RMIT Strategic Management Case Studies

RMIT STRATEGIC MANAGEMENT CASE STUDIES

TIM O'SHANNASSY AND JUSTIN PIERCE

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Melbourne

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'Luwaytini' by Mark Cleaver, Palawa.

"We would like to acknowledge Wurundjeri people of the Kulin Nations as the Traditional Owners of the land on which the University stands. We respectfully recognise Elders past, present and future."

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PREFACE

Welcome to the RMIT University, Graduate School of Business and Law Strategic Management Case Study Series. The strategic management teaching team in the Graduate School of Business and Law have developed 14 case studies on a range of Australian and international corporations in the semiconductor, retail, mining, airport, aviation, healthcare, hospitality, financial services, property, and building industries. These case studies have been used by the Graduate School of Business and Law at RMIT, RMIT Online, and the Centre for Business and Human Rights for teaching and Executive Education. Case study authors include Editor-in-Chief Dr Tim O'Shannassy and contributors Dr Justin Pierce, Dr Stephen Jasper, Mohamed Farah and Chris Hope.

Dr Tim O'Shannassy (PhD, Monash University) is a Senior Lecturer and the Executive MBA Program Director at RMIT University in the Graduate School of Business and Law. Tim coordinates and teaches strategy courses in RMIT University (RMIT) MBA programs, has served in the Executive MBA Program Director role since February 2021, and on the Graduate School of Business and Law Executive for more than five years. Tim has served on RMIT Academic Board for seven years. Tim is managing author of the book Strategic Management: The Challenge of Creating Value (Routledge Publishing). He has been Associate Editor for Journal of Management & Organization since 2012 and serves on the Editorial Board of Australian Journal of Management, and Journal of Strategy and Management. In 2018 Tim won the Associate Editor Excellence Award from Journal of Management & Organization and Cambridge University Press. Tim's research appears in publications including Journal of Business Research, Frontiers in Public Policy, Journal of Strategic Marketing, Journal of Management & Organization, Journal of Strategy and Management and more – with strong impact scores on Google Scholar (H-Index 13, 880 citations) and Scopus (H-Index 7, 158 citations).

Dr Justin Pierce is an Associate Professor at Torrens University Australia's Business Faculty. Justin was Torrens University Australia's MBA Director, Director of Innovation, Industry & Employability, Acting Associate Dean, and supervised Torrens' first PhD student. Justin serves on the Academic Board, and supervises twelve HDR students. Outside of Torrens, Justin has worked with Tim on Strategy courses at RMIT University, and RMIT University Vietnam, where he was an Adjunct Professor. Justin has taught postgraduate MBA courses for Deakin University, Chifley Business School, Torrens University Australia, RMIT

University, and has guest lectured at Swinburne University, and the University of Melbourne. He was an Adjunct Senior Lecturer at the University of Southern Queensland, and provided external support to SPJain for their faculty development. Justin is a registered TEQSA expert in the areas of Business and IT Security.

Dr Stephen Jasper is currently an adjunct lecturer at Torrens University while developing his consulting and speaking engagements as The Jet Lag Guy. Dr Jasper completed his PhD on this topic at RMIT University in 2019 and has more than eight years experience as an adjunct lecturer teaching a range of MBA courses. Prior to this Dr Jasper had a long career in the pharmaceutioal industry with organizations including CSL limited, Sigma Pharmaceuticals, Pharmion, Avexa and GSK. Hir research appears in Frontiers in Public Policy and Journal of Strategic Marketing.

Mohamed Farah joined the Graduate School of Business and Law in 2022 as an Associate Lecturer in Business (MBA programs) after being affiliated with the School since 2018. Before this appointment, he was an academic, senior marketing manager, and management specialist with experience across various industries, including Airline/ Aviation, Not-for-Profit, and Service Sector. Mohamed coordinates courses and facilitates accelerated programs in the

MBA and Executive MBA programs at RMIT University. Among the courses, he coordinates include Business Research Design, Strategy, Digital Entrepreneurship, Leading in the Age of Digital Disruption and International Strategy. Mohamed is currently undertaking a Doctor of Philosophy in Political Science with a special focus on governance for sustainable development in Somaliland. Mohamed's research interests include governance, public policy, peace and state-building in post-conflict developing countries.

Chris Hope is an Sessional Lecturer at RMIT University and current research student at the University of Cambridge. Chris is the Founder of a non-profit organisation in the mental health space and has a number of international experiences in both management consulting and strategy consulting. Chris teaches Strategy at RMIT University and has experience working as an online lecturer with RMIT Online. He currently consults to the education sector with clients in the UK, US and Australia and is the author of a childrens book on mental health. In 2019 Chris completed his MBA at RMIT University and was named a finalist at the Australian Graduate Management Awards, and named Humanitarian of the Year at the RMIT University Awards. He led UNICEF's #CookforSyria project in Melbourne and a food bank for internatonal students during COVID-19.

RMIT Graduate School of Business and Law uses the following text:

Fitzroy, P., Hulbert, J. and O'Shannassy, T. 2016. Strategic Management: The Challenge of Creating Value, 3rd Edition, Routledge Publishing, London, UK.

To compliment this text and properly resource assessment tasks the following case studies have been developed and are included in this open book:

1. O'Shannassy, T. 2021, RMIT University Graduate School of Business and Law Strategic Management Case Study Series, National Australia Bank.
2. O'Shannassy, T. 2021, RMIT University Graduate School of Business and Law Strategic Management Case Study Series, ANZ Banking Group Limited.
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13. O'Shannassy, T. and Hope, C. 2023, RMIT University Graduate School of Business and Law Strategic Management Case Study Series, Taiwan Semiconductor Company Manufacturing Compny Limited.

14. O'Shannassy, T, and Jasper, S. 2020, RMIT University Graduate School of Business and Law Strategic Management Case Study Series, Mandarin Oriental Hotel Group Entry into Vietnam.

INTRODUCTION

The essence of the case study approach in strategic management is the structure of the external environment (or PESTLE) analysis, the Porter five forces analysis, an appraisal of the company strategy and status of business units and functions, and a SWOT analysis that helps to facilitate synthesis of the case study situation. This then sets you up to craft recommendations on improving shareholder and stakeholder value. Think about the corporate level of the firm, the network level, the business level and the functional level. What can be improved? In our RMIT strategy courses we prefer students attempt five recommendations.

1.

NATIONAL AUSTRALIA BANK: REVIEWING STRATEGIC AMBITION AND HOW TO GET THERE

By Tim O'Shannassy

Acknowledgement

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Introduction

As NAB Chairperson Mr Philip Chronican and Chief Executive Officer Mr Ross McEwan contemplated their morning coffee at a favourite Docklands café near Melbourne head office – they were quite chuffed with the stability of the Group in 2021 despite all the challenges of the COVID-19 pandemic and a weaker net profit result (Gluyas, 2021). The impact of the COVID-19 pandemic has been much gentler on NAB than was predicted in early 2020, but there is much work to do in 2021 and beyond (Gottliebsen, 2021).

The "big four" banks have a big influence on the Australian and New Zealand economies; for example, NAB, ANZ, CBA and Westpac make up approximately 25 per cent of the weight of the Australian Stock Exchange (ASX) Top 200 by market capitalisation (Neiron, 2020). NAB's common equity Tier 1 ratio stands at 11.7 per cent with predictions for the overall Australian economy optimistic for the future, with the implication that these favourable economic conditions will not place stress on NAB's capital situation. Funds from settlement for the NAB sale of the MLC wealth business to IOOF will further strengthen capital (Gluyas, 2021). The two Melbourne based "big four" rivals National Australia Bank (NAB) and ANZ Banking Group Limited (ANZ) are weaker in retail banking operations than their Sydney rivals Commonwealth Bank of Australia (CBA) and Westpac Banking Corporation (Westpac) (Fullerton, 2021), in what is an intensely competitive industry. NAB needs to address this and a slip in its cost to income ratio in 2020.

Chronican and McEwan reflected on this cost to income ratio issue, and the status of NAB's play for Australian neobank 86 400 – a transaction that will give NAB access to more millennial and young customers. Information technology and the technology experience was now a key competitive issue in banking and NAB need retail market share, and must give their customers a quality customer experience – including a quality technology experience that rivals the technology experiences of customers on social media (Yeates, 2021). They discuss how UBank can help with that.

The Business Environment in the 2020-2021 Pandemic

The "four pillars policy" was developed by the Hawke Labor Government in 1990 with the objective of preventing further mergers between The Melbourne-based NAB and ANZ and the Sydney-based Westpac and CBA. The "four pillars policy" is not regulation but a formal policy from the politicians. Motivation for the "four pillars policy" at the time in the 1990s was the difficult task confronting ANZ, Westpac and CBA coping with significant credit impairments following the share market crash of 1987 and the high interest rate environment of the early 1990s. The view of the Australian Government at the time was that four strong banking rivals acting as "pillars" for the Australian economy would help prevent the risk of a round of takeover activity allowing the animal spirits of the sharemarket to potentially destabilise the provision of credit and the protection of savings (Ellis, 2016).

The Australian economy is doing better than expected in 2021 after a difficult 2020 in which Gross Domestic Product (GDP) fell 3.8 per cent (Australian Bureau of Statistics, 2021). The Reserve Bank of Australia (RBA) cash rate is at an historic low of 0.10 per cent (Australian Treasury, 2021) with Australian Federal Government debt at $811 billion (Wright, 2021). Australia's GDP is forecast to grow 3.5 per cent per annum in 2021 (International monetary Fund, 2021). NAB economists expect the Australian economy to recover its pre-pandemic March 2020 level in the March quarter of 2021 (Gluyas, 2021), despite the likely withdrawal of JobKeeper which has been a lifeline for many small, medium and large enterprises – and their employees (Gottliebsen, 2021).

Australia has a comparatively high corporate tax rate at 30 per cent, compared with the 28 per cent rate for New Zealand and 21 per cent in the United States. In New Zealand overseas corporates are taxed on what they earn in New Zealand, while New Zealand based corporates are taxed on their global earnings.

Social media is having an impact on the banking sector, with millennial and more youthful customers expecting their banking experience to be comparable to their other experiences on social media, and also having a greater preparedness to change their bank than their parent's generation (Yeates, 2021). COVID-19 has accelerated customer use of digital banking putting at risk bank branches in smaller country towns around Australia; politicians continue to lobby the "big four" not to close these regional bank branches in the face of an overall 11 per cent reduction in country bank branches over the past four years (Lynch, 2021)

Technology is evolving with a number of impacts in this industry (Wade et al., 2020), including the importance of technology systems and online platforms which can give players such as NAB an edge competing for market share (Yeates, 2021). There has also been a greater frequency of attempted fraud and cyber-attacks (ANZ, 2020).

The Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) and oversee the financial scene, the ASX and merger and acquisition activity. The Australian Competition and Consumer Commission oversees trade practices. The Corporations Act 2001 sets out the laws in Australia that apply to corporations and duties of directors. The Competition and Consumer Act 2010 sets out law in relation to competition and fair trading, and consumer protections.

Climate change and emissions targets are an important focus of attention for many corporations in a range of industry sectors including the banking sector. The Business Council of Australia (BCA) is encouraging the Morrison Liberal

Government to make a statement of goals on emissions and with focus on new technologies including hydrogen, electric cars and grid reliability (Gluyas, 2020). President Biden's election in the United States may result in a policy revisit from the Morrison Government (Kehoe, 2021).

Banking and Finance Industry Trends

Banking and finance is about being an intermediary with money. The industry recipe for success is business growth in loans and deposits, credit quality, cost control and superior margins. It is possible for disruptive technology to appeal to a particular market segment (e.g. millennials) however endeavours in this area alone may not deliver comprehensive impact in all market segments (Yeates, 2021).

There is strong rivalry in the banking and finance industry in a number of areas including customer demographics, product, customer service, information technology and social media applications. The "big four" banks are significant economic entities that make a substantial contribution to Australia's GDP and the composition of the ASX Top 200.

There is an information technology race in progress in banking and finance with significant financial budget committed by industry players (ANZ, 2020). Providers to the banking and finance industry include software developers, systems engineers, human resource contractors, providers of legal services, providers of accounting services. real estate valuers and brand valuers. The "big four" have due to their scale of operations significant market power including the ability to negotiate price and specify a level of product and/or service quality.

The Australian economy – and the New Zealand economy – obtain significant benefit from the stability and strength offered by the "four pillars" NAB, ANZ, CBA and Westpac that in the view of policy makers outweigh criticism of governance protections and what is seen by sum of duplication of competition (Ryan, 2018). This criticism needs to be carefully balanced by the rich lessons of boom and bust in economic history – including Australian economic history – in moments when the "animal spirits" of capitalism have been allowed to run free (Ellis, 2016).

A number of smaller new entrants have emerged recently in the Australian banking and finance industry usually associated with a particular technology; players here include NAB's recent acquisition 86 400 and also Douugh, Judo, Revolut, Volt and the failed Xinja. The buy now pay later (BNPL) market has drawn the interest of millennials with Afterpay a leading emerging business (Yeates, 2021). CBA recently purchased 5 per cent of Klarna the Swedish BNPL provider which has enjoyed favourable growth in the United States market (Yeates, 2021).

The millennial customer is providing an interesting challenge for the "big four" banks as millennials have a higher propensity to switch banking relationship than their parent's generation. The BNPL trend and the popularity of Afterpay has also shaken up the industry. It is not only innovative solutions servicing a particular demographic or offering a particular technology having an impact here but also innovative philosophies – the Australian neobanks domain. Interest from institutional investors in bitcoin is currently on the rise, which presents an interesting challenge for ASIC and the "big four" (Eyers, 2021). Blockchain is in early developmental stages (Pollock, 2019).

Different market segments (e.g. retail, business banking, institutional) have different buyer power. Millennials and Generation Z consumers do not have the same customer and brand loyalty to the "big four" banks exhibited by their parents. Younger bank customers compare their online banking experience to their other online experiences and this informs their expectations (Yeates, 2021). Institutions including CBA are aware of these social trends and in response and spending heavily on their online offering while setting out to personalise this online offering for their customers (Yeates, 2021).

National Australia Bank Strategic Situation

The National Australia Bank Strategy

In 2020 NAB updated its strategic ambition stating:

> Our customers and colleagues are where we'll focus our investment. Serving them well means being:
>
> - Relationship led: building on market-leading banking expertise, data and insights.
> - Easy: an easier, more seamless and digitally enabled bank that gets things done faster.
> - Safe: protecting customers and colleagues through financial and operational resilience.
> - Long term: delivering sustainable outcomes for our customers, colleagues and communities (NAB, 2020a: 11).

Strategic priorities include deepening relations with our current customers, attracting new customers, improving the customer experience, improving colleague engagement, improving the digital offering, controlling costs and improving shareholder returns (NAB, 2020a). NAB does not intend to make changes to the portfolio of businesses beyond possibly adding smaller acquisitions, or divesting non-core activities (NAB, 2020b).

Key measures of success include return on equity, cash earnings per share and strategic net promoter score as NAB strives to be innovative, fast and decisive for the customer, delivering personalised experiences and realising great value for the customer (data, analytics, expertise). UBank is seen as an important vehicle for new customer acquisition (NAB, 2020b).

Functional Level Insights at National Australia Bank

NAB operates a network of greater than 850 branches, with nine million customers and greater than 639,000 shareholders (NAB, 2020b).

The operational structure of the Group was redesigned in 2020 to reflect the restating of strategic ambition and the greater focus on the digital offering, increasing emphasis on UBank and Strategy & Innovation (NAB, 2020a).

NAB operates the following divisions:

- *Personal Banking* service and support network providing home loans, personal loans, term deposits
- *Business and Private Banking* focusing on servicing small and medium size businesses
- *Corporate and Institutional Banking* including

specialised product and industry relationship teams
- *New Zealand Banking* across the consumer, small and medium size business, corporate and institutional markets including wealth and insurance business under the Bank of New Zealand brand
- *Corporate Functions and Other* business including UBank, Strategy & Innovation, Technology and Enterprise Operations, Treasury, Support Units and Eliminations (NAB, 2020b).

