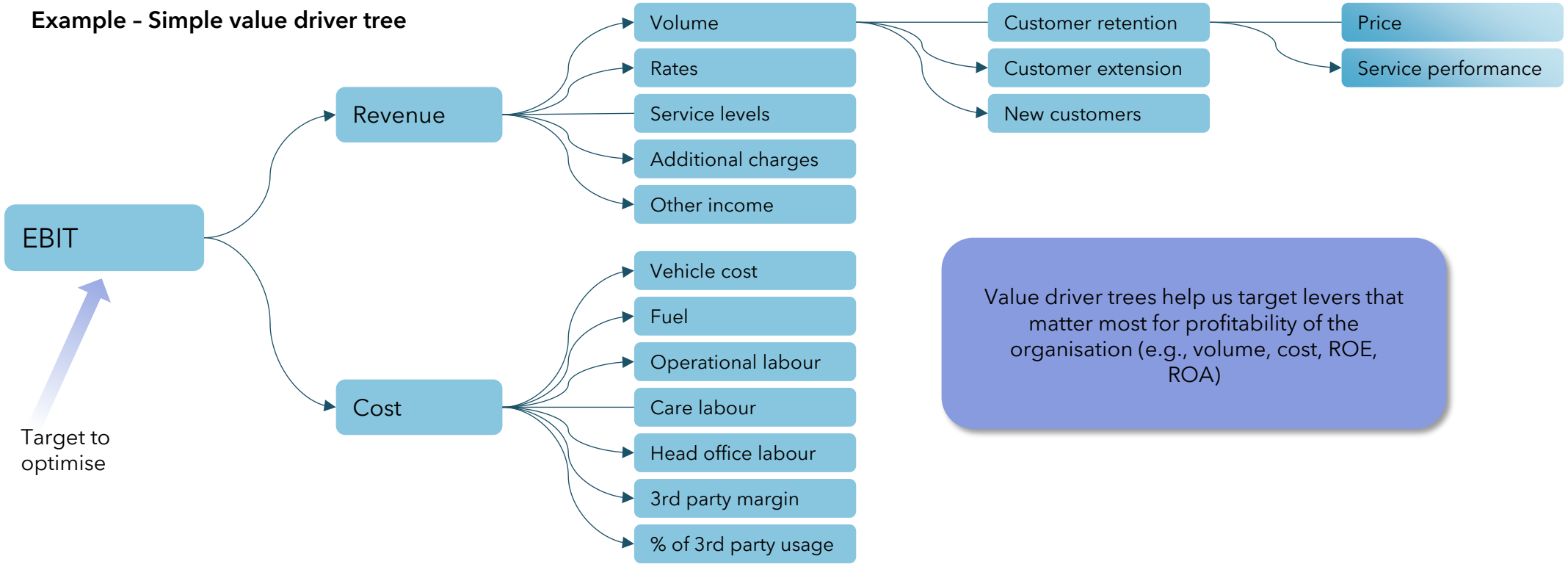
As we dive into some of these responses, the concept of value-driver trees (VDTs) will be important in helping us to decide where to focus our attention…

Value driver trees (VDTs) map how an organisation's metrics fit together – they reveal the different levers we might pull to accomplish a given outcome

Sometimes just changing one arm of the VDT can lead to an order of magnitude improvement in the target metric

Example – Simple value driver tree



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Strategic responses

In detail

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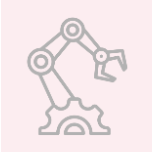
Addressing process inefficiencies with

Process re-engineering



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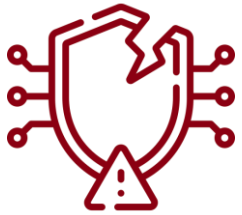
Process inefficiency is very common – with waste on cost measures regularly being 35%+

Examples of inefficient processes

- Outdated approval workflows
- Manual data entry
- Redundant approval steps



Consequences of not updating processes

- Frustrated customers
- Irritated staff
- Increased risks
- Higher costs

Opportunities in process optimisation

- Improve efficiency
- Enhance customer experience
- Reduce technology implementation risks
- Reduce technology implementation costs

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It is important to note that process re-engineering, or even process improvement, goes a lot further than mapping – nonetheless mapping still has benefits

Lack of process documentation

Undocumented processes lead to the "whispers" problem:

- *Uncontrolled changes* are introduced as processes are passed down
- This raises risks, critical control gaps, and inefficiencies

Regulatory compliance concerns

Regulators, such as CPS230 in the superannuation industry, now demand that processes be properly documented and managed, posing compliance risks for organisations with process debt.

Inability to adapt to change

Without documented processes, organisations struggle to update their workflows as business needs evolve, leading to further inefficiencies and missed opportunities.

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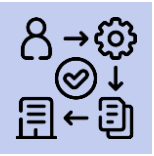

Process reengineering is the thorough and detailed redesign of organisational processes to remove inefficiencies and friction points

Process Reengineering

Capture Current State ("As Is") Process

- Map process, including detailed information on
  - Roles
  - Systems
  - Documentation
  - Decision points
  - Interdependencies

Perform Structured Analysis of Current State

- Locate friction points and opportunities
- Quantify issues where possible
- Identify opportunities for automation

Conduct Scenario Modelling

- Compare different changes to the current state
- Confirm utility of metrics in quantifying process performance
- Use scenarios to support business case

Confirm & Map Future State ("To Be") Process

- Map new process

There are various sources of insight into current state processes:

Process Modelling

Manual, or semi-automated, mapping of activities, decision points, system usage, and documentation

Business Performance Analysis

Capture of key metrics / performance indicators and trends to quantify current state performance

Customer Journey Mapping

Description of customer perspective, aligned to process, providing insights into end-user needs, attitudes, and behaviours

Process Mining & Task Mining

Capture of enterprise platform logs and/or detailed tracking of user interactions with systems to automate modelling of the current state, including variations

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There are an increasing number of tools and technologies for process re-engineering

Process mapping tools

Visualise and document workflows to identify inefficiencies and optimise processes. Many now allow for scenario modelling

Data capture and analysis tools

Collect and analyse deep process data to uncover opportunities. This can be at a substantially higher level of detail than traditionally possible, e.g. task mining

Change management tools

Facilitate the adoption of new, streamlined processes and minimise disruption, e.g. behavioural nudge software

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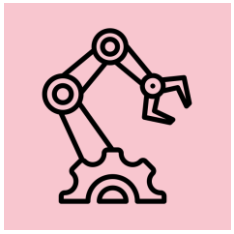
Addressing excessive manual effort with

Process automation



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RPA is good for basic processes, while complex processes may require intelligent automation

Robotics process automation (RPA)

- RPA bots are designed to interact with applications and processes in the same way a human would complete a task
- They 'emulate' human actions according to a pre-defined series of instructions or steps to achieve an outcome without the need for human intervention
- RPA works well on standardised, repetitive, mundane and/or tedious tasks such as:
  - Processing invoices and applications
  - Sending reminders to customers via text
  - Fraud detection
  - Payment execution
- However, the same attributes that enhance RPA's efficiency limit its ability to tackle nuanced processes and complex tasks
  - For example, if a customer fills out a straight-through-processed form incorrectly, RPA may be unable to interpret it as it falls outside of its rigid rules, therefore creating manual work for a human
- RPA can "break" if the underlying system changes

Intelligent automation

- Intelligent Automation can not only streamline inefficiencies but also automate value-added activities

If RPA can	Intelligent Automation can
Open and scan emails	Summarise the information
Download invoice attachments	Apply conditional rules
Read / copy key data from documents	Write an email or letter
	Change the status on a file

- To a modern process engineer, the RPA agent is removing waste, while the Intelligent Automation agent is assisting the human in value added activity

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Why should we care about automation?

Case study: Australian energy retailer

- An energy retailer in Australia was having trouble with paper-based, manual transactional billing processes resulting in opportunity cost and a higher than acceptable error rate
- The retailer implemented **robotic process automation (RPA)**
- 280 bots within a growing library were used to automate transactional billing processes resulting in:
  - $650,000 benefits realised and 80% of processes automated in 1 year
  - Error rates were reduced to below 5%, this was a massive reduction in errors
  - Average transaction processing time decreased by 20%
- **Ultimately, the retailer enjoyed a 163% ROI valued at $2.3m per annum**
- Staff capacity was freed up to pursue higher value activities