NAB has worked hard to assist its customers during the 2020-2021 pandemic deferring over 110,000 home loans and over 38,000 business loans. Further support has been provided including financial coaching, courses to help customers set their businesses up online, and free counselling services (NAB, 2020b).

During the pandemic uptake of internet banking has increased with over 90 per cent of customers active in this medium (NAB, 2020a).

In the period since September 2017 the number of products offered to customers has declined to 411 from 600 previously, while over the counter transactions are down 47 per cent. In the same time period digital consumer product sales increased to 65 per cent from 31 per cent (NAB, 2020b).

NAB is Australia's biggest agribusiness lender and has recently commenced closing regional bank branches as

COVID-19 has influenced customers to do their banking online (Lynch, 2021).

NAB was one of the first banks to sign on to Bank@Post which requires a $22 million fee or a community representation fee for access to 3500 post offices (Lynch, 2021).

NAB's strategic objective is simple products and customer experiences. Innovation will play a key role in this outcome given the importance of the digital experience for the customer. The Group has recently made a strategic investment in 1,697 jobs to employ capability in workplace technology and network services (NAB, 2020b). Over the past three years NAB has invested approximately $300 million in managing financial crime risk with more than 1,000 employees working in this area (NAB, 2020b). NAB is conscious that its rivals are spending strongly in this area and that this is an important competitive space (Moullakis, 2021).

Summary financial information extracted from the 2020 NAB Annual Financial Report is provided in Table 1 below. It has been a difficult year for NAB with a deterioration in other income, operating expenses and credit impairment. Statutory net profit is down 46.6 per cent at $2.56 billion (2019 $4.80 billion) with dividend per share well down at $0.60 in 2020 (2019 $1.66). Cash earnings were $3.71 billion down 36.6 per cent on 2019. There has been a clear deterioration in the cost to income ratio during this difficult time impacted by COVID-19, bushfires and severe drought.

Table 1: NAB Group Financial Summary Years 2019 and 2020 (NAB, 2020b)

	2019 A$Million	2020 A$Million	+ or – % Change
Balance Sheet Summary			
Total assets	847,124	866,565	2.3
Total liabilities	791,520	805,272	1.7
Total equity	55,604	61,293	10.2
Income Statement Highlights Operating Revenue			
Net interest income	13,555	13,877	2.4
Other income	3,980	3,384	-15.0
Operating expenses	(8,263)	(9,346)	13.1
Credit impairment charge	(927)	(2,752)	196.9
Profit before income tax	8,345	5,163	-38.1
Income tax expense	(2,440)	(1,665)	-31.8
Net profit from continuing operations	5,905	3,498	-40.8
Net loss from discontinued operations	(1,104)	(935)	-15.3
Net profit for the year	4,801	2,563	-46.6
Earnings per share (cents) – basic	168.6	82.1	
Dividend per share (cents)	166	60	

	2019 A$Million	2020 A$Million	+ or – % Change
Common Equity Tier 1 ratio	10.38%	11.47%	
Tier 1 ratio	12.36%	13.20%	
90+ days past due and gross impaired assets to gross loans and acceptances	0.93%	1.03%	

*These results include large notable items (refer NAB 2020b, Financial Report, p. 14)

NAB has over 34,000 employees. NAB is currently taking action to address weakness in its employee culture identified in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and the APRA self-assessment; this is ongoing (NAB, 2020b).

This workforce moved fast to adjust to working from home during the pandemic within a period of three weeks; employees received up to 10 days pandemic leave as well as support for carer responsibilities and wellbeing (NAB, 2020b).

NAB endeavoured to keep as many branches open wherever possible with employees available to help customers when possible (NAB, 2020b). Closure of rural bank branches has created community concern for job losses, however NAB has indicated they will work with their staff on new opportunities including online, phone or video customer service (Lynch, 2021). The branch footprint will likely receive further refinement in 2021.

There were a number of changes to the Board and Senior Leadership Team in 2020 including the high profile resignations of Mr Mike Baird the former Chief Customer Officer – Consumer Banking and female director Ms Geraldine McBride. New recruits to the Board and Senior Leadership team include Mr Nathan Goonan who started as Group Executive Strategy & Innovation in June 2020 (NAB, 2020b).

Since September 2017 the Group has set out to reduce 6,000 existing jobs and create 2,000 new jobs in areas that reflect the greater emphasis on technology and the customer. In total 1,638 new jobs have been created in areas including compliance, data, analytics and customer service (NAB, 2020b).

The Future Strategy Challenge

This is a crucial moment in the evolution and history of NAB with its current focus on accelerating its strategy in a highly competitive and challenging context. NAB has a delicate strategy balancing act, needing to consider the long term and short term needs of shareholders plus the needs of customers and communities (NAB, 2020b).

There are a number of critical strategy questions to consider. Does NAB have its strategic ambition right? Is the accelerated strategy enough in 2021 and beyond in the medium term? Is strategic investment in information technology enough? Are the higher credit impairments in 2020 a short term concern or a medium term concern? Is NAB doing enough to address weaknesses in its culture identified in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and APRA self-assessment? How does NAB's cost to income ratio compare with rivals ANZ, CBA and Westpac? How can the cost to income ratio for NAB be improved? What changes will be made to the branch footprint of NAB? What will be the fate of rural NAB branches? Is NAB doing enough in climate change and sustainability?

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2.

ANZ BANKING GROUP LIMITED: MERGERS, ACQUISITIONS, ORGANIC GROWTH OR COST CONTROL

By Tim O'Shannassy

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Introduction

Shane Elliot was chosen to be Chief Executive Officer of ANZ Banking Group Limited (ANZ) from a strong field of candidates in 2016. With the Covid-19 pandemic raging, former Chairperson David Gonski recently retired and new Chairperson Paul O'Sullivan now leading the board of directors (BOD) Elliot now has much to ponder.

There is a lot for Elliot to consider. He has received tremendous support and mentoring from Gonski, and they formed a powerful team. Now he needs to present to an O'Sullivan led board a compelling strategy agenda for ANZ for the next five years and beyond that will reinforce the enduring theme of his tenure.

Market analysts have identified that both ANZ and rival National Australia Bank (NAB) – the two Melbourne-based banks of the "big four" – are weaker in retail banking than their Sydney rivals Westpac Banking Corporation (Westpac) and Commonwealth Bank of Australia (CBA) (Fullerton, 2021). Elliot has weighed up the organic growth prospects of ANZ and has received advice from his executive team on the option of acquisition and merger of regional lender ME Bank. Meantime NAB Chief Executive Officer Ross McEwan is focused on the purchase of Australian neobank 86 400 – a transaction giving NAB access to more millennial and young customers while removing another start up financial services business from the market.

Banking and finance is an intensely competitive industry that makes a significant contribution to Australia's gross domestic product (GDP), with the "big four" comprising approximately 25 per cent of the weight of the Australian Stock Exchange (ASX) Top 200 market capitalisation (Neiron, 2020).

The two leading profit centres for ANZ in 2020 were the Australian retail and commercial operating segment contributing A$3.339 billion (2019 A$4.653 billion) profit before tax, and institutional A$2.579 billion (2019 A$2.607 billion) profit before tax. In 2020 New Zealand operations contributed A$1.424 billion (2019 A$1.943 billion) of the A$5.516 billion Group profit before tax. Pacific operations delivered a A$64 million loss (2019 A$83 million profit) (ANZ, 2020).

Trends in the external environment and the industry environment provide both an opportunity and a threat. The Covid-19 pandemic has had a big impact on the ANZ customer base with the Australian Government Jobkeeper program keeping employees connected to employers while the business community and population copes with the pandemic threat. Interest rates are at an historic low and advances in technology are leading to innovation in the financial services industry.

An Uncertain Business

Environment in the 2020 Pandemic

In the early months of 2020 the COVID-19 pandemic had a strong adverse economic impact around the world; COVID-19 required many countries to introduce restrictions on work and the movement of people, while international borders were closed in countries such as Australia and New Zealand.

Climate change and a greener future is an increasing concern of the Australian community. The Morrison Government has not embraced long range emissions targets and/or a price on carbon as a market-based solution to managing emissions, though there has been an evolution of debate in Australia with the election of Joe Biden as President of the United States (Kehoe, 2021).

In 2021 the populations of the United States, the European Union, Brazil, Russia, South Africa and more than 200 nations around the world continue to struggle with high rates of COVID-19 infection and death. This is impacting world GDP in 2020 in the range -4.5 per cent to -6.0 per cent with a partial recovery in the range 2.5 per cent to 5.2 per cent expected in 2021 (Congressional Research Service, 2021).

Australia's GDP fell 3.8 per cent in 2020 including a 7 per cent fall in the March-June quarter of 2020, followed by an increase of 3.3 in the June to September quarter (Australian

Bureau of Statistics, 2021). As part of the Australian Government's response to the pandemic economic support was provided to the community through a portfolio of programs including Jobkeeper, Jobseeker, Homebuilder, the coronavirus small and medium size enterprise loan guarantee scheme alongside Reserve Bank of Australia (RBA) action to support the flow of credit. This RBA action included establishing a A$200 billion term funding facility with an interest rate of 0.25 per cent to support the banking system. The RBA cash rate is at 0.10 per cent (Australian Treasury, 2021). The Australian Government has forecast a deficit of A$198 billion in the current fiscal year, with Federal Government debt at $811 billion (Wright, 2021). Australia's GDP is expected to grow at 3.5 per cent per annum in 2021 with inflation below the RBA target band of 2-3 per cent per annum at 1.3 per cent (International Monetary Fund, 2021).

The "four pillars policy" was adopted by the Hawke Government in 1990 to prevent any further mergers between ANZ, NAB, Westpac and CBA – this is formal policy by politicians, not regulation. A key influence on this was the stress on the banking and finance industry in the early 1990s and lessons learned on the need for sound capital management and stability in this vital industry – at the time in business history ANZ, Westpac and CBA were having to manage significant credit impairment problems which caused economic instability impacting a generation of entrepreneurs.

Social media is having a significant impact now on commerce. More youthful customers will be more likely to compare their online banking experience with their other online experiences and be prepared to change their bank (Yeates, 2021).

Technology is continuing to evolve and is having a number of impacts in the banking and finance industry (Wade et al., 2020), including the influence of technology systems and online platforms giving a competitive edge as rivals compete for market share (Yeates, 2021). There is also a greater incidence of attempted fraud and cyber-attacks (ANZ, 2020).

Banking and Finance Industry Trends

This is an intensely competitive industry – on a number of fronts (e.g. demographics of customers, information technology, product, customer service) – that makes a significant contribution to Australia's gross domestic product (GDP). There are significant benefits to the Australian economy (and the New Zealand economy) from the strength and stability offered by the "big four" banks that in the view of policy makers on balance outweigh the criticisms of duplication of competition and governance protections in the law (Ryan, 2018). Rich experience from the booms and busts of the Australian economy have informed policy makers choices not to allow complete free reign to the "animal spirits" of capitalism in Australian banking and finance (Ellis, 2016), hence “four pillars”.

Another trend in the banking and finance sector in Australia is the emergence of the popular Afterpay – the buy now pay later (BNPL) market has proven to be quite attractive to millennials (Yeates, 2021). CBA have purchased 5 per cent of the Swedish BNPL provider Klarna which has enjoyed strong growth in the United States (Yeates, 2021).

This industry is about being an intermediary with money – strong performance is traditionally associated with business growth in loans and deposits, better cost control and better margins. Disruptive technology can appeal to segments of the broader market (e.g. millennials) but may not deliver on all of these desirable outcomes for a comprehensive performance (Yeates, 2021).

Youthful customers want innovative solutions and have less brand loyalty to a “big four” provider compared with their parents. Afterpay and the trend to BNPL has really shaken up the banking and finance sector. This opens this industry sector to innovative solutions including innovative philosophies – the market domain of the Australian neobanks. The “big four” have shown an appetite to acquire interesting emerging businesses with the most recent example the NAB purchase of 86 400. Institutional investor interest in bitcoin is currently surging, presenting an interesting future challenge for the “big four” and ASIC (Eyers, 2021), while blockchain is in its early stages of development (Pollock, 2019).

A number of smaller players or neobanks have emerged in the banking and finance industry in Australia in recent years to challenge the "big four", either with a niche offering associated with digital offering or a particular connection to a region or demographic. They include 86 400 acquired by NAB, Douugh, Judo, Revolut, Volt and the failed Xinja. Threat of new entrants is real.

There are different segments to this market – retail customers, business banking customers and institutional customers. Millennials and Generation Z consumers are not affiliated with the "big four' like their parents have been, a generational shift in financial services is in progress. We are seeing that younger bank customers will compare their online banking experience with their other online experiences and be prepared to change their bank (Yeates, 2021). Institutions like CBA are aware of these trends and investing heavily in their online offering and seeking to personalise this offering for their customers (Yeates, 2021).

There is a bank information technology race in progress with substantial financial resources committed (ANZ, 2020). A number of providers to this industry including human resource contractors, software developers, systems engineers, real estate valuers, brand valuers, providers of legal services and providers of accounting services. The "big four" have tremendous market power here with scope to negotiate on price and ask for a requisite level of quality and talent given their substantial scale of operations and purchasing power.

Banking and Finance Industry Law and Regulation

In Australia the Australian Prudential Authority and the Australian Securities and Investment Commission (ASIC) oversee the financial scene, merger and acquisition activity, and the ASX. Foreign investment in Australia is overseen by the Australian Foreign Investment Review Board; trade practices are overseen by the Australian Competition and Consumer Commission.

In New Zealand the Reserve Bank of New Zealand, the Securities Commission of New Zealand and NZX oversee the New Zealand Stock Exchange and the financial scene. In New Zealand the Foreign Investment Review Board has oversight of foreign investment in on behalf of the Government.

In Australia The Corporations Act 2001 and sets out the laws that apply to corporations, including the duties of directors. The Competition and Consumer Act 2010 sets out competition and fair trading law, and protections for consumers.

In New Zealand The Companies Act 1983 set out laws that apply to corporations including the duties of directors. The New Zealand Commerce Commission is responsible for enforcing the Fair Trading Act 1986, the Commerce Act 1986, plus the Credit Contracts and Consumer Finance Act 2003.

The company tax rate in Australia is 30 per cent, in New

Zealand 28 per cent, compared to the United States at 21 per cent. New Zealand corporates are taxed on income earned globally, while overseas corporates are taxed on income earned in New Zealand.

A further legal and regulatory consideration is stronger stakeholder scrutiny and community expectations of bank executives and company directors (ANZ, 2020).

ANZ Banking Group Limited Strategic Situation

ANZ provides banking and financial products and services in 33 markets to more than 8.5 million customers in retail banking, business banking and institutional banking. ANZ explain their purpose as:

> Our purpose is to help shape a world in which people and communities thrive. That is why we strive to create a balanced, sustainable society in which everyone can take part and build a better life (ANZ, 2020, p. 10).

A recent concern for ANZ is loss of market share in mortgages and household deposits (Fullerton, 2021).

ANZ states its vision is as follows:

> Our vision is to build a bank of which we can all be proud – whether you are a customer, a shareholder or an employee – known for:

- delivering value from innovative and convenient banking services that help customers get ahead in life – improving their financial wellbeing
- building the best and most diverse team of people, regardless of where they ultimately work
- showing leadership on important issues, and doing the right thing, even when it comes at a cost
- delivering consistently strong financial results for our shareholders, with a balance between growth and return, short-and long-term results (ANZ, 2020, p. 11)

ANZ see their values as the foundation on which the organisation works. They articulate their values as:

1. Integrity
2. Collaboration
3. Accountability
4. Respect
5. Excellence (ANZ, 2020, p. 10)

ANZ brings its purpose to life by helping to resolve complex social and community issues including financial wellbeing, environmental sustainability, and improving suitable and affordable housing options for Australian and New Zealand customers.

ANZ has a Code of Conduct with which all employees and contractors must comply (ANZ, 2020) although there have been some well publicised misadventures with senior executive behaviour in the not too distant past (Whyte, Shapiro, Thompson, Moullakis, 2016).

ANZ also takes seriously the recruitment, training, development and engagement of their workforce with a substantial time and financial commitment to training each year (ANZ, 2020),

ANZ is committed to the United Nations Sustainable Development Goals (SDGs) supporting 11 of the 17 SDGs (ANZ, 2020).

Shareholder value is also a high priority with a business target of "decent returns" to allow shareholders to meet their personal goals (ANZ, 2020, p. 13).

Functional Level

The ANZ balance sheet, income statement and cash flow summary in Table 1 below exhibits the characteristics of a banking and services business with its focus on utilising liabilities including deposits, derivatives and debt issuances to create assets in net loans and advances, investment securities and derivatives to earn interest income and other income.

The 2020 financial result presented to share market analysts by Chief Executive Officer (CEO) Shane Elliot was disappointing but not surprising given the difficulties caused by Covid-19. Operating income was lower while operating expenses were up slightly in 2020; total equity was down slightly.

Operating expenses included personnel A$4.878 billion (2019 A$4.765 billion), premises A$789 million (2019 $719 million), technology A$1.824 billion (2019 A$1.534 billion), restructuring A$161 million (2019 A$77 million), and professional fees A$667 million (2020 A$537 million) (ANZ, 2020).

ANZ tax expense in 2020 was well down at A$1.84 billion (2019 A$2.609 billion) due to the reduction in profit before income tax. Basic earnings per share and the annual dividend were also well down, mainly reflecting reduced profit before credit impairment plus the impact of the greater credit impairment charge (ANZ, 2020).

Strong stakeholder relationships are good for the community and the ANZ brand. The ambition of ANZ is to provide a great, personalised customer experience including improving the financial wellbeing of ANZ customers, leveraging digital infrastructure. Advertising and public relations expense was contained in 2020 at A$177 million compared with A$226 million in 2019 (ANZ, 2020). The digital offering is an important element of the ANZ brand reach to consumers, young and old as it seeks to improve performance in household deposits and mortgages (Fullerton, 2021). The maintenance of a right sized retail branch network in the right locations is also a key element of the marketing and operations strategy.

Lending is provided to retail, business banking and institutional banking customers in Australia, New Zealand and the Pacific. ANZ retains an interest in doing business in Asia with 4,000 employees, 324 automatic teller machines (ATMs) and 93 branches in 15 markets (ANZ, 2020), however the aggressive Asia strategy pursued under former Chief Executive Officer Mike Smith has been paired back to a more selective approach (Patrick, 2016).

In relation to technology and data capabilities ANZ is giving emphasis to flexible, digital ready infrastructure to deliver a quality customer experience (ANZ, 2020). Systems and processes that allow customers to do secure transactions efficiently and accurately aid risk management (ANZ 2020). To help achieve this outcome ANZ recruited 500 software and systems engineers in 2020 with a view to strengthening capability in engineering and data (ANZ, 2020). The banking sector is spending heavily in this area (Moullakis, 2021); ANZ pend on subscriptions licences and outsourced services in 2020 was A$780 million compared with A$672 million in 2019 (ANZ 2020).

Table 1: ANZ Banking Group Limited Financial Summary Financial Years 2019 and 2020 (ANZ, 2020)

	2019 (A$Million)	**2020 (A$Million)**	**+ or – % Change**
Balance Sheet Summary			
Total assets	981,137	1,042,286	+6%
Total liabilities	920,343	980,989	+7%
Total equity	60,794	61,297	+1%
Income Statement Highlights			
Operating Revenue			
Interest income	31,077	24,426	-21%
Interest expense	(16,738)	(10,377)	-38%
Net interest income	14,339	14,049	-2%
Other operating income	4,058	3,355	-17.3%
Net income from insurance business	126	78	-38%
Share of associates' profit	262	155	-40.8%
Operating income	18,785	17,637	-6.1%
Operating expenses	(9,071)	(9,383)	3.4%
Profit before credit impairment and income tax	9,714	8,254	-15%
Credit impairment charge	(794)	(2,738)	+245%

	2019 (A$Million)	**2020 (A$Million)**	**+ or – % Change**
Profit before income tax	8,920	5,516	
Earnings per ordinary share from continuing operations (basic)	210.0	126.4	
Dividend per ordinary share (cents)	160	60	
Cash Flow Summary			
Net cash flows from operating activities	(4,550)	52,284	
Net cash flow from investing activities	(206)	(11,465)	
Net cash flow from financing activities	(2,761)	(12,434)	
Net (decrease)/increase in cash and cash equivalents	(7,517)	28,385	
Cash and cash equivalents at beginning of year	84,964	81,621	
Effects of exchange rates on cash and cash equivalents	4,174	(2.083)	
Cash and cash equivalents end of year	81,621	107,923	+32%

*Cost-to-income ratio is calculated by dividing operating expenses by operating income

ANZ continues to develop its workforce, culture, behaviours and capabilities while keeping employees Covid-19 safe. ANZ has had significant challenges with poor senior executive behaviour in the past (Whyte et al., 2016). A range of responses has been developed and implemented to provide the right support for the different challenges of employees who are customer-facing and employees who are working from home (ANZ, 2020).

Employee engagement and development of workforce capability are important priorities for ANZ. Approximately 970,000 hours of workforce learning was delivered in 2020 including 530,000 hours of compliance training (ANZ, 2020).

In March 2020 ANZ received a sharp increase in hardship applications from households and businesses impacted adversely by the pandemic. Approximately 94,000 customers reached out for assistance in the period 1 March 2020 to 31 May 2020 (ANZ, 2020). A talent identification and mobility program commenced at this time to move employees into the Customer Contact Centre, Customer Service Operations and Customer Resolution teams supported by a substantial customised training program (ANZ, 2020).

ANZ wants to have a workforce that represents the communities it serves. The Women in Leadership objective (33.4% in 2020 up from 32.5% in 2019) focuses on improving the balance of woman in Senior Executive, Executive and Senior Manager positions – this work will address the gender pay gap. The Group Executive Committee and Key Management Personnel is gender balanced. ANZ also has initiatives for people from under-represented groups in the community including indigenous Australians (ANZ, 2020). The Spectrum Program has been developed to provide support for autistic members of the workforce, and the Return to Work Program for those who have had a career break (ANZ, 2020).

The Future Strategy Challenge

This is a crucial moment in the evolution and history of ANZ, and a big moment for Elliot. Will the ME Bank acquisition play achieve regulatory approval? How will ANZ sustain growth and deliver profit growth in the short, medium and the long term? How can ANZ better manage its cost-toincome ratio? How will ANZ manage current and future strategic risks? What major projects should have priority for ANZ in the medium term? What major projects should have priority for ANZ? How can ANZ best be proactive about its future and shape its industry? What should the ANZ strategy be?

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3.

PROBLEMS FROM LONDON HEAD OFFICE TO OUTBACK AUSTRALIA: RESOLVING CORPORATE GOVERNANCE AND ABORIGINAL RECONCILIATION ISSUES AT RIO TINTO LIMITED

By Tim O'Shannassy

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Introduction

There has been much speculation in the Australian business press on the merits of Rio Tinto Group (Rio Tinto) being led from head office in London. Rio Tinto has a dual stock exchange listed structure comprising Rio Tinto Limited on the Australian Stock Exchange (ASX) and Rio Tinto plc on the London Stock Exchange that reflects the ethos, history and major sources of capital for the business. The London head office is a great distance from the biggest division by sales revenue and profitability – the Pilbara iron ore operations in Western Australia. Head office location and performance presents a strategic management problem.

One ongoing concern for some years at Rio Tinto Group has been risk management after difficulties emerged in relation to merger, acquisition and divestment activity during the tenure of Tom Albanese as Chief Executive Officer (CEO) from May 2007 to January 2013 (Walters, 2013). This era at Rio Tinto Group underperformed for shareholders with significant impairments on assets impacting annual results. Problem issues in this period included weakness in decision-making at executive level, questionable Investment Committee practices (Walsh, 2016), and shortcomings in board of director oversight (Walters, 2013).

The Board of Directors and Risk Management

Currently Rio Tinto conducts risk management across the whole business portfolio with emphasis on all organisation layers being able to identify, assess and manage risk in areas like M & A, divestment, occupational health and safety, and cultural sensitivity (Rio Tinto, 2019).

Rio Tinto has been heavily criticised in Australia in 2020 for the company's decision to blast the 46,000-year-old Juukan Rock Shelter heritage site to expand the Brockman 4 iron ore mine, with the board and executive scrambling to rebuild the relationship with the Puutu Kunti Kurrama and Pinikura people (Hastie, 2020).

The Morrison Australian Government is furious with the Juukan Rock Shelter blast and the irreparable damage – a strategic error symptomatic of a business being run from London for London. Board composition and oversight of the executive influences firm performance (Fitzroy, Hulbert and O'Shannassy, 2016), and may be an issue here. There are six United Kingdom based company directors, four Australian based directors and one each from Canada and France – refer to Table 1 below for further details. Chairperson and CEO co-tenure is low and a concern at the moment with chair Simon Thompson appointed to the role in March 2018 and CEO Jean-Sebastien Jacques appointed in July 2016 (Rio Tinto, 2019).

Table 1: Rio Tinto Board Composition and Demographics (Rio Tinto, 2019)

Name	Position	Location	Gender	Age	Date Appointed
Simon Thompson	Chairperson	United Kingdom (UK)	Male	60	03/2018
Jean-Sebastian Jacques	CEO	London Head Office	Male	48	07/2016
Jakob Stausholm	Chief Financial Officer	London Head Office	Male	51	09/2018
Megan Clark	INED	Australia	Female	61	11/2014
David Constable	INED	Canada	Male	58	02/2017
Simon Henry	INED	UK	Male	58	04/2017
Sam Laidlaw	Senior INED	UK	Male	64	02/2017
Michael L'Estrange	INED	Australia	Male	67	09/2014
Hinda Gharbi	INED	France	Female	49	03/2020
Simon McKeon	INED	Australia	Male	64	01/2019
Jennifer Nason	INED	Australia	Female	59	03/2020
Ngaire Woods	INED	UK	Female	57	09/2020

The Business Environment

The impact of Covid-19 has been traumatic economically for many countries across the world (Lowe, 2020). Global gross domestic product (GDP) is expected to fall between 6% and 7.6% in 2020 before recovering to 2.8% growth in 2021; many in the community have lost their jobs or are on reduced work hours and consequently reduced income, with younger age groups bearing much of the burden in Organisation for Economic Co-operation and Development (OECD) developed countries (OECD, 2020).

In Australia there is a strong and growing awareness of aboriginal disadvantage, respect for Aboriginal artefacts and culture, and need for national reconciliation (Hastie, 2020).

Technology is continuing to evolve and is having a number of impacts in iron ore and broader mining sector (Rio Tinto Limited, 2019). All players in this industry are seeking to improve the use of transport, automation and robotics. Technology disruption is a material risk in this industry (BHP Group Limited, 2019).

The Morrison Government has been reluctant to embrace long range emissions targets and using a price on carbon as a market-based solution to emissions (Gluyas, 2020). Climate change and a greener future is an increasing concern of the international business community including the Australian business community (Coles, 2019).

The mining industry is a capital intensive business with great rivals such as BHP Group Limited, Fortescue Metals Group Limited, Hancock Prospecting Pty Ltd and Vale S.A. investing significant financial resources. There are high financial stakes in play here (Rio Tinto, 2019).

The materials sector is a strong component of the ASX with many small and medium size firms plus these big rivals. The big challenge for any materials sector public company is to get access to quality resource assets, then achieve economies of scale in operations to ensure asset efficiency (BHP Group Limited, 2019).

In relation to buyer power China is the world's largest purchaser of iron ore. There is a limited number of suppliers of key commodities including iron ore, copper, magnesium and alumina. The price for iron ore has been favourable in the past financial year (Rio Tinto, 2019).

In relation to supplier power the major iron ore players in Australia set out to be connected to their local communities, deliver strong community engagement, a desirable location for the workforce to live, transport links and a Covid-19 free work environment – these are strategic priorities for sustainable operations (Fortescue Metals Group Limited, 2019).

Threat of substitutes for a material such as iron ore is scrap, and aluminium is being increasingly used in mobile phones, jet engines, motor vehicles and aircraft (Rio Tinto, 2019).

Critical success factors required for survival in the industry include occupational health and safety, workforce, mining engineering, transport technology, transport capability, exploration, network alliances, distribution channels and research and development.

Company Analysis

Rio Tinto Group has operations in 36 countries and communicate their strategy as follows: "Our strategy is to create superior value for shareholders by meeting customers' needs, maximising cash from our world class assets and allocating capital with discipline" (Rio Tinto, 2020a).

Rio Tinto is arranged into four main operational businesses: Aluminium (2019 Earnings before interest, tax, depreciation and amortisation (EBITDA) USD 2.29 billion), Copper & Diamonds (2019 EBITDA USD 2.07 billion), Energy & Minerals (2019 EBITDA USD 1.76 billion), Iron Ore (2019 EBITDA 16.10 billion) plus Growth & Innovation and Commercial (Rio Tinto, 2019; Rio Tinto, 2020b). Funding, design and build of each operation is carefully managed with safety, cost control and performance to schedule high priorities (Rio Tinto, 2019).

There are four Group strategic priorities. First the *portfolio* of low cost, long term assets offering market growth opportunities. Second *performance* with focus on operational excellence, safety, value prioritised over volume. Third *partnership* – working thoughtfully and responsibly with partners (i.e. governments, community groups, local suppliers, industry leaders, NGOs, technology providers), Finally *people* – access to, developing and retaining the best talent; a diverse and inclusive workforce globally, plus growth of technical and commercial capability through centres of excellence (Rio Tinto, 2019).

Diversity is promoted with an increase woman in senior management roles 2% p.a. and 50% of each graduate intake is woman; more to do (Rio Tinto, 2020c). Rio Tinto has 47,000 employees with talent development and retention a priority (Rio Tinto, 2019).

The Commercial division of Rio Tinto Group maintains the focus on the customer. Mineral and metal products are used in a wide range of everyday products including motor vehicles, coffee pods and smart phones. Strong supply chain control is maintained through construction and management of end-to-end logistics (i.e. rail, port, ship). Rio Tinto is mindful of the impact of operations on the environment and the significance of this for brand management. China is a big importer of Rio Tinto Group iron ore including its high quality Pilbara BlendTM iron ore – better geographic spread of sales would assist risk management over the medium to long term (Rio Tinto, 2019).

Technology is a critical success factor for Rio Tinto especially as it relates to use of artificial intelligence, automation and robotics. An operations centre is located in Perth and is the base from which the AutoHaulTM operations are managed. STEM capability development is important to

Rio Tinto including the benefits of learning and feedback from data-insight. STEM is promoted in partnership with QUT, UWA, McGill University and Polytechnique of Montreal (Rio Tinto, 2020c).

Group Revenue is up in the past financial year due to high iron ore prices; 2019 results also show a substantial impairment charge of USD3.49 billion mainly related to delays with the Oyu Tolgoi, Mongolia project and an impairment on the Yarwun alumina refinery and Weipa bauxite mines in Queensland – refer Table 2 below for the financial summary. Rio Tinto maintain strong cash flow generation capability, though delays on major projects can create big financial swings (Rio Tinto, 2019).