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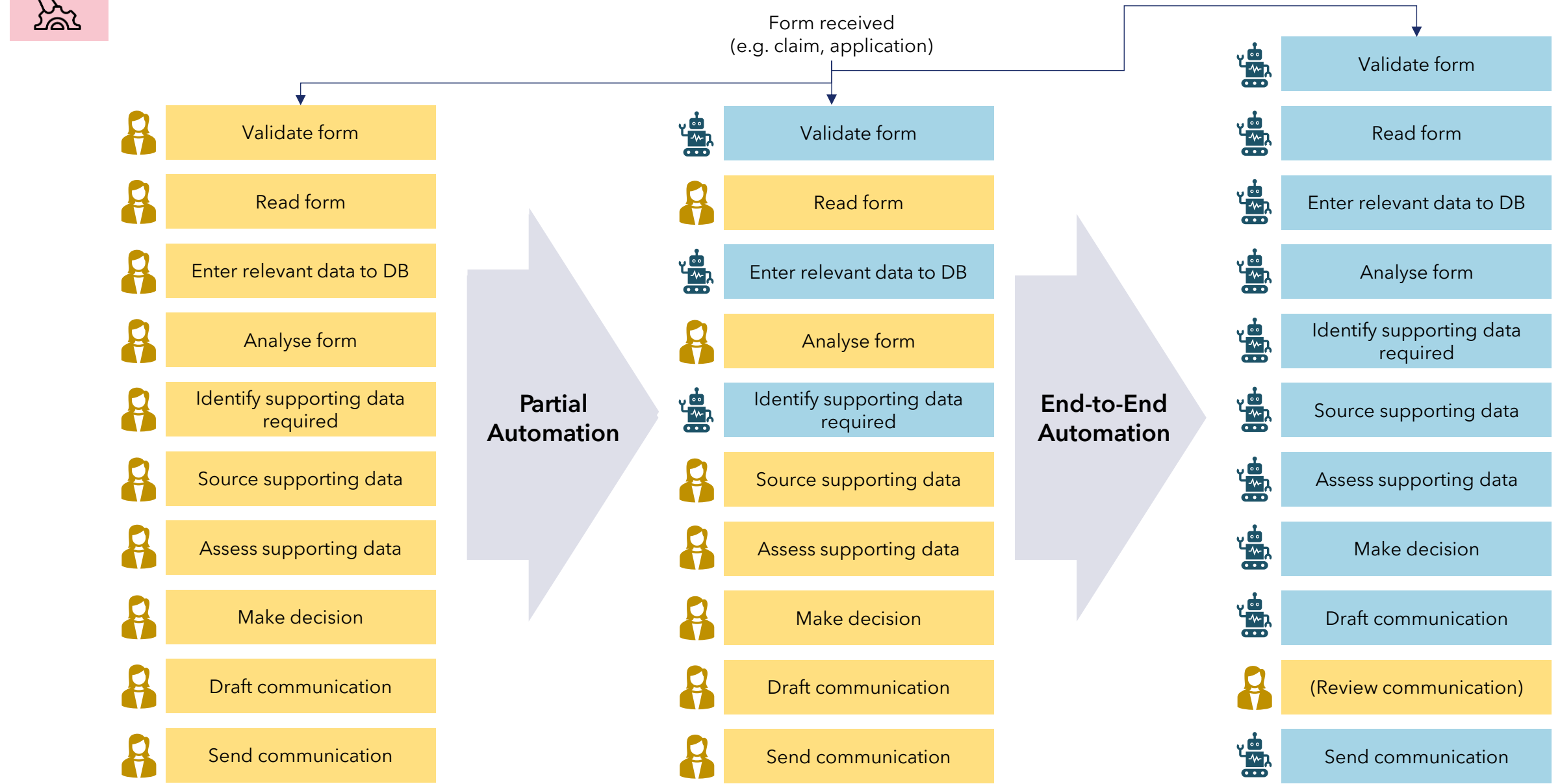
Use Case Example: Process Flow With and Without AI…



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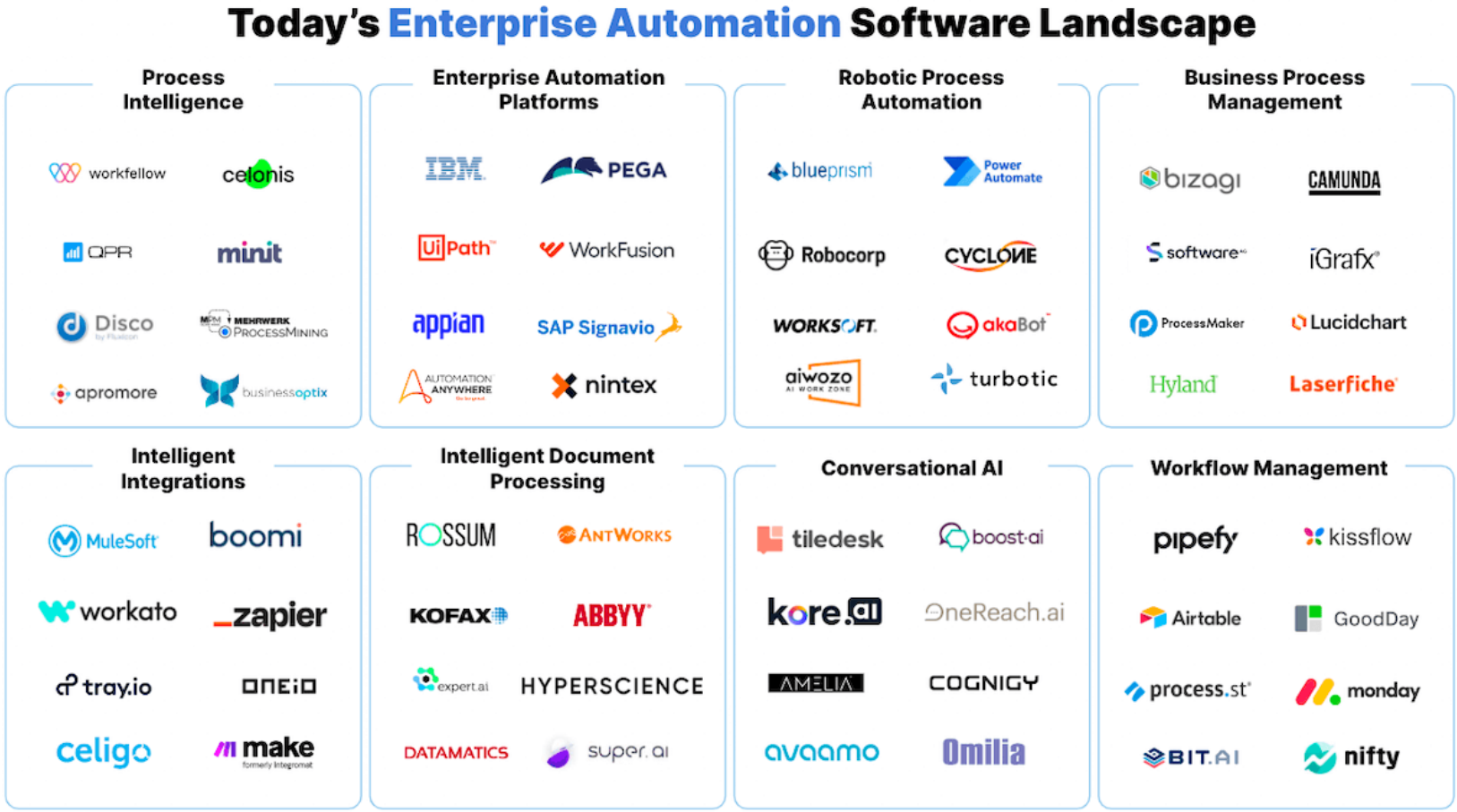
Selecting the right technology partner is key given the proliferation of automation tools