Table 2: Rio Tinto Summary Audited Financial Data 2017 to 2019 (Rio Tinto, 2019)

(United States Dollars (USD) Millions)	**2017**	**2018**	**2019**	**+/- % Change**
Sales	40,030	40,522	43,165	7%
Earnings before interest and tax	14,474	18,200	11,767	-35%
Net interest/finance expense	(1,658)	(33)	(648)	1864%
Net profit before tax	12,816	18,167	11,119	-39%
Net profit after tax	8,851	13,925	6,972	-50%
Basic earnings per share	490.4 cents	793.2 cents	491.4 cents	
Total assets		90,949	87,802	
Total liabilities		41,126	42,560	
Net equity		49,823	45,242	
Net cash generated		11,821	14,912	
Debt to equity ratio		0.83	0.94	

The Strategy Challenge at Rio Tinto Limited

Average tenure on the board of directors is an issue here. Are there enough woman on the board? How would you assess the financial efficiency of Rio Tinto? Calculate the interest cover, return on assets and return on equity ratios using the information in Table 1, then go to the Rio Tinto Annual Report for 2019 and extract any further financial data that will assist you in conducting further financial ratio analysis and making recommendations for the future strategy of this organisation. In particular comment on the dividend payment capability of the Group plus the available time and resources to deliver the strategy you propose. Will you recommend a change to risk management and board of director structure arrangements? How can Rio Tinto better manage indigenous issues in the future? Are industry conditions favourable?

Conclusion

Rio Tinto clearly have corporate governance and top management team issues to address in relation to their overall strategic management. One school of thought in the media is that Rio Tinto is run from London for London. This is a major issue when core cash flow is dominated by operations in Australia, especially in a region where Aboriginal reconciliation is a high Federal and State Government priority.

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4.

COCHLEAR LIMITED 2021: MANAGING THROUGH THE PANDEMIC

By Justin Pierce and Tim O'Shannassy

Acknowledgement

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Introduction

Dig Howitt reclines on the couch, holding his almost limp six-year-old son in his lap. Weary from a long day of home-schooling as well as several video calls, he reaches to the side table where a welcoming ice-cold Stella Artois awaits him. “What a tough year!”, he whispers to himself as he feels the refreshing amber ale descend into his grumbling stomach. He wonders whether the way he and the rest of the Cochlear Limited (Cochlear) team has been working can go on like this: “No, seriously, can it go on forever?”

Dig’s son stirs with a fright as the mobile phone rings unexpectedly. It is Rick Holliday-Smith, Cochlear’s chair. Exhausted and now *off the clock*, Dig muses for a moment to let it go to voicemail, but thinks better of it. He edges his son onto the couch beside him and answers the call with as much positivity as he can muster…“g’day Rick, how-ya-goin’?”

Background

Cochlear is one of Australia’s most celebrated success stories and a global innovation-based manufacturing firm. Its core product is a series of implantable artificial hearing organs and associated technology. It counts research and development (R & D) and capital management among its impressive strengths, boasting a strong track record of growing revenue, profit, and dividends, making Cochlear a darling among the investment community. The balance sheet is conservatively geared, and cash flow is strong.

Cochlear began with a heart-warming account. In the

1960s, Professor Graeme Clark was inspired by his deaf father's wish to have greater connection to others. Research at the time suggested that a deaf person could receive the sensation of hearing through electrochemical stimulation signals but had no way to perceive the sounds, particularly speech. This prompted Professor Clark to invent an implantable hearing aid. In 1978, the first cochlear implant surgery was completed, and Professor Clark and the research team then discovered how to encode speech signals to allow speech perception (Cochlear Limited, 2020).

Mass manufacturing began in 1981 with the Nucleus Group and in 1995 Cochlear Limited listed on the Australian Securities Exchange (ASX). Since then, Cochlear Limited has enjoyed its position as market leader of hearing implants globally, increasing its reach, revenue, and profitability significantly. Nowadays, Cochlear continues an ambitious R&D program, investing 14% of its sales revenue in the next generation of hearing implant solutions (Cochlear Limited, 2020). Eventually, it is hoped that a fully implantable hearing loss solution will be available.

Cochlear depends on collaborative relationships with academic-, community-, industry-, health-, and government professionals. It works with more than 100 research partners to create, protect, and share new intellectual property. This strategy is bolstered by making investments in early-stage biotechnologies that may complement Cochlear's operations in the future. For example, in 2019, Cochlear Limited invested in Nyxoah, a medical device company that specialises in nerve stimulation therapy to treat sleep apnoea (Cochlear Limited, 2019).

The Business Environment

Late 2019 saw a novel coronavirus zoonotically mutate from pangolins to humans, most likely in a wet market in Wuhan, Huabei Province, the People's Republic of China. The contagion in humans was swift, leading to a worldwide emergency, and the identification of *severe acute respiratory syndrome coronavirus 2* (SARS-CoV-2), which causes *coronavirus disease 2019* (CoViD-19). The World Health Organization [sic.] (WHO) declared a worldwide pandemic and jurisdictions around the world responded in various ways (WHO, 2020).

In Australia, Prime Minister Scott Morrison rushed to secure the rights to locally manufacture a then promising vaccine, made by Oxford University and AstraZeneca. As infection rates spread, Australian State governments responded by imposing austere restrictions to freedoms, including to movement and mandating people to wear masks where they could not otherwise remain socially distant. These so-called 'lockdowns' led to widespread changes in our social fabric with the sudden news that except for 'essential workers,' nobody could go anywhere (Saul, Scott, Crabb, Majumdar, Coghlan & Hellard, 2020).

The lockdowns led to those who were able to be productive from home. Videoconferencing grew in popularity for meetings, but also classes and staying in touch with friends and family. Parents juggled videoconferencing-enabled home-schooling with their work commitments and many medium-to-low-income workers were stood down or retrenched. The Australian Federal government responded with two economic stimulus packages, *JobSeeker* and *JobKeeper* to cushion the impact from the worsening economic situation (Knight, 2021). In more recent times, however, government approval ratings have decreased with lockdown fatigue and the realisation that many businesses that received JobKeeper payments used them to buoy profit margins.

The world economic growth forecast for 2021 is 5.5% and in 2022 it is expected to be 4.2%, however this will vary around the world subject to the impact of Covid-19 on nations and/or regions (International Monetary Fund, 2021). The United States growth forecast for 2021 is 5.1% (Actual 2020 -3.4%) and in 2022 it will be 2.5%. The Euro Area forecast for 2021 is 4.2% (Actual 2020 -7.2%) and in 2022 it is expected to be 3.6%. This compares with China forecast at 2021 8.1% (Actual 2020 2.3%) and in 2022 5.6% (International Monetary Fund, 2021).

Two of the more silent impacts of the government lockdowns has been the rise of mental health problems among youth and the impact of increases in domestic violence

(Abbott, 2021). The limits to personal freedoms have ignited a lockdown-related fatigue that manifests in mental health concerns, while being confined to the dwelling with the same group of people can lead to tensions. The impact of the government-imposed lockdowns have therefore had two dimensions: economic- and health-related. Many are now angry at the government for the ongoing and sometimes worsening situation.

Elsewhere around the world, where lockdowns have not been as severe, infection rates dwarf those recorded in Australia. At the time of writing, the UK was experiencing 50,000 infections per day (Morton & Therrien, 2021), the subcontinent is running dangerously short on oxygen (Gettleman, Schmall, Raj & Kumar, 2021) and some nations are dealing with fatalities faster than they can bury their dead (Yangon, 2021). The seemingly lackadaisical approach of the UK government that has opted to 'live with the virus' (Solomon, 2021) further enrages the Australian populace who feel hard done by, even if Australia is relatively well off in health and economic terms in comparison to the rest of the world (Chung, 2021).

However, even before the pandemic began, Australia's economic credentials were in good shape (Pandey, 2021) and remain so. With GDP and inflation growing at below target rates, the Reserve Bank of Australia is attempting to stimulate business investment by leaving interest rates at an all-time low of 0.1% (RBA, 2021). Despite the worrying trend of stand downs and retrenchments, the unemployment rate for June 2021 fell to 4.9%, the lowest rate since Labor was last in power (ABC, 2021). An additional noteworthy macroeconomic indicator is the wage price index (WPD), which continued to rise 1.5% over the year (ABS, 2021a). Finally, despite the economic difficulties, Australians are on average quite wealthy, as illustrated in the following table.

Table 1: Australian Wealth Indicators, December 2020 (ABS, 2021b)

Measure	**Estimate**
Median Household Weekly Income	$1,844
Mean Total Household Assets (‘000)	$1,221
Mean Total Household Liabilities (‘000)	$199
Mean Household Net Wealth (‘000)	$1,022
Median Household Net Wealth (‘000)	$632

Beyond Australian wealth, tax rates are high compared to Australia’s trading partners. For personal tax, rates accrue on a sliding scale so that higher income individuals pay more real tax, up to 49% at the highest income bracket. For corporate tax, it is set at a flat rate of 30%, which can make Australian businesses less competitive on the international stage (Tax Foundation, 2020).

Notable technologies that are impacting on commerce include the omnipotent Internet, buoyed by almost all Australians carrying an Internet-connected mobile device in the pocket. This, together with the rise of social media platforms, allows firms to connect with consumers in ways never imagined before (Butt, 2019). These handheld devices have also revolutionised computing applications, renamed 'apps' that exploit Internet connectivity and allow links not only between people, but other devices that can include watches, homewares such as refrigerators and health equipment such as pedometers (Chantzis, Stais, Calderon, Deirmentzoglou & Woods, 2021).

The speed of technological change has been accelerating since the 1950s (Grinin, Grinin & Korotayev, 2020), and apart from electronic devices, biotechnology product cycles are also fast (*ibid.*). Involving the work of many researchers, clinical trials, and regulatory bodies, rapid advances in biotechnology and pharmaceuticals are driving better quality of life for many illnesses and conditions (Bessen, n.d.). For example, the Pfizer–BioNTech COMIRNATY vaccine was the fastest vaccine to be approved for human use in Australia, with Pfizer entering Phase 3 clinical trials in November 2020 and the TGA approving on 25 January 2021 (TGA, 2021). It works by encasing virus spikes from SARS-CoV-2 in nanoparticles, which are injected into the muscle, causing the body to learn to recognise and fight the virus with corporeal antibodies (*ibid*.). Biotechnology innovations have also been used to find better ways of growing crops, nourish livestock, and prevent pests (Bessen, n.d.).

Isolated from its trading partners, Australia is a large continental nation in the south pacific. Australia has access to less than 1% of the world's usable water supply (Lehane, 2014) and has a harsh and dry continent. Most of Australia is uninhabitable so settlements tend toward the periphery, where river systems and coastal waters provide access to irrigation and seafood. A small population, relative to neighbouring countries, comprises a proud multiculturalism, multiple small businesses, and an egalitarian culture (Kapferer & Morris, 2003).

Australia is a constitutional monarchy, headed by HM Queen Elizabeth II. Its governance is by a federation of states that share and separate power between them as well as the coalescing Federal government. The High Court adjudicates on constitutional matters and is the highest court of appeal in the country. Various regulators (e.g., ACCC, ASIC, TGA, TEQSA) implement laws passed by the Parliament. Non-criminal legal activity tends to pursue free market ideals and protecting consumers from unfair trade practices (McCauley, 2018; Murtough, Pearson & Wreford, 1998).

The Biotechnology Industry

Competitors in the hearing industry include Sonova Holdings

AG, Danish firm Demant A/S, the Australian government enterprise Hearing Australia, Danish firm Widex A/S, and privately-owned Starkey Hearing Technologies from the US. Cochlear and Demant lead this very competitive industry, boasting huge revenues and R&D expenditures. Although large capital expenditure is needed to establish a biotechnology firm, start-ups are common, thanks to new models of venture capitalism (Booth, 2019) and can rise quickly with plentiful government grants available for technological innovation (Department of Industry, Science, Energy & Resources, 2021).

The biotechnology industry (of which the hearing industry is a part) is run on innovation. Product cycles are driven by imaginations of the human condition and large investments in R&D (Su & Minsuk, 2015). Some projects will never yield results and so it is important that a firm's portfolio of research projects eventually hits a breakthrough so that it can repay the investment of all the other failed projects (Quelch, 2008). The promise of successful clinical trials makes this industry attractive for research investment, as well as attracting some of the best and brightest minds in the world (Bennett, 2001).

The WHO forecasts hearing loss to affect 900 million people around the world by 2050 (2019). Those that experience hearing loss become progressively isolated. Since people tend to trust medical practitioners (Morgan, 2021), hearing solutions are expensive and never discounted. With the limited number of providers in the marketplace and the specialist nature of the product, buyers are not able to barter on price.

Suppliers of physical aspects of the product include healthcare providers, component manufacturers, and distributors. However, the industry also relies on providers of intangible aspects of the product, which include scientific and medical expertise. The industry relies on networks of collaborating partners, including university- and government departments. Much of the labour force in biotechnology and related fields (i.e., medicine) work not for the money, but for a calling they experienced to their line of work.

While there are no substitutes for biotechnology overall, when focusing in on implantable hearing solutions, substitutes can include automated audiometry, and sound amplifiers. However, these current substitutes are technologically inferior and do not counter hearing loss like the Cochlear implant does. Future product cycles may produce an alternative, which is another reason why the industry must commit to its R&D agenda.

Company Overview

Cochlear Limited is the global leader in hearing implant solutions. As it has done since it was first listed on the ASX, it separates the roles of chair and CEO (Cochlear Limited, 2020). This demonstrates alignment the ASX Council of

Corporate Governance recommendation 2.5 (ASX, 2019, p.15). Rick Holliday-Smith was appointed to the board in March 2005 and was appointed Chair in July 2010. Dig Howitt was an insider CEO and President appointment in 2018, having joined the company in 2000 (Cochlear Limited, 2020). During the 2020 financial year, Cochlear Limited appointed two new directors with specific experience in medical devices and health services communications (Cochlear Limited, 2020, p.8).

Cochlear Limited's operating and financial review (2020) extols its mission, which is (p. 15):

> *We help people hear and be heard.*
>
> *We empower people to connect with others and live a full life.*
>
> *We transform the way people understand and treat hearing loss.*
>
> *We innovate and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.*

While anchoring to its mission, Cochlear Limited has three strategic priorities that include retaining market leadership, growing the market for hearing implants and delivering consistent revenue and profit growth (Cochlear Limited, 2020, p. 21). It engages in significant R&D programs, investing around 14% of revenue. Collaborating with Cochlear Limited is an alliance of network partners, which assists it to deliver 61% of its sales via implants, 29% via services and 10% via acoustics (*ibid*. p. 16).

Cochlear Limited's sales and net profit growth throughout the years has been enviable. The following Figure 2 and Table 2 respectively illustrate the growth. It boasts that AUD $1,000 invested at the time of listing would be worth approximately AUD $140,000 at the end of the 2020 financial year (Cochlear Limited, 2020, p. 17).

The 2020 financial year saw Cochlear Limited's activities severely impacted by the CoViD-19 pandemic as implant surgeries around the world were deferred. Yet, they continued to exercise prudent financial management, keeping costs in line with the sales in Table 2 below (Cochlear Limited, 2020).

Table 2: Cochlear Limited Financial Summary 2017-2020 (Cochlear Limited Annual Report, 2018, 2019, 2020)

	2017 $Million	**2018 $Million**	**2019 $Million**	**2020 $Million**
Sales	1239.7	1351.4	1446.1	1,352.3
Cost of sales	358.4	361.2	351.1	344.4
Selling, marketing and general expenses	347.2	397.0	450.9	470.0
Research and development expenses	167.7	167.7	184.4	185.1
Administration expenses	85.2	97.4	94.8	93.8
EBIT	315.6	348.4	359.3	206.9
Net finance expense/Net interest paid	6.8	7.9	4.5	8.9
Income tax expense	85.2	94.7	88.9	44.2
NPAT	223.6	245.8	276.7	(238.3)
Operating cash flow	259.8	258.1	296.0	(157.8)
Free cash flow	124.2	202.7	158.2	(302.5)
Total assets		1156.9	1379.2	2,575.7
Total liabilities		546.1	653.3	1,174.2
Total non-current liabilities		258.4	293.8	356.7
Total equity		610.8	725.9	1,401.5

The net profit after tax (NPAT) loss posted by Cochlear Limited is due to legal proceedings brought against them in the US for patent infringement (Cochlear Limited, 2020, p. 3). In March 2020, the US Court of Appeal awarded damages to Alfred E Mann Foundation for Scientific Research (AMF) and Advanced Bionics LLC (AB) of US $280 million. Cochlear Limited declared they would appeal the decision, as it was awarded based on an expired patent (*op cit.*, p. 8).