New tools are released at a rate as fast as one every day



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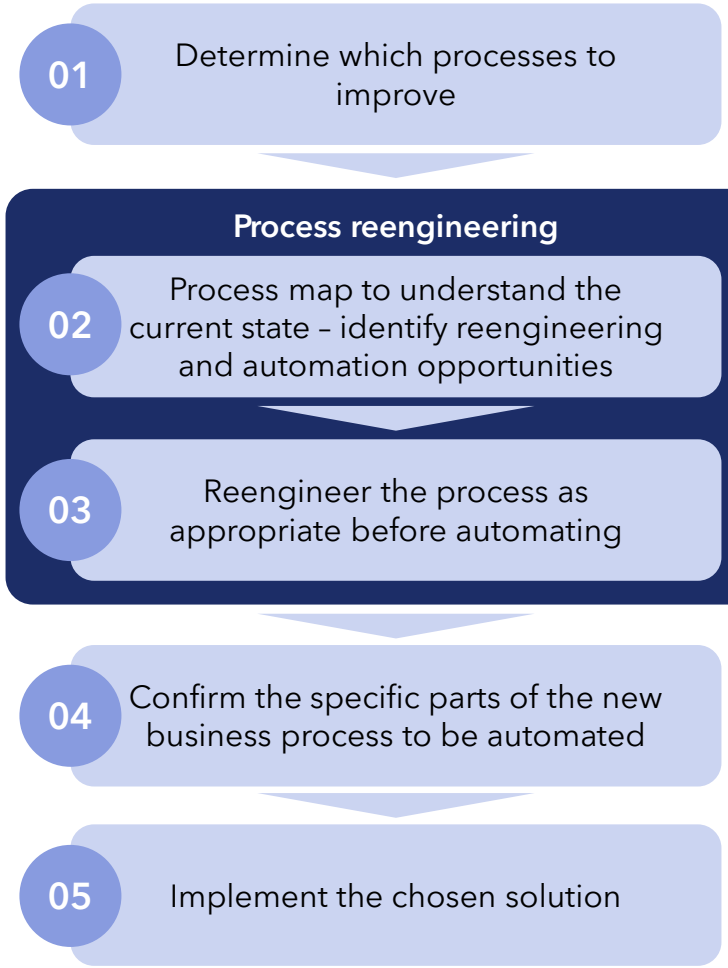
Source: Workfellow Intelligent Automation Tools and Software (2023)

There is little doubt in practice (or in the literature) that automation alongside process reengineering can deliver very significant efficiencies. In this case 1+1



Value Driver Trees can assist with determining the processes that matter most given the goals of the organisation (e.g., volume, cost, ROE, ROA)

If you automate without considering the 'big picture' process, you might be 'missing the forest for the trees' and leaving potential efficiencies unrealised

Automation can make a process more efficient, but it does not itself improve the fundamentals of the underlying process. For example:

- You could automate a second check in the process, but it is still duplicated effort in the new process
- You might be collecting data that is not useful, it would be a waste of resources to automate this collection

In partnership with a technology vendor that matches your key process requirements

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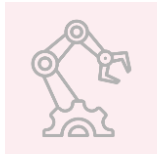
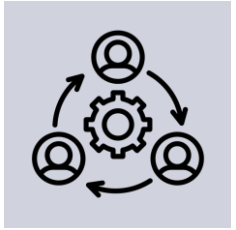
Addressing ineffective structures with

Restructuring

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Restructures are a commonly looked to solution, but can be damaging if not done properly

Restructures have a consistently high failure rate, with most of us having seen disappointing attempts

They fail for three fundamental reasons

- Poor strategic concept
- Limited consideration of broader operating model
- Poor change management