Cochlear has a focused value proposition, providing hearing solutions to those who experience moderate to profound hearing loss. The main product is the CochlearTM Nucleus® implant, which provides patients with a variety of options to improve hearing quality. This product is comprised of two components: the external sound processor and the internal implant. The external component is available in a variety of wearable options and can be connected to an iPhone or Android app (Cochlear Limited, 2020, p. 14).

Another category of product includes the 'acoustics' range, which make use of bone conduction for hearing solutions. The leading product here is the CochlearTM Baha® 5 system, including the SoundArc and smart app. The final component of Cochlear Limited's offering is called 'services' and includes sound processors for replacement or in different colours.

Priority market segments for Cochlear Limited in the future are direct-to-consumer marketing, hearing aid channel programs, the adult and seniors' market in developed markets, children in emerging markets, and China, which is seen as a great opportunity for future growth (Cochlear Limited, 2019). Indeed, Cochlear Limited established a Chinese manufacturing facility in Chengdu, Sichuan Province, expected for completion toward the end of 2020 (Cochlear Limited, 2020, p. 7). Finally, it enjoyed pleasing news from the US Food & Drug Administration (FDA) that approved Cochlear's Nucleus® implant for use in children from nine months of age with bilateral, profound sensorineural hearing loss (*op cit.*, p. 6).

During financial year 2019, Cochlear Limited acquired intangible assets associated with the expanded GN Hearing alliance, including licence fees for the existing technology and investment in the development of further intellectual property. Cochlear Limited also moved to establish its own direct distribution channels in several emerging markets in 2019, which involved acquisition of some distributors. Cochlear Limited continues to strengthen the alliance with GN Hearing during the 2020 financial year (Cochlear Limited, 2019; 2020).

Cochlear has a diverse global workforce of over 4000 people in 180 countries (Cochlear Limited, 2020, p. 10). Cochlear's workforce accounts for two thirds of its operating expenses (*op cit.*, p.4). They come from all walks of life and must demonstrate a passion for the industry and Cochlear's mission. Many of the workforce are scientifically trained, engineers or other technical personnel who work to implement the powerful Cochlear Limited vision. Notwithstanding the previous financial year, Cochlear is a fast-growing organisation. People management challenges for Cochlear include attracting, retaining, and motivating qualified staff who have the passion and ambition to change lives.

Cochlear Limited also established diversity targets for the Board and Senior Leadership positions, to support its *Diversity & Inclusion Framework*, launched in 2018. They take an innovative approach to gender diversity, prescribing targets of between 40-60 per cent of either gender (notwithstanding alternative gender identities). This is supported by the talent acquisition approach as well as succession and other people-related policies (Cochlear Limited, 2020, p. 8).

Cochlear's global headquarters is situated at Macquarie University, Sydney, which it assumed in 2010. In 2017, it acquired its long-term manufacturing site at Lane Cove, that had been previously leased. During financial year 2017, it invested in manufacturing facilities in Brisbane, Australia (Cochlear Limited, 2017) and, as noted above, finalised construction of the Chengdu, Sichuan Province manufacturing facility toward the end of 2020. The Chinese facilities are set to significantly increase its output capacity, but it will have to await Chinese regulatory approvals, which could take two years to secure (Cochlear Limited, 2020, p. 7).

Cochlear Limited increased capital expenditure in information technology (IT) infrastructure and systems significantly in 2018 (Cochlear Limited, 2018). The purpose of this investment was to improve connectivity of health, cybersecurity, and digital health capability (Cochlear Limited, 2019). It developed smart apps to complement its range of products and data analytics to improve service quality. R&D is significantly important to future product offerings and will continue to be in the future.

The Future

After what can only be described as a very tough year—and, perhaps more urgently, a brutal day of home-schooling—Dig suffers through the old man's ramblings, swigging on his beer as he paces the lounge room. When it seems Rick finally takes a breath, Dig says, "hey, Rick, I've been thinking." He goes on to explain his idea to capitalise on the lockdowns and the changes it has brought to the way Cochlear can seize on current and future opportunities. Covid-19 has had an impact on the Cochlear business and the executive will need to turn this around. A commitment to R & D will remain important going forward. The recent patent ruling in the United States also needs to be challenged in court and finalization of the settlement made – this is a significant financial cost and will require considered judgement by the board. Workforce retention and development remains a priority looking to the future. There is much for Rick and Dig to consider – what will be the best recommendations to improve shareholder and stakeholder value and make a better business?

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5.

MYER HOLDINGS LIMITED 2021

By Justin Pierce and Tim O'Shannassy

Acknowledgement

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Background

This story is stranger than fiction. A comedy or a delight for the tragedian, this story bends in tortuous paths and culminates in an horrific end. Globally, the 1990s saw department stores in trouble and many retail department stores went their own way, rather than listen to reason (ANU, n.d.). Brian Quinn established the so-called Coles Myer Limited "*Battlestar Galactica*", in Tooronga, Victoria and used company financial resources to fund his own property development (Salmons, 1995). Later gaoled and disgraced, Quinn's legacy might have been a clue to highlight the leaky bucket and arrest the companies decline. Later Myer Holdings Limited (Myer) executives tried in vain to move the focus into lower markets, whereas upmarket stores moved into Myer's traditional market. This was a recipe for financial performance disaster for Myer!

It is 6:00 AM in mid-July 2021 and the distant horizon rises with daylight hues and a flurry of frantic activity descends on Tullamarine Airport. Steam billows from a long black against Acting Myer chairperson JoAnne Stephenson relatively cooler breath as she enjoys a morning coffee. Pensive, she stares absently through the QANTAS lounge glass at engineers refuelling aircraft and a languid ground crew loading suitcases. Like a ballet rehearsal she'd seen hundreds of times before, its details evanesce into the liquid arabesque of a bustling airport; after all, there is much else weighing on her mind.

Previous chairperson Garry Hounsell had been copping criticism from astute Myer shareholder and Chairman of Premier Investments Limited (Premier) Solomon Lew both in the press (e.g., Loussikian & Powell, 2019) as well as privately. Lew, a seasoned retail executive, former Reserve Bank of Australia board member and former Coles Myer Limited chairman, is less-than-ashamed of his frustrations with Myer's performance. Lew now often tells Stephenson how to do her job and, as unhelpful as it has become in the current climate, Lew's interruptions are wearing thin. Stephenson has a tough job telling a positive story of Myer's turnaround and often can see Lew making regular comment in *The Australian Financial Review* (AFR), drawing attention to weak Myer performance. A further concern is that Myer has now experienced two strikes against its remuneration report (Khadem, 2018) and a third spill in future would be a dire outcome for the board!

The Nascent Myer Holdings Limited

Australians know Myer for its retail presence, its long and proud history as well as its special place in the community. In the 1800s, Russian immigrant Sidney Myer (National Portrait Gallery, 2018) joined his brother, Elcon in Australia to open a department store in regional Victoria. Success ensued and they expanded to become one of the largest store networks in Australia. To begin with, a second store was opened in Bendigo, Victoria, followed by the iconic Bourke Street *Emporium* in the Melbourne central business district.

Elcon served in the Great War, while Sidney continued to build the empire. Victorious, Elcon returned to become the *Merchandise Manager* in 1919, often taking sourcing trips overseas for products to sell in the stores. The Myer family was strong and so the brothers' values were to provide for their staff like a family would. For example, they provided nursing and medical care as well as premises staff could rest at if they were travelling. These 'benefits' were met with an ardent loyalty among staff and customers. Myer was destined for success and in 1925 it listed on the then Melbourne Stock Exchange (National Museum Australia, n.d.). But all was not so well externally.

Australian unemployment in the 1920s teetered between six and eleven per cent (Forster, 1985) as government-funded post-war infrastructure projects were cancelled. In America, mass migration from the regions saw people searching for prosperity in metropolitan areas and investment there began to grow. Meanwhile, the Australian Pound was pegged against the Pound Stirling, and both British and Australian exports were very expensive. In September 1929, the New York Stock Exchange crashed, heralding the official start of the Great Depression (Gruen & Clark, 2009). While the rest of the world fell into stagnation, the Myer brothers doubled down.

Myer continued its growth acquiring other department stores. The strategy was to acquire minority stakes in target firms before gradually absorbing them into Myer stores. Meanwhile, Myer's organic growth exploded through developing its own properties and it became one of Australia's major real estate forces. Myer was not finished and in 1968, it acquired Lindsay's Stores, rebranding (with permission from its American namesake) to *Target Australia*, which would become another of Australia's much-loved discount department stores (Target Australia, 2020).

Around this time materialism was growing, as television ushered in a new era of consumer advertising. Consumption increased and, bubbling away in the background, the US *Advanced Research Projects Agency* was working on a communications network. By the early 1970s, the ARPANet had covered the US and by 1973 it was connected to Norway. Over time, more and more devices were connected and by 1993, commercial access to what is now known as the *Internet* was gaining popularity (Science Museum of the UK, 2018).

From Little Things Big Things Grow

Myer's acquisitions continued, with liquor business Crittendens, fast food outlet Red Rooster and department stores Grace Brothers being added to the portfolio. In 1985 Myer merged with GJ Coles, forming Coles Myer Limited, cementing their place as Australia's largest retailer. Coles Myer enjoyed strong financial performance over the next twenty years. Then the unthinkable happened when Myer's performance within the Coles Myer portfolio began to deteriorate. By 2006, Myer was sold to private equity for AUD $1.4 billion.

The early 2000s was a time for business to learn from expensive misadventures with technology. The first of these was the millennial bug, followed by the so-called *dot com bubble*. In the Australian landscape, the reaction was to reduce technological expenditure, which damaged competitiveness on an international footing. Meanwhile, giants were sprouting, with Google, Amazon, eBay and other big corporate expanding their interests.

New Beginnings

Under new ownership, huge changes were afoot at Myer. Bernie Brookes was appointed CEO, Jennifer Hawkins became the 'face' of Myer and it cleared old merchandise. It established its own *Myer One* loyalty program and invested AUD $99 million in stock control and consumer insights. These had an immediate impact, almost doubling the previous year's EBIT to AUD $123 million. Despite the shot in the arm, all was still not well.

In April 2007, several key executives resigned, and several high-profile brands defected to Myer's main rival, David Jones. By June, the Bourke Street store freehold was sold with Myer taking a 60-year leasehold. This signalled the start of Myer's real estate liquidation to help free capital to facilitate its turnaround. Myer announced in 2009 that it would again list on the ASX and did so with an issue price of AUD $4.10. By August of 2011, the share price had almost halved to AUD

$2.09. At the time of writing, Myer shares teetered around 33 cents.

The Bloody Battle Lines

Retailers distribute products and provide an in-store experience. In physical stores, customers have multiple sensory experiences. Lighting might be harsh or warm, sounds could be of busy, efficient operational staff or soft, relaxing sounds, and the scent could be a signature perfume to remind customers of the brand. Retailers also bring a collection of products together that the customer would otherwise have to source themselves.

Retailers have a high cost of exit, as their liquid assets are in the form of inventory. Inventory must be converted to cash to allow the business to run and is why retailers exhibit the sharpest contrast between current- and quick ratios. Retailers also need to invest in distribution networks, branding and promotions. Competition is made fierce mainly because retailers have trained their customers to buy only when products are on sale. It results in competitors bringing forward promotions in a bid to 'bank' the sale. Retailers have recently discovered their online store as the highest grossing (Udland, 2015).

Suppliers are generally located in clusters in emerging economies. Low differentiation between factories leads many to seek endorsement from big name retailers (e.g., Gap) to demonstrate their quality credentials when bidding for more business. As the emerging economies grow, supply costs increase, leading to contracts being awarded to even less developed economies, and much activity now occurs in Bangladesh, Pakistan and in South America (Obe, 2019).

Transparency indices expose working standards in developing countries and retailers are held to account for their *ethical sourcing*. These ethics are Western ideals imposed on Eastern locales, where child labour, bribery and graft are often part of the prevailing culture. Suppliers thus have little power since their operations are tied so tightly to foreign direct investment. It is said that factories resort to unethical practices to stay in business (Kim, Colicchia & Menachof, 2016).

Another type of supplier are property trusts. Shopping malls are generally built for two or three 'destination' retailers. Destination retailers enjoy a much cheaper rent than smaller clientele that are charged a higher rate per square metre. The Australian property market is one of the strongest in the world and landlords can demand high returns (Koehn, 2018).

Buyers have choice in the industry and very low switching costs. Customers often price-match with their handheld device, demonstrating their price sensitivity, applying pressure on margins. Buyers also have the option of buying from international retailers that tend to challenge service levels (Nalca, Ray & Boyaci, 2020). Buyers are well informed and educated. Research precedes purchases and buyers are protected in Australia by regulators at national and state level. Still, buyers are continually lured back into stores for the *newness* factor and, especially where fashion is concerned.

Smaller entrants appear frequently, but larger footprint brands seldom enter the industry unless with large capital behind them. Recently Kaufland decided not to enter the Australian grocery industry (Schlesinger & Evans, 2020). Distribution and rental costs are significantly more expensive in Australia and its conservativism sees consumers spending more frugally. The continual threat of informed and increasingly mobile consumers has created conditions for a race to the bottom. Brand recognition is difficult to establish, requiring investment spread over multiple channels. Several brands attempt to establish themselves, leaving consumers distracted (Davis, Rosner, D'Angelo, MacLellan & Milliken, 2019).

As a distribution channel, few substitutes exist for retail. Online retailing is not a substitute for traditional retail since many industry incumbents have already adopted it. However, as an experience, there are many substitutes. Consumers can enjoy meeting places, social networks, education or satisfy their curiosity through travelling or Netflix. Like retail, other experiences can be multi-sensory and alternatives can be in restaurants, personal care, entertainment and even social.

The Australian Context

At last, there is certainty on the UK's exit from the European Union with Prime Minister Boris Johnson overseeing its final negotiations. Meanwhile, in the throes of President Trump's deglobalisation agenda, the US elected Joe Biden, who has signalled military withdrawal from Afghanistan. While the US economic conditions remain strong, its social fabric must heal and rebuild relationships with key partners. Elsewhere, unresolved trade tensions simmer, trading blocs reconfigure, and the World Bank dispute resolution process is under revision.

In Australia the left–right dichotomy is not as pronounced, but the political battleground is nonetheless fought on a balance between worker rights and commercial innovation. In late 2019, a new coronavirus emerged from Wuhan, the capital of Chinese province, Huabei. Believed to have crossed from pangolins to humans in a wet market, the originally named nCov-2019 virus is now known as *sudden acute respiratory syndrome coronavirus 2* (SARS-CoV-2) (WHO, 2021) and causes coronavirus disease (CoViD-19). The outbreak of SARS-CoV2 caused the World Health Organization [sic.] (WHO) to declare a global pandemic and governments around the world have reacted to public health advice by limiting the movement of citizens.

Historically low interest rates of 0.1% (RBA, 2021) demonstrates concern the Reserve Bank board has for low inflation. Conditions have lured investors into the equity markets (Letts, 2019) and the Australian Securities Exchange (ASX) breached 7500 points in June 2021 (MarketIndex, 2021), its best level ever. Capital flowing into the equity markets is good for business and the unemployment rate remains steady, hovering at 5% (ABS, 2021). Yet, an already heated housing market roars on, driving household debt even higher (Karp, 2021). The mining and construction industries that drive Australia's economic prosperity result in GDP of USD $55,000 per capita.

Australia's economy relies on mining, construction, tourism, education, and retail (Austrade, 2021). The corporate tax rate is 30%, while around the world the rate is being reduced to attract corporate investment (Tax Foundation, 2020). Personal tax rates vary with the level of income and are among the highest in the world. This helps to fund government projects, but also limits disposable income among taxpayers, who concentrate their efforts on rising living expenses, rent and education. While limiting citizen movement, the Australian government responded with stimulus payments (e.g., JobKeeper) to ensure social cohesion and abate an economic downturn, and this stimulus has helped retail (Knight, 2021).

Housing continues to dominate household expenditure (AIHW, 2020). Australians opt to pay down mortgages or spend their disposable income on experiences rather than material goods (*ibid*.). Wealth is concentrated among the Baby

Boomers and Generation X. Disposable income is concentrated among those who have so far not ventured into home ownership. Marriage and birth rates occur later and later, in step with economic conditions. Car ownership is in decline as more and more people flock to the cities to live (Trounson, 2017).

In Australia there are 117,000 homeless persons (Homelessness in Australia, n.d.), ranking Australia 17th in the world. Homelessness coincides with disadvantage, familial breakdown, violence, and mental health epidemiology. Mental health and preventable disease have replaced infection as the most common illnesses and yet Australians are living and working longer. Where once 18 marked the start of adulthood, full maturity is now considered age 27 or 28 (Beck, 2016), which is often when younger Australians leave their parent's home.

In response to the CoViD-19 pandemic, Australian States and Territories introduced staged lockdowns and hotel quarantine while a vaccine could be developed (Saul, Scott, Crabb, Majumdar, Coghlan & Hellard, 2020). Restrictions were strictest in Victoria where it endured through 112 days lockdown in 2020. Mental health concerns rose sharply where children were home-schooled, and people telecommuted from home. Singles became more isolated and many developed post-traumatic stress disorder (PTSD) from forced restrictions (Abbott, 2021). Victorian Premier Dan Andrews fronted a morning news conference for over 100 straight days to communicate the public health response (Ilanbey, 2020).

Computing power has spurred technologists and businesspeople to embrace commercial Internet and technological prevalence is ubiquitous (Armental, 2020). Computing power that in the 1970s would consume the size of the average car is in the 2020s carried around in the hand. Interfaces have evolved and where once complex keyboard commands were required, a computer is commanded with the swipe of one's fingers and their voice (Butt, 2019).

Business intelligence is the name given to finding value in vast amounts of data captured by the modern enterprise. It is buoyed by advances in machine learning and artificial intelligence that can anticipate patterns for business managers (Pratt & Fruhlinger, 2019). Digital assistants help with day-to-day tasks like shopping lists, appointments, and entertainment (Waters, 2016). Geographic information systems (GIS) enable businesses to pinpoint delivery locations and match customers with specific offerings (Howari & Ghrefat, 2021). They are often linked to customer relationships management (CRM) systems, product lifecycle management (PLM) and other enterprise systems in a coordinated effort to increase business throughput, improving efficiency and allowing businesses to do more with less (Møller, Kræmmergaard & Rikhardsson, 2006).

Australia's land mass is almost 8 million square kilometres. Much of it is uninhabitable with little rainfall and inhabitation tends toward the outer regions. Drought forces water conservation efforts and the effects of ocean currents—the Indian Ocean dipole and the ElNiño Southern Oscillation—result in periods of cyclonic activity in the tropics and cold conditions in the south. Particularly in the south-east, Australia is often affected by Antarctic wind, spurred by the Roaring 40s that combine to create the so-called 'wind chill factor' and can make Australian winters feel particularly cold (DAWE, 2019).

Imported goods must be land-shipped after they are sea-fared and Australia's land mass results in very high distribution costs (D'Arcy, Norman & Shan, 2012). In response, some businesses ship to multiple ports to achieve economies of scope. Issues in the environmental sector include logging of natural rainforests, irrigation of the Murray and Darling rivers, soil salinity, nuclear waste and, growing concern about climate change: Australia is often highlighted as the highest emitter of carbon dioxide per capita in the world (Cousins, 2005).

Australia is a constitutional monarchy, headed by Elizabeth II, Queen of Australia whose ceremonial role and executive powers are implemented by her representative His Excellency General the Honourable David Hurley. Australia is a federation of states, meaning that power is distributed among the states and territories as well as the federal government. The High Court arbitrates on constitutional matters, effectively reducing the regent's role to a purely ceremonial one (Parliament of Australia, n.d.). Since the 1970s, Australia has seen an increase in the liberalisation of its markets, resulting in freer capital flow inside and outside its borders, greater prosperity and lower unemployment. Although markets should run their own course, the government realises their imperfections, having set up several bodies to help regulate the freer economy (Murtough, Pearson & Wreford, 1998).

Some of these include the Australian Competition & Consumer Commission (ACCC), the Australian Securities & Investments Commission (ASIC), the Australian Foreign Investment Review (AFIR) board, the Australian Prudential Regulation Authority (APRA), to which Australian businesses are generally accountable. The agenda for regulatory bodies is to increase transparency, competition and innovation within Australian businesses and make Australia a safe and attractive place for foreign direct investment. Legal activity appears to centre on conduct of businesspeople and on protecting working conditions, where the Australian union movement attempts to cling onto relevance (McCauley, 2018). Legal sanctions on company directors continues to mount in a trend that can be seen to mimic the litigant appetite of the US. The trend is marked by searching for a root cause and then holding that cause to account, whatever or whomsoever it may be.

Myer's Performance

Myer operates 60 department stores across Australia as well as one of Australia's largest online retail sites, myer.com.au, aiming to be *Australia's favourite department store* (Myer, 2020). Myer offers womenswear, menswear, childrenswear, beauty, homewares, electrical goods, toys, and general merchandise. Although Myer planned to add 90 brands in the lead up to 2020, the CoViD-19 pandemic thwarted those efforts and it was necessary to focus on consolidating the online store (*ibid*.).

Myer refreshed its board in 2018 with new talent including Lyndsey Cattermole AM, an IT entrepreneur and Jacques Naylor, a seasoned retailer (Myer, 2019). The board as it stands is capitalising on the extensive set of retail, branded fashion, and marketing skills it amassed in late 2018, cementing with the appointment of new CEO, John King.

Before the CoViD-19 pandemic, Myer was already on the ropes, needing to reset operations, reinventing its business model in the wake of technological change and demanding customers. Since Myer was refloated, there have been multiple staff departures and new appointments to keep traditional retailing alive. During FY19 Myer allowed smaller merchandise businesses to sign-up to use Myer's distribution channels. Myer thus hoped to capitalise on its technological investment and to create an additional revenue stream. In FY20, another project known as *Factory to Customer* saw Myer offer drop-shipping and signed up Australia Post third-party logistics (3PL) to deliver on its promise.

Financial performance for the group for FY20 (Myer, 2020) were as follows:

Table 1: Statement of Financial Performance

	2020 ($m)	**2019 ($m)**	**2018 ($m)**
Total Sales	2,519.4	2,991.8	3,100.6
Concessions	445.2	612.2	654.0
Operating Gross Profit	958.2	1,162.4	1,184.4
%	38.03%	38.85%	38.2%
Cost of Doing Business	(1,104.2)	(1,002.4)	(1,035.0)
%	43.83%	33.50%	33.38%
EBITDA	83.9	160.1	149.4
%	3.33%	5.35%	4.82%
Depreciation / Amortisation	(226.8)	(101.6)	(94.0)
EBIT	(142.9)	58.5	55.4
Finance Costs	(98.2)	(11.5)	(9.0)
Net Profit Before Tax	(241.1)	47.0	46.4
Tax	68.7	(13.8)	(13.9)
NPAT	(13.4)	33.2	33.5

The Myer balance sheet highlights are as follows:

Table 2: Statement of Financial Position

	2020 ($m)	**2019 ($m)**	**2018 ($m)**
Inventory	256.0	346.9	366.8
Creditors	(354.2)	(372.7)	(381.2)
Other Assets	1,606.7	41.1	35.1
Other Liabilities	(1857.2)	(225.8)	(238.7)
Property	22.2	22.7	23.2
Fixed Assets	324.8	360.8	400.9
Intangibles	319.6	467.6	485.2
Total Funds Employed	166.2	640.7	691.4
Debt	(78.6)	(86.1)	(149.2)
Cash	86.5	47.4	41.8
Equity	174.1	602.1	584.0

Table 1 shows Myer total sales has deteriorated over the three-year period with a dip in EBIT in 2020 (Myer, 2020). This contrasts with rival Premier which has delivered 10 consecutive years of earnings and dividend growth. Premier performance shows that retail can be profitable if executed well – Solomon Lew continues to demonstrate high level retail expertise to investors while Myer struggles (Greenblat, 2021; Knight, 2021).

In FY19, Myer boasted five million members of its Myer One loyalty program (2019), that helps it to track and identify spending patterns. After withdrawing from the Coles Group *Fly Buys* program, Myer One was important for Myer as it provided a means of locking loyal customers into the department store by generating individual promotions to customers. Myer still uses traditional media, such as television and newspaper to keep brand awareness. Myer associates itself with the fashion elite and thus uses fashion icons as brand spokespeople, currently Elyse Knowles Kris Smith, Rachael Finch and Sarsha Chisholm. It continues to sponsor the *Birdcage* at the Melbourne Cup carnival, ensuring the invitation list includes Australian and international a-list guests to improve the exclusive view of the brand.

The jingle “Myer is my store” has been in use for fifteen years, communicating that shopping in Myer stores is personalised where customers will get the very best service. In addition to physical stores, Myer was slow to move on the online channel, and was forced to play catchup while several aggregator sites established a foothold. Myer now boasts pleasing search engine optimisation (SEO) scores where it lands among the top results in many searches.

Myer employs a range of professionals from sourcing specialists, through branding and human resources to finance and, finally, frontline workers. The pandemic saw Myer close all its 60 physical stores and stand down all its customer-facing staff (Myer, 2020). Myer needs to focus on customers first with impeccable presentation and efficiency. Thus, when not stood down, frontline staff carry a capability of product knowledge as well as exceptional service, complex promotional knowledge, and personification of the Myer brand. Since service levels may vary from outlet to outlet, there are standards that Myer must uphold, and it audits these standards with the use of 'mystery shoppers' who report on service levels. Training and development is an important consideration and Myer continues to invest in product training as well as security and operational training for its staff.

The early days demonstrated a family orientation where the Myer family provided lodgings as well as medical benefits to its staff. These benefits commanded a fierce sense of loyalty that has waned in recent times as Myer scaled back on the benefits, in response to toughening financial conditions and standing down staff (Myer, 2020). In the support office, capability is held in identifying desired brands, negotiating deals with designers, and managing the business. This includes risk management, logistics and supply chain, quality control, and governance.

Operationally, Myer has set about exiting many of its non-profitable brands, including Apple, which typically has a 3% margin for retailers. It has made improvements to its retail management system by introducing new technology called *Myer Product Enrichment Portal*, that aims to simplify the process of registering a product through to having it available for sale. It has also invested in technology with its trial of radiofrequency identification (RFID) tags that will allow Myer to more closely track its inventory and allow more accurate stocktake activities and monitor stock shrinkage in real time. A sourcing office is held in Hong Kong where international brand negotiations are often held and where quality assurance observations take place (Myer, 2020). Beyond this, distribution and inventory control are major operational capabilities that Myer possesses. Linked to this are the security of its staff and merchandise, investment in technology and risk management

The Final Word

Flight QF472 is called for boarding and Myer Acting Chairperson JoAnne Stephenson feels a sharp twang of nervousness descend. Her ankles ache as she stumbles into an awkward stride, heavy brief case on rollers trailing. She smiles sadly at the steward who greets her and settles into Business Class, watching the boarding throng race before her, blissfully unaware of the turmoil that awaits her arrival in Sydney. It's going to be a long day and Solly Lew will be watching!

The Myer board and executive confront several strategy challenges:

- CEO and board of director performance, with the risk of a spill of the board at the next Annual General Meeting
- Weak sales and profit performance relative to key rival Premier
- Unhappy shareholders
- A mixed portfolio of profitable and unprofitable brands that needs to be managed
- Number of physical stores to hold
- Adjustment of the business model to the CoViD-19 pandemic
- Leveraging the value of the Myer One program

What strategy moves should Stephenson and the executive group led by King at Myer make to improve performance and appease shareholders?

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6.

SYDNEY AIRPORT HOLDINGS – BACK TO BUSINESS IN 2022 AND BEYOND

By Justin Pierce and Tim O'Shannassy

Acknowledgement

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Introduction

It is 10:00 AM when Geoff Culbert, Sydney Airport Holdings CEO and Trevor Gerber, Chairman grab a coffee and wander down the empty terminal. The *Red Rooster* outlet, shuttered closed and silent, provides the two leaders with a much-needed source of conversations. "Poor people, their livelihoods!", quips Culbert. Gerber, who immediately remembers that Culbert's own daughter, Penny, worked at Red Rooster, only manages a non-verbal "mmm!" Culbert thinks he missed the mark, but Gerber's heart is already breaking.

"What are we going to do, Trev?", Culbert begs of Gerber. "Geoff, settle down. We already got the money from the bond raising and we have a huge amount of goodwill in the community with our rental relief. Penny will be back working there soon enough." Gerber does his best to reassure Culbert. Culbert wastes no time: "It's not about me, it's the lockdowns, the mental health concerns, and now the government is making us do additional security measures—the team is almost ready to crack under the pressure. I'm not sure how much longer we can do it."

The global pandemic and the lockdowns that accompanied it have wracked profit margins and ruined livelihoods the world over, and Sydney Airport is no exception. Culbert and Gerber worked exceptionally hard to protect the balance sheet and, importantly, the cash position. The share market responded favourably, with Sydney Airport Holdings (ASX:SYD) share price up 30 per cent year-to-date.

Gerber looks back at Culbert with an earnest expression: "Geoff, don't you see, you already *have* done it and you did a sterling job. It's now about how we get the business, the community, and the travelling public back. You have quite a few challenges to conquer before that can happen. Have you thought about how you're going to pull that one off?"

External Environment

The recent twenty-year anniversary of the Twin Towers disaster coincided with the US and its allies' withdrawal from Afghanistan (Gerson, 2021). Although the Taliban has quickly swooped back in to assume power and form government in Afghanistan, President Biden, and Prime Ministers Johnson and Morrison have hailed the US's so-called 'longest war' a success (Scarr, 2021). This, while abjured in the media (Grattan, 2021), continues while high-profile *Victoria Cross* recipient Ben Roberts-Smith, VC, MG continues to pursue defamation damages against a collection of Australian media outlets and journalists (McKinnell, 2021). That aviation catastrophe and the protracted war it catalysed continue to have far reaching consequences!

The tragic events on 11 September 2001 in New York, ushered in a new dawn of aviation security policy throughout the world (*cf.* US Government Publishing Office, 2011). In its wake, policy emphasised the role of airport ground staff in screening passengers (Sydney Airport, 2020) and justified the Australian Federal Police continuing to have a strong presence at all major airports (AFP, *n.d.*). Beyond Australia, security requirements at ports around the world have tightened (Koenig, 2021) while, at the same time, people who work at them continue to demand better conditions (Marin-Guzman, 2021).

The Australian triple-level system of government and its operation could be (and often is) described as conservative; Australians refer themselves colloquially as the 'nanny state' (Cater, 2021). Australia's States' and Territories' responses to the worldwide coronavirus pandemic has been a protracted series of lockdowns and restrictions to movement (Saul, Scott, Crabb, Majumdar, Coghlan & Hellard, 2020). Other worldly jurisdictions responded with less austerity but also accepted much higher mortality rates (Mao, 2021). The *nanny state* also loomed as the New South Wales *Independent Commission Against Corruption* (ICAC) stretched its talons and claimed the resignation of then Premier Gladys Berejiklian (Knaus, 2021).