A modern approach…

- **Incorporates operating model thinking:** Integrates diverse organisational elements to enhance mission delivery effectively
- **Ensures 'value driver tree' thinking is imbued in the metrics:** Facilitates clear and consistent linkage between organisational value and performance metrics
- **Uses contemporary methods:** Ensures that the right steps are followed in the right way
- **Leverages modern technologies:** Uses effective and affordable tools to capture and analyse organisational structure efficiently

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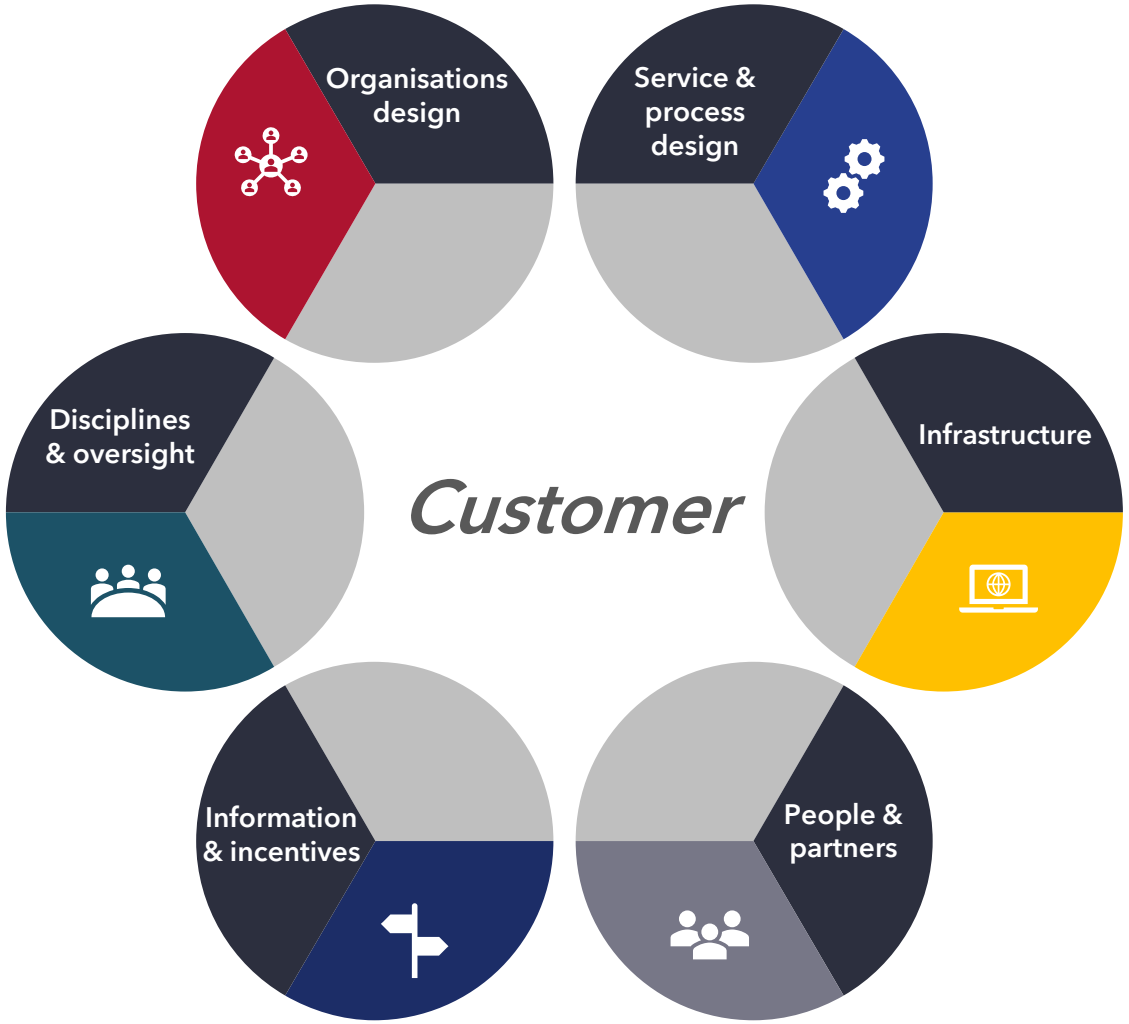
To restructure properly, consider structure in concert with other elements of the operating model



Benefits:

Holistic organisational framework

Encapsulates all essential elements for cohesive mission alignment and operational synergy

Adaptive to modern challenges

Equips organisations to navigate complexities by iteratively refining the operating model

Integration of interconnected elements

Ensures harmony between processes, technologies, skills, and policies for optimal efficiency

Organisations do not work by structure alone

New structures require other supporting elements of the operating model to be in place, for instance

- Metrics
- Incentives
- Processes
- Authorities
- Ways of working

Use of this model helps to ensure they are accounted for

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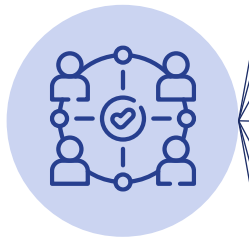
We use seven key principles to guide restructuring