Midst the lockdowns, which numbered 264 days in Victoria, workers were stood down, and domestic cash flows slowed. Small business owners struggled, and many were forced into administration. The Federal, State and Territory governments responded with economic stimulus packages, known as *JobSeeker* and *JobKeeper* (Knight, 2021). These were scaled back as vaccination targets were reached (Hitch, 2021). Despite the ostensible economic impact caused by the governments' response to the coronavirus pandemic—fuelled by the media cycle that emphasised the largest contraction since the 1930s (RBA, 2021a)—economic indicators for Australians remain among the strongest in the world.

The following table illustrates this clearly.

Table 1: Australian Wealth Indicators, December 2020 (ABS, 2021a)

Measure	**Estimate (AUD)**
Median Household Weekly Income	$1,844
Mean Total Household Assets (‘000)	$1,221
Mean Total Household Liabilities (‘000)	$199
Mean Household Net Wealth (‘000)	$1,022
Median Household Net Wealth (‘000)	$632

Further economic indicators show a strong position for Australia. The Reserve Bank of Australia (RBA) is maintaining the official cash rate at 0.1%, with inflation at 3.8% for the June 2021 quarter (RBA, 2021b). Additionally, wage rates grew 1.7% and households were saving at a rate of 9.7% of their incomes (RBA, 2021b). Indeed, when compared to the same quarter *before* the arrival of the coronavirus pandemic, Australian economic indicators have been very, very strong.

The following table illustrates the national economic indicators.

Table 2: Australian Economic Indicators, June 2019 v. June 2021 (RBA, 2021a)

	June 2019	**June 2021**
Cash Rate	1.25%	0.1%
GDP Growth	1.6%	9.6%
Inflation	1.6%	3.8%
Unemployment Rate	5.2%	4.9%
Employment Growth	2.2%	6.4%
Wage Growth	2.3%	1.7%
Average Weekly Earnings	$1,257	$1,306
Household Saving Ratio	3.7%	9.7%
AUD : USD	$0.69	$0.76
Population	25.4 million	25.7 million
Average Dwelling Price	$649,000	$836,000
Household Income : Debt	187%	184%

Australians are known to have an egalitarian culture (Kapferer & Morris, 2003) and although officially an individualist nation with low power distance (*cf.* Hofstede, 2001), they are also known to stick together through a crisis (Brent, 2020). The imposed lockdowns forced Australian families to juggle between schooling, working, and leisure time all spent at home. Mandatory masks while outside, and a new term 'social distancing' grew into the lexicon as Australians became more familiar with their Premiers, who presented at daily press conferences (Davis, 2021). In the same vein as celebrating its worst military defeat every year on ANZAC day, the Australian sense of humour grew to mocking its collective lockdown 'lot.' *Memes* of Victorian Premier Dan Andrews (and others) circulated through social media (Cartwright, 2021) and children's entertainer, Jimmy Rees, grew a large following as he relieved tension with his 'Meanwhile in Australia' series of video posts.

Still, the lengthy period of lockdowns eventually took their toll as the incidences of mental health and domestic violence grew (Abbott, 2021). Government television advertising featured CoViD-19 positive people gasping for breath, or otherwise gravely ill (Mogul, 2021) while the supply of vaccinations lagged the rest of the developed world. Lockdown fatigue emerged with a growing anti-vaccine sentiment, leading to violent demonstrations in Melbourne and Sydney (Jose & Duran, 2021). The media and Australian Council of Trade Unions (ACTU) falsely reported infiltration by right-wing extremist groups (Thomas, 2021), a clear deception engendered to distance them from the anarchistic protestors.

Purchases moved online in droves and the delivery infrastructure strained under the demand. People were using online shopping in place of other types of entertainment (Rajan, 2020). In non-pandemic times, Australians are sociable, hospitable, and love to travel. Now, on the cusp of ending lockdowns, people have what economists are calling 'pent-up' demand. As domestic and international borders begin to open, fostered by vaccine 'passports,' reunions with families and friends will surely reach fever pitch (Quiggin, 2021).

Advancements in automation are deployed for processing physical items, whereas 'softer' technology is used to process data, information, and media (Collier & Evans, 2021). Indeed, throughout the lockdowns, Australians used their *Netflix* subscriptions to maximum utility (Morgan, 2020). In the physical sense, touch- and swipe interfaces are the new norm and users appear to have embraced facial biometrics for authentication (Roussi, 2020). Facial recognition has been embedded in passports and surveillance (Hunt, 2017) and sophisticated detection technology is used to screen luggage, baggage, imported goods and passengers (Smiths, 2019). The major booking system used in aviation, Sabre, allows tracking of flights via mobile telephones and has allowed peripheral businesses such as vehicle hire to bundle products for the travelling public. Radio frequency identification (RFID) tags are also a maturing technology used in supply chain management (SCM) and therefore are present in ports (Deloitte The Netherlands, 2020).

Australia is a large island nation in the south-pacific, 7.692 million km2 (GA, 2021). Although it is a continental island, it accounts for less than 5% of the worlds land area (GA, 2021) and less than 1% of the world's drinkable water supply (Lehane, 2014). Because of the deserts, Australians tend to live around the coastal areas where multiculturalism and cosmopolitanism characterises metropolises (Bongiorno, 2015) and this makes Australia an attractive option for international migration (Australian Parliament, 2021). Around its perimeter, Australia boasts 182 shipping ports (Ports Australia, 2021) and there are 31 international airports of which seven are designated as 'major' (DITRDC, 2021).

The Australian Government Department of Home Affairs regulates airport security through the *Aviation Transport Security Act* (Cth, 2004) and the *Aviation Transport Security Regulations* (2005). These instruments apply to both air cargo and aviation transport and provides for specific obligations on airport operations. Among them are the obligations to demarcate specific *security zones*, to appropriately label them and to screen passengers prior to embarkment. In line with the lockdowns, criminal activity reduced significantly in the June 2021 quarter (ABS, 2021b). Unlawful entry with intent and motor vehicle theft decreased to their lowest levels in twenty-five years, whereas crimes associated with family and domestic violence-related sexual assault grew 13% on 2019 figures (ABS, 2021b.). Non-criminal legal activity in Australia focuses on ensuring market transparency (McCauley, 2018; Murtough, Pearson & Wreford, 1998).

Industry Environment

Airports act as entry and exit points for goods and people into and out of a country or other jurisdiction (e.g., States). Naturally part of national infrastructure (and typically considered 'critical infrastructure'), it is essential that airports are in strategically chosen locations. The locale will impact on the level of competition and the internal rivalry force for airports (The World Bank, 2007). For example, London Heathrow Airport, Los Angeles International Airport, and Dubai International Airport are considered major global hubs for aviation. The demand for airport services is influenced by the amount of goods entering and exiting the country. Further issues that impact on competitive rivalry include the services and capacity of nearby airports and whether they can absorb overflow in the event of demand exceeding capacity; national comparative advantages also play a role (The World Bank, 2027).

Airports are subject to government regulation. Like any piece of infrastructure, airports require government planning and sign-off, taking years—sometimes decades—in the planning (Infrastructure Victoria, 2019). For example, the new airport planned for Western Sydney has been in the planning since October 2015 (DITRDC, 2020). Infrastructure such as airports are enormous undertakings, costing several billions to develop. Still, governments such as Australia's are keen to start infrastructure projects for the employment opportunities they create (ALGA, 2021) and the tendency for governments to bolster the Australian economy by post-War economic stimulants such as infrastructure building (Daley, 2019). Once a new airport is established, there are few switching costs for customers (The World Bank, 2007).

While mobility has obvious substitutes in rail, road, and sea, the objective for travel should be examined when considering substitutes for airports. The recent global pandemic has proved that individuals flocked to videoconferencing, telephone, and other forms of electronic communication, while they were forced to stay at home (Morgan, 2020). As a result, air travel declined rapidly during the lockdown (Sydney Airport Holdings, 2020). However, for goods transport, there appears to be few alternatives beyond rail, road and sea. One alternative, thanks to the slowing growth of globalisation, is for nations to produce more goods domestically. This would reduce the need for access to airports but would be inefficient uses of national resources (cf. comparative advantage). Non-physical goods of course can bypass importation through electronic means: Basslink is an example of import and export of data and electricity that bypasses ports.

Airports act as critical infrastructure license terminal operators to run the operations (e.g., Port Authority NSW, 2018). They, in turn, have customers that include arriving aircraft, each of which make significant investment in facilities (The World Bank, 2007). Disembarking passengers enter the airport and go on their way. Cargo are unloaded and onward to freight forwarding companies (AusTrade, 2021) and both are subject to customs clearance and immigration clearance. Customs and immigration officials can legally slow the flow of passengers and goods if they suspect contraband or other illegal movement into or out of the airport. Airport operators (e.g., Qantas) could theoretically amass enough market power to effectively control the flow of goods and passengers, especially if they have a presence at multiple ports.

Airports also have a strong union presence, which can affect the flow of goods and passengers. The Transport Workers Union (TWU) have made significant demands of terminal operators in the recent past (Rourke, 2011) and strike when their demands are not met. Airports also face the threat of operator alliances, which would materialise for collective bargaining (Rourke, 2011). Terminal operators will need an ability to absorb downtime (The World Bank, 2007) and to increase capacity for higher demand times, such as the holiday season. This seasonality make ports susceptible to variation in demand.

Internal Environment

Celebrating its centenary in 2019, "Sydney Airport," which is operated by *Sydney Airport Holdings*, is considered *national critical infrastructure* (DHA, 2021). Boasting a purpose '[t]o make Sydney proud every day' (Sydney Airport Holdings, 2020, p. 12), the business raises revenue from aviation operators and non-aeronautical activities, such as retail, property and car rental, carparking and ground transport (Sydney Airport Holdings, 2020). Through this, it must maintain its 8.9 km of runways, its 74 terminals, 30,046 square metres of retail, 17,237 car parks and its other interests (IbisWorld, 2021). Guiding the attainment of its mission is a set of values (Sydney Airport Holdings, 2020, pp. 12-13):

- always do the right thing – integrity and honesty are at the heart of everything we say and do;
- have each other's [sic.] back – working at SYD is a team effort. We care. We keep each other safe and well;
- do what you say – we challenge respectfully then collaborate to get to 'yes.' We commit and deliver; and,
- think like our customers – we walk in their shoes and always strive to improve.

Among its main expenses are employees, maintaining services and utilities (e.g., carparks and runways), maintaining its portfolio of property, and security services mandated by the government (Sydney Airport Holdings, 2020, pp. 18-19). In this manner, it can be thought of as a facility with operations focused on generating revenue and maintenance.

The 2020 financial year with the Covid-19 pandemic was not kind to Sydney Airport Holdings, ravaging its revenues and decimating its profits. Passenger volumes in the March quarter were 18 per cent down and 93.4 per cent down for the remainder of the year (Sydney Airport Holdings, 2020, p. 2). In turn, revenue declined by 51 per cent to AUD $804 million and EBITDA down 62 per cent to AUD $628 million; its after tax loss for the 2020 financial year amounted to AUD $107.5 million.

In the wake of the pandemic-engendered lockdowns, Sydney Airport sought to protect its people and its business. In a rare display, it guaranteed jobs for six months from April through to September 2020 (Sydney Airport Holdings, 2020, p. 18). In committing to these imperatives, Sydney Airport remained 'Australia's Gateway', handling "the bulk of Australia's air freight" (Sydney Airport Holdings, 2020, p. 2) and half of Australia's repatriation efforts to date. Although there were significant declines in passenger movement, freight movement increased 124 per cent (Sydney Airport Holdings, 2020, p. 7).

Managing the financial impact of the pandemic, Sydney Airport raised AUD $850 million in debt and AUD $2 billion in equity (Sydney Airport Holdings, 2020, p. 2) and responded with reductions to operating costs. These initiatives combined to allow for a favourable liquidity position. The board also took the difficult decision not to pay a dividend, further strengthening the cash position (Sydney Airport Holdings, 2020, p. 3) and enabling it to maintain a 1.8 cash flow cover ratio.

It is not surprising that workplace safety incidents reduced by 43 per cent. Given that many Sydney Airport personnel were required to work from home, the safety program extended to home offices. The business rolled out safety initiatives, including walking programs and others relating to mental health (Sydney Airport Holdings, 2020, p. 3). Beyond the focus on safety, Sydney Airport also achieved a 50:50 representation of males and females on its leadership team (Sydney Airport Holdings, 2020, p. 3) and were able to close its gender pay gap to 0.2 per cent. However, more than 10,000 jobs were lost from the airport precinct, which are hoped to return as Sydney Airport and its communities recover from the pandemic, rebuild and return.

The following table illustrates the Sydney Airport Holdings financials.

Table 3: Selected Sydney Airport Holdings Financials (Intelligent Investor, 2021)

AUD $	2020	2019	2018
Revenue (million)	799.3	1,632.4	1,577.6
Operating Margin (%)	75.5	70.4	81
Net Profit After Tax (million)	-145.6	403.9	372.5
Return on Capital (%)	2	8	7
Return on Equity (%)	-9.2	0	463.9
Market Cap (million)	17,299	19,559	15,178
Cash (million)	1,075.6	625.1	476.3
Current Assets (million)	1,598.9	840.2	1,111.8
Total Assets (million)	12,853	12,632	13,054
Short-term Debt (million)	848.2	760	0
Long-term Debt (million)	8,353	9,427	10,152
Total Liabilities (million)	11,815	13,386	12,982

Sydney Airports losses were to be expected, but it nonetheless exercised strong corporate citizenry activities such as relieving retail rents and guaranteeing employee jobs. 'Sharing the pain' (Sydney Airport Holdings, 2020, pp. 26-7) is a section in the annual report that details how Sydney Airport sought to balance the impact of the economic downturn with its community partners. A rare display of corporate citizenship (Morgan, 2020), the move demonstrated the long-term orientation adopted by the board.

Conclusion

Culbert has now settled but he feels a pang of shame sweep over him for losing it in front of the old sage. Gerber gives him a wink and motions off as he goes to the newsagent. Just as that happens, Culbert's phone rings. He is filled with a grateful feeling for Gerber's council and nearly lets the call go to voicemail. Reaching into his pocket, he sees the call is from Alan Joyce, AC, the QANTAS CEO.

"G'day Alan, how are you? To what do I owe this unexpected pleasure?" Culbert is surprised at the sudden call. "Oh, stop the ceremony, Geoff, you knew this call was eventually going to come." Joyce's banter is playful and he helps to relieve some of Culbert's discomfort, sharpening him into focus.

"What do you mean, Alan?" Culbert is eager to learn what this is about. "We're going back in the air," Joyce explains. "What? When?" Culbert can hardly believe what he is hearing. "Well, that's what I'm calling you about, Geoff. We want to start ramping things up over the next couple of weeks. My sales team has been hard at it, planning big events, booking telly slots and we're going to go hard—and I mean really hard. In fact, you might have seen me on the telly this morning..." Culbert thinks hard and remembers vaguely seeing Joyce on the morning news as he darted out of the house. "Yeah, but I thought you were joking!" Culbert immediately regrets what he said.

"Hahaha, you're the joker, Geoff! Seriously, I want to know whether you guys are ready to go so we can start rolling again." Joyce, sounds like he wants to get down to business. "Alan, just give me ten minutes to get back to my desk where I have my notes and I can run you through the plan. Okay?"

At that moment, Gerber returns when Culbert shouts at him, "you'll never guess who that was!" "Alan Joyce?" Gerber quips back with a wry wink. "How did you know?" Culbert is like a young kid, having watched a magician. "Richard [Goyder] called last night and said Alan would be in touch. Now, what are we going to do?"

How and in what time frame will Sydney Airport Holdings return to full scale of operations? What are the short term, medium term and long term strategy priorities? What impact will a second airport in Sydney have on Sydney Airport Holdins Limited?

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7.

TEMPLE & WEBSTER GROUP LIMITED

By Tim O'Shannassy

Acknowledgement

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Introduction

Mr Mark Coulter, chief executive officer (CEO) of Temple & Webster Group Limited (Temple & Webster) was briefing journalists on the latest set of results: 'We've done all the modelling that suggests that if we actually go hard now, grow faster and outperform our peers, while the market is coming online...and become a dominant force in furniture and homewares retailing, then that is an optimising strategy" (Greenblat, 2022: 17). The big issue right now is – has Coulter got it right?