1) Align structure with strategy	Restructure to **directly support** the organisation's **strategic goals**, ensuring every department and role has clarity on how they contribute to the overall mission
2) Reduce complexity	**Simplify** organisational layers, management levels, and overlap between teams to create an efficient structure
3) Remove waste to focus on value-add activities	**Reduce** processes and roles that do **not add value**, allowing for increased **focus on** more beneficial activities that directly contribute to the organisation's **primary objectives**
4) Create feasible roles	**Redefine roles** to be practical, ensuring that they clearly connect to the **business' needs**
5) Challenge the leadership model	**Adjust** the leadership model to better support the new organisational design. Effective leadership should **complement** the restructured organisation, **not clash** with it
6) Implement with clarity	Restructure with **clear communication** about changes, timelines, and expectations. Clear implementation **minimises confusion** and helps staff **adapt smoothly** to the new structure
7) Maintain flexibility	Design the restructure to be **adaptable**, allowing adjustments as needs evolve

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There are first rate restructuring methods, which generally incorporate these elements

- Scoping redesign areas
- Defining objectives clearly
- Understanding the current state
- Developing design principles
- Understanding contemporary options / solutions
- Co-designing solutions
- Modelling solution impacts
- Selecting solutions
- Preparing comprehensive implementation plans

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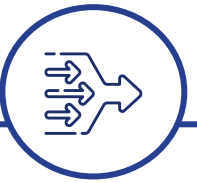
There are a host of contemporary tools that can help you with restructuring



Process tools

Structure mapping technology
Modern tools enable comprehensive mapping of organisational structures, enhancing efficiency

Process analysis tools
Advanced analytics identify and eliminate inefficiencies, streamlining restructuring efforts

Change management tools
Contemporary technologies are available to help the change get deployed and importantly to stick!

Design

Affordable restructuring tools
Modern technologies provide cost-efficient solutions for effective organisational modelling

Impact assessment models
Tools help evaluate financial consequences, enhancing decision-making during restructuring

Behavioural insight applications
To facilitate smoother transitions, driving engagement, and reducing resistance.

Deployment and embedding change

Testing staff responses
Tools evaluate employee reactions, ensuring change initiatives are well-received

Feedback gathering mechanisms
Collecting staff input enhances adaptation and addresses concerns effectively

Behavioural nudges
Subtle prompts guide employees toward embracing new practices and responsibilities

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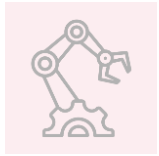
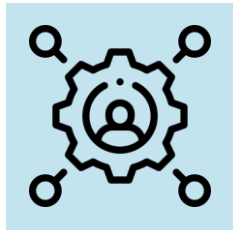
Addressing capability gaps with

Role re-design





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Changes to your Operating Model may necessitate new or changed roles – under these circumstances Workforce Planning makes sense

- Any changes made to your Operating Model (e.g. in response to initiatives such as increased automation, a push towards AI, structural transformation, etc.) will likely necessitate some changes in thinking on the roles found in your organisation
- This may require **new roles, modifications to current roles, or a new spread of skills**

Example of Op. model change:	Increased automation	Shift towards AI	Restructuring for cost
Potential new roles	• Automation Specialists • Robotic Process Automation (RPA) developers	• Data Scientists / Data Analysts • Machine Learning Engineers	• Change Managers • Industrial Relations (IR) Specialists
Potential changes to current roles	• Reduction in manual work effort • Greater focus on process optimisation (as opposed to manual oversight)	• Less "routine" decision-making (and more focus on exceptions) • Less manual research	• Managers to handle larger teams • Increased strategic oversight from senior leaders
New skills / capabilities	• Technical understanding of automation tools • Troubleshooting/maintenance of automated systems	• Data analytics and interpretation • Critical thinking • Best practices for use of AI tools	• Cross-functional flexibility • More agile financial planning

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You get to choose how you design your roles – do it right and the benefits will be apparent

- Role design is not just a human resources exercise, it's a strategic tool that can significantly impact organisational success

A well-designed role…

- Aligns employee capabilities with organisational needs
- Provides room for personal growth and development
- Benefits both the employee and the organisation

Benefits for your staff

- Increased job satisfaction
- Improved work-life balance
- Enhanced motivation and engagement
- Growth opportunities
- Greater autonomy and empowerment

Benefits for your organisation

- Improved employee retention
- Increased productivity / output
- Enhanced innovation and creativity
- Improved organisational culture
- Cost savings through reduced disruptions
- Increased adaptability

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Roles should be aligned to your strategy and values, and should also be realistic to enable you to hire the right people in the market. The type and number of roles will change based on strategy

Roles should be **intentionally** designed, with **specificity** to ensure alignment with strategy and core values

- This ensures that every employee contributes meaningfully to the company's vision
- Misalignment between roles and strategy can lead to inefficiencies, reduced morale, and create a disconnect between staff and organisational objectives

Roles should be crafted with a **realistic understanding** of the talent pool available in the market

- Setting unattainable expectations can make hiring difficult and lead to poor job satisfaction and retention
- Market research should be conducted to ensure the roles are appealing and competitive within your industry

Humanist decisions help to maximise your workforce in the long term

- A humanistic approach to role design, helps to consider not just the immediate needs but also long-term employee and organisational growth
- Creating roles that are sustainable, foster employee well-being, and alignment with long term business goals

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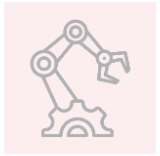
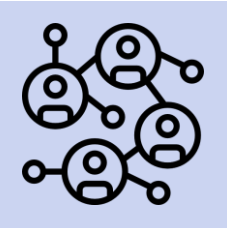
Addressing flexibility challenges with

New ways of working





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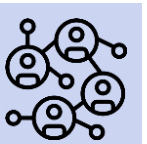

Updated ways of working can have a materially positive impact on productivity

- “Ways of working" is a descriptor that incorporates a basket of behaviours, and even rituals, which enable effective collaboration and delivery
- For instance, lean and agile practices have had a material impact on the ways that organisations work
  - Lean thinking has led to continuous improvement habits which help to tame inflation
  - Agile thinking has led to the reconstructing of teams as multi-disciplinary delivery teams which require different ways of
    - Prioritising
    - Decisioning
    - Communicating
    - Monitoring progress
    - Delivering
- No matter how good the process of restructuring or reengineering is, ways of working can still have a material impact on overall performance

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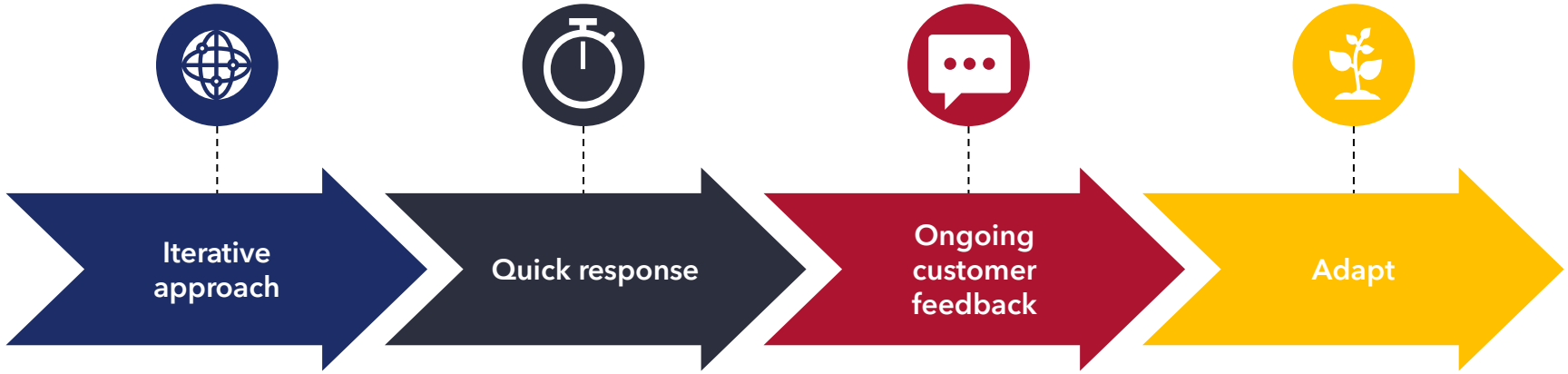
What is the Agile approach?



Agile is the name given to an iterative approach to software development and the management of project and BAU activities

Employing Agile methods enables teams to respond quickly to change

Continuous feedback, whether from internal or external customers, is a key characteristic of Agile that facilitates its adaptive approach

As change accelerates and it becomes more difficult for organisations to change at scale with speed, Agile provides an adaptive methodology that can help drive competitive advantage

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Let's consider some of the "ways of working" changes in an Agile model

Individuals and interactions
over process and tools

Customer collaboration
over contract negotiation

Working outputs
over comprehensive documentation

Responding to change
over following a plan

01 Satisfy the customer - Focus on value & eliminate waste

02 Welcome changes

03 Deliver frequently

04 Collaborate daily

05 Motivate individuals

06 Communicate face-to-face

07 Measure

08 Deploy sustainably – test & learn

09 Use minimum viable product (MVP) / Plan-Do-Study-Act

10 Maintain simplicity

11 Empower self-organising teams

12 Reflect and adjust

Source: Agile Manifesto Copyright(c) 2001: Kent Beck, Mike Beedle, Arie van Bennekum, Alistair Cockburn, Ward Cunningham, Martin Fowler, James Grenning, Jim Highsmith, Andrew Hunt, Ron Jeffries, Jon Kern, Brian Marick, Robert C. Martin, Steve Mellor, Ken Schwaber, Jeff Sutherland, Dave Thomas

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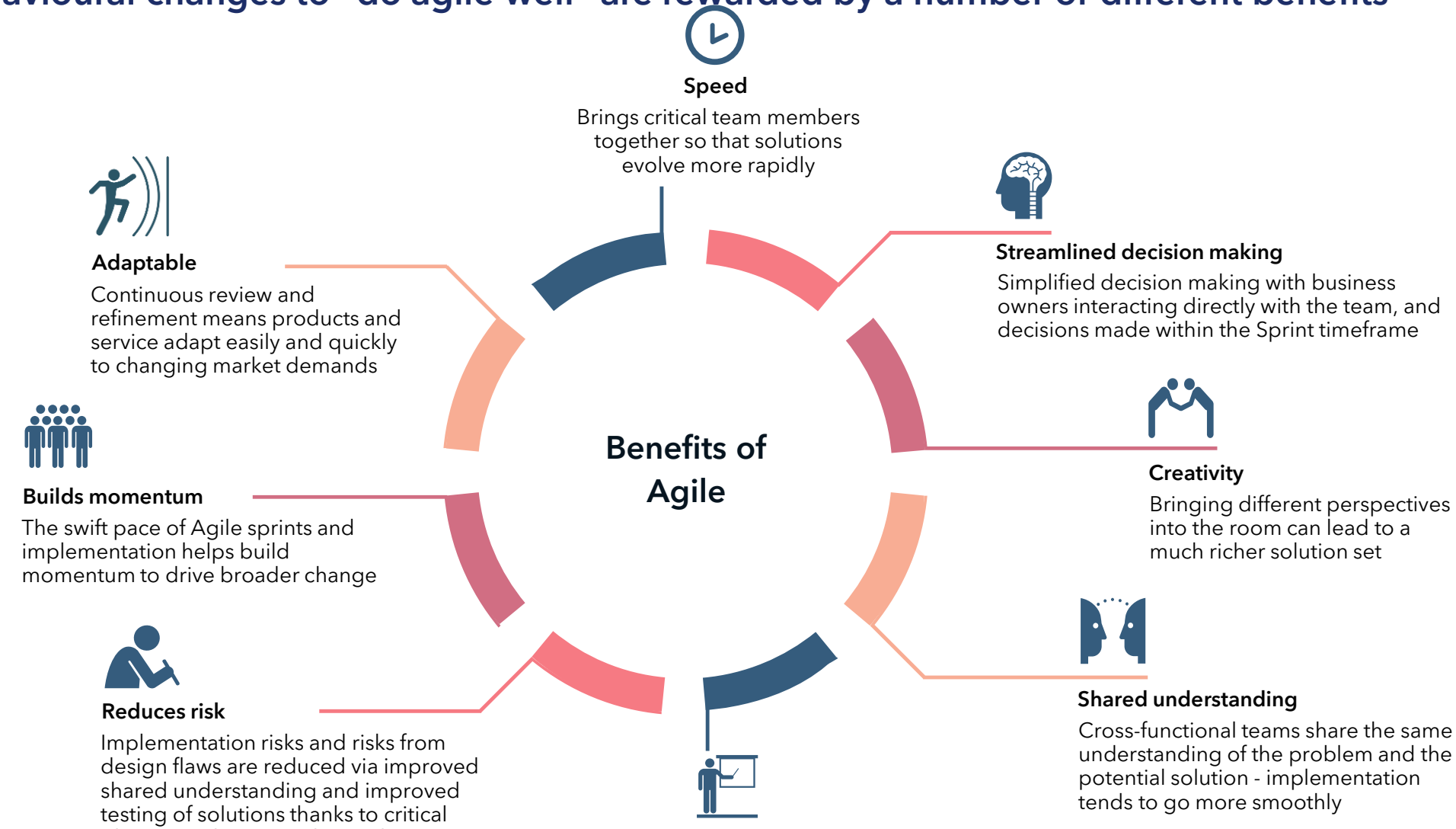
The behavioural changes to "do agile well" are rewarded by a number of different benefits



Speed

Brings critical team members together so that solutions evolve more rapidly

Adaptable

Continuous review and refinement means products and service adapt easily and quickly to changing market demands

Builds momentum

The swift pace of Agile sprints and implementation helps build momentum to drive broader change

Reduces risk

Implementation risks and risks from design flaws are reduced via improved shared understanding and improved testing of solutions thanks to critical players working together in the same room

Scalable upskilling

As sprint cycles continue it is easy to engage and upskill more staff

Streamlined decision making

Simplified decision making with business owners interacting directly with the team, and decisions made within the Sprint timeframe

Creativity

Bringing different perspectives into the room can lead to a much richer solution set

Shared understanding

Cross-functional teams share the same understanding of the problem and the potential solution - implementation tends to go more smoothly

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And, of course, we are here to help if you need it…

Thank you.

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Contact details and disclaimer

Bevington Group is a specialist consultancy with six core practices:

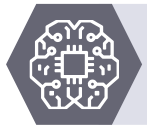
Operating Model Design and Restructuring

Lean Process Reengineering

Process Automation, Digitisation and AI

Accelerated Implementation

Change Management


Risk Intelligence

Questions or clarification of the content of this report can be directed to:

Report authors		
Roger Perry	+61 3 9663 5522	ceo@bevingtongroup.com
Hugh Marman	+61 432 150 805	hugh.marman@bevingtongroup.com

Other enquiries can be directed to		
Bevington Group Office	+61 3 9663 5522	admin@bevingtongroup.com

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