Temple & Webster in its 2021 first half financial year results informed the market of a 40 per cent decline in first half profit and no dividend; the positive in the results is another substantial increase in sales. Temple & Webster could be interested in the right merger and acquisition (M & A) target at the right price. However Coulter and his team have more to think about after operational pressures due to growth impacted net promoter score statistics in 2021. Temple & Webster need to stay on top of brand development and operations management as they develop shareholder value in the business.

An Uncertain Business Environment in the 2020-2022 Pandemic

The wider community and the corporate scene are increasingly aware of the importance of protecting the natural environment, this includes the use of sustainable business practices. At the Glasgow Summit in 2021 the Morrison Government committed Australia to net zero carbon emissions by 2050 (Chambers & Brown, 2022).

An Australian Federal election is due in May with economic issues likely to be front and centre of the debate – cost of living, interest rates, employment growth and rising wages (Dusevic, 2022), while the Western Australian border remains closed and international travel to the east coast is starting to grow.

Global inflationary pressures are starting to strengthen, especially in the United States, due to international supply chain disruptions related to the Covid-19 pandemic (Dusevic, 2022). The Reserve Bank of Australia (RBA) expects the rate of inflation to settle in the two to three per cent target band later in 2022. Commonwealth Bank of Australia foresee a cash rate peak of 1.25 per cent compared with Westpac's 1.75 per cent around March 2024 (Dusevic, 2022).

During the most difficult moments of the Covid-19 pandemic in Australia State Governments held lockdowns of varying length to limit citizen movement, reducing the rate of Covid-19 infection and saving lives. The Federal Government stepped up with Jobkeeper payments to help businesses and individuals through these difficult days (Frydenberg & Corrman, 2020). Hotel quarantine was used to facilitate international and interstate travel. Australia now has a strong national vaccination rate and all states except Western Australia have opened their borders. The omicron variant has resulted in high rates of community infection but it is less likely to lead to hospitalisation or death compared with earlier variants; however the emergence of omicron has led to a 'shadow lockdown' with many in the community quite conservative in their day to day movement and activity as they seek to avoid infection. This is impacting small businesses in sectors such as bricks and mortar retail.

There is a strong push in the international and Australian corporate scene for businesses to not only be working for shareholders but also to be having a social impact in areas such as indigenous reconciliation, helping the homeless, protecting woman and children from domestic violence, and more.

There is a structural shift at play in the retail market as consumers shift from bricks and mortar retail to online retail – and this is particularly suited to furniture and homewares (Greenblat, 2022). The availability of the Android and Apple operating systems, plus the use of artificial intelligence are all useful technological tools digital entrepreneurs can put to use (Temple & Webster, 2021).

A range of legal issues impact stock exchange listed retail industry operators in Australian. There are serious consequences for Australian corporates for breaches of any of the relevant Acts that apply to a business setting. In Australia the Competition and Consumer Act 2010 sets out competition and fair trading law, and provides protection to consumers. The Corporations Act 2001 articulates laws applicable to corporations including director's duties. The Australian Securities and Investment Commission, and the Australian Prudential Authority oversee the Australian Stock Exchange, merger and acquisition activity between corporates, and the financial services scene. Foreign investment in Australia is overseen by the Australian Foreign Investment Review Board while trade practices are overseen by the Australian Competition and Consumer Commission. The current Australian company tax rate is 30% compared with the United States at 21%.

Retail Industry Trends

Government enforced Covid-19 lockdowns in 2020 and 2021 meant that consumer discretionary spending moved from the travel category to furniture and homewares. There has been a stronger move in retail away from traditional bricks and mortar to online by shoppers in recent years, this has been accelerated by the Covid-19 pandemic. The furniture and homewares market in Australia is worth A$16 billion annually and only 10 per cent of this spend is online (Temple & Webster, 2021). This is well behind the United States market with up to 25 per cent online market penetration and this looks to be increasing; this will be driven by millennials entering their core furniture and homewares buying phase of their lifecycle (Temple & Webster, 2021).

There is strong and intense rivalry on the Australian retail scene, both online and in traditional bricks and mortar. Great rivals include Bunnings, Harvey Norman, Premier Investments Limited, Nick Scali Limited, Adairs Limited, King Living, Space Furniture and more. To get an idea of comparative financial strength Harvey Norman stock market capitalisation is A$6.63 billion, Nick Scali Limited A$1.06 billion, Adairs Limited A$531.5 million, compared with Temple & Webster A$988.92 million (Australian Stock Exchange, 2022).

Suppliers in the retail industry tend to be located in clusters in emerging economies. A low level of differentiation between factories leads them to seek endorsement from prominent brand retailers (e.g., Gap) to build new business. As emerging economies become more developed costs increase, resulting in this low cost manufacturing activity shifting to even less developed economic locations such as Bangladesh and Pakistan (Obe, 2019).

A further issue for supplier power is the use of transparency indices exposing ethical sourcing standards in developed and developing countries. What this does is impose western ideals on developing country locations where bribery, graft and child labour practices can occur. This can be of great concern to businesses seeking to implement an ethical sourcing program (Kim, Colicchia & Menchof, 2016)

In retail small entrants regularly emerge, however larger footprint brands rarely enter the market unless they have substantial capital backing them. Distribution and rental costs for retailers in Australia is expensive and during the pandemic consumers were spending frugally on traditional retail. The ongoing threat of well informed, physically mobile and digitally savvy consumers also makes it tough for small retailers to establish themselves. In many shopping strips around Melbourne and Sydney smaller retailers have been closing their doors, evidenced by the numbers of empty shop fronts in Chapel Street Prahran.

There are few true substitutes for retail shopping; online retailing is not a substitute as it is the digital transition of the retail experience; new entries might find ways to make their brand and/or products popular. Different payment modes and other finance options may make the retail experience and the act of purchasing more appealing to consumers.

Temple & Webster Group Limited Strategic Situation

Strategy

CEO Mark Coulter articulates the Temple & Webster (2021: 9) clear and simple strategy:

> We want to have the biggest and best range – having everything you need for the home. Importantly, the "best" bit of this means we won't list everything. We want to be seen as a place for quality, at an affordable price; we want to be a source of inspiration and the place customers go to when they want to make their home more beautiful; and we want to create a seamless

customer experience when shopping, including our customer's experience of the delivery to their home.

Currently the focus for Temple & Webster is sales growth, building brand understanding and recognition, and developing the customer base (Greenblat, 2022). Temple & Webster are expecting synergies to come from building close relationships with suppliers, developing exclusive product ranges, investing in technology and data, and growing logistics capability. The Temple & Webster customer proposition will improve with the achievement of economies of scale (Temple & Webster, 2021).

Key Stakeholders

Corporate headquarters is located in Sydney and has hundreds of suppliers. The directors of Temple & Webster are Chairperson Stephen Heath, Susan Thomas, Conrad Yiu, CEO Mark Coulter and Belinda Rowe. Mr Coulter and Mr Yiu are co-founders of the business and the largest shareholders on the board. It is the view of the board that employees are the most important stakeholders.

Functional Level

Temple & Webster are keen to develop a sustainable business outperforming the furniture and homewares online category

(Temple & Webster, 2021). The brand marketing team has been grown and early forays into television advertising have been successful. Brand awareness is 61 per cent (Greenblat, 2021)

The customer is the focus of all Temple & Webster do: "Our vision is to make the world more beautiful, one room at a time" (Temple & Webster, 2021: 11). There is a strong focus on sales growth and improving the net promoter score which is currently 62 per cent but did recently fluctuate to below 55% due to pressures in third party logistics and the internal customer service capability (refer Figure 1 below). Business to business revenue is up 110 per cent in 2021, and 'Private Label' is a strategic focus. Active customers – unique customer who completed a transaction in the past 12 months is 62 per cent. Successful investment in technology will enhance the probability of future success.

In 2021 there was a 12 per cent increase in annual revenue per active customer which is now valued at A$425 and this metric has improved steadily since 2018 (Temple & Webster, 2021).

Operations pressures in the autumn, winter and spring months of 2021 resulted in a worrying drop in this net promoter score in the second and third quarter of 2021. The executive team and management reacted well increasing capacity to now five warehouse locations, improving internal customer service and logistics partner processes and systems to allow more effective scaling of the business (Greenblat, 2022).

Temple & Webster do not wish to have their own warehouses and trucks but are looking for ways to gain greater control of these activities to ensure a favourable customer experience (Temple & Webster, 2021).

Temple & Webster gather a tremendous quantity of retail data and use this insight to inform purchasing, inventory management and pricing (Greenblat, 2022). The business maintains a very low level of aged stock. Manufacturing has now been geographically diversified away from China (Temple & Webster, 2021).

Given the core business is online retail customer data and privacy is a critical success factor on platforms that are scalable and secure. The ISO 27001 standard has been adopted as the cyber security framework. A Cyber Security Officer has been appointed at Temple & Webster and industry experts are regularly called in to provide independent audits on policies, processes and platforms (Temple & Webster, 2021).

Temple & Webster are proud of their relatively small but engaged workforce being in the top quartile of technology businesses in Australia with an 84 per cent employee engagement score. All up 51 per cent of managers are female and 44 per cent of the executive are female; 95 per cent of the workforce is proud to work for Temple & Webster (Temple & Webster, 2021).

Temple & Webster have the priority of achieving market leading shareholder returns; total shareholder returns are up 7,607 per cent over a five year period, 1,320 per cent over the medium (three year) term, and 71 per cent in the past financial year (Temple & Webster, 2021). The balance sheet has no debt with cash and cash equivalents held totalling A$97.5 million (2020 A$38.08 million). Table 1 and Table 2 below set out summary financial data.

Table 1: Temple & Webster Limited Financial Summary Financial Years 2020-2021 (Temple & Webster Limited Annual Report, 2021)

	2020 (A$'000)	2021 (A$'000)	+ or -% Change
Balance Sheet Highlights			
Total assets	67,309	148,346	+120.4%
Inventories	6,619	21,341	
Intangible assets	7,859	8,091	
Total liabilities	37,325	64,342	+72.4%
Current interest bearing liabilities	0	0	
Current lease liabilities	504	1,965	
Current derivative financial liabilities	0	0	
Non—current interest-bearing liabilities	0	0	
Non-current lease liabilities	885	5,098	
Total equity	29,984	84,004	+180.2%
Profit and Loss Highlights			
Revenue			
Revenue from contracts with customers	176,342	326,344	+85.1%
Cost of goods sold	(97,721)	(178,348)	
Gross margin	78,621	147,996	
Profit before taxation	8,017	19,160	

	2020 (A$'000)	2021 (A$'000)	+ or -% Change
Income taxation credit/(expense)	5,892	(5,207)	
Profit after taxation	13,909	13,953	
Net tangible assets per share	12.28 cents	11.60 cents	

Table 2 Temple & Webster Group Limited Cash Flows Summary Financial Years 2020-2021

(Temple & Webster Group Limited Annual Report, 2021)

Cash Flows	**2020**	**2021**	**+ or – % Change**
Net cash flows from operating activities	25,503	24,506	
Net cash flow from investing activities	(570)	(2,446)	
Net cash flow from financing activities	(390)	37,362	
Increase in cash and cash equivalents	24,543	59,422	
Cash and cash equivalents beginning of the year	13,539	38,082	
Cash and cash equivalents end of year	**38,082**	**97,504**	+156%

The Future Strategy Challenge

CEO Coulter and the board of directors have a range of considerations. Has Temple & Webster optimised its strategy raising capital while cash flow positive, going debt free and not paying a divided to shareholders in 2021? What should be the brand development plan? Is Temple & Webster on top of operations management? Should they go deeper into logistics and customer delivery? Should Temple & Webster be leveraging its strong balance sheet growth and pushing harder for growth by gearing up? Is there a suitable merger and acquisition prospect out there for Temple & Webster? What would be the characteristics of a suitable merger and acquisition prospect?

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8.

CYCLONE METALS LIMITED 2022 – THE CHALLENGES OF MINING, EXPLORATION, FINANCE AND POLITICS

By Tim O'Shannassy and Justin Pierce

Acknowledgement

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Background

Mining, entertainment and sport entrepreneur and Cyclone Metals Limited Executive Director Tony Sage has a successful track record in scouring the globe for distressed mining assets, improving those assets and then selling them for a profit.

Sage has more than 30 years of experience in corporate advisory, capital raising and funds management. His career highlights include the sale of the "Cape Lambert" magnetite project to Metallurgical Corp of China for $400 million. Cape Lambert Resources Limited changed its name to Cyclone Metals Limited in October 2020 (Cape Lambert Resources Limited, 2020). He is the owner of Perth Glory in the A-League (Ker and Spooner, 2012).

Sage's business interests include a number of stock exchange listed and private companies with many of these companies holding stakes in each other (Ker and Spooner, 2012). Cyclone Metals Limited, formerly Cape Lambert Limited, could be Sage's next big mining industry play – or it may go into administration if its balance sheet and liquidity problems are not resolved. The situation is delicately poised evidenced by problems in Sierra Leone mine exploration and development, a plummeting share price, problems with the Australian Stock Exchange (ASX), and a share price well off its peak in the AU$0.60 cents range in 2011 (ASX, 2021).

Fluctuations in share price are a common occurrence with exploratory mining companies, with share prices soaring on good news and sinking on bad news. There are many exploratory mining companies on the ASX with some enjoying success and becoming the next big thing in Australian industry, and many falling by the wayside. This highlights the importance for mine explorers of locating quality mining projects, establishing project finance (debt and/or equity), establishing mining operations and generating core cash flow from operations to underpin the firm share price and provide a return to financiers.

Cyclone Metals Limited now has interests in exploration and mining companies with exposure to gold, iron ore, rare earths, uranium, copper, lithium, lead, silver and zinc in Australia and offshore in Africa, South America and Europe. The future of Cyclone Metals Limited is delicately poised after its recent trading reinstatement on the ASX 3 August 2021 (Cyclone Metals Limited, 2021a). What will be Sage's next strategy moves?

An Uncertain Business Environment

The global coronavirus pandemic brought with it fresh political tensions to an already colourful national agenda. Where Australia had, for a time, been viewed as politically unstable with its frequent changes in Prime Ministers (Perrigo, 2018), the Federal and State governments' responses to the coronavirus pandemic polarised the political divide further than it already was (Gao, 2021; Molloy, 2018). State Premiers attempted to dodge criticism by pointing fingers at the Federal government (Kenny, 2021), which languished in the throes of its own sexual abuse scandals (Mao, 2021). Initially, Prime Minister Scott Morrison and Health Minister Greg Hunt secured the rights to locally manufacture the AstraZeneca vaccine (Dalzell, 2020), which quickly fell out of vogue with a flurry of media-fuelled misinformation, hysteria and panic surrounding blood-clotting concerns (Hull, 2021).

Meanwhile, State government-enforced lockdowns and other restrictions to personal freedoms constrained economic activity. Large businesses were able to absorb the downturn whereas small-tomedium enterprises (SMEs)—particularly those in hospitality and entertainment—faced the unenviable decision to close and to furlough employees (Weber, 2020; Speers, 2021). Consequently, many Australians were without work, leaning on the Australian government's *JobKeeper* and *JobSeeker* economic stimuli (Coates & Nolan, 2020). Despite the initial economic shock and media flurry, Australian economic indicators remain among the strongest in the Western world. Table 1 below illustrates the major economic indicators as of November 2021.

Table 1: Australia's Major Economic Indicators – November 2021 (Reserve Bank of Australia, 2021)

Indicator	December 2021 Measure
Cash Rate	0.1%
Economic Growth	9.6%
Inflation	3.0%
Unemployment	4.6%
Employment Growth	2.4%
Wage Growth	1.7%
Household Saving Ratio	9.7%
Average Weekly Earnings	$1,305.80
Net Foreign Liabilities / GDP	44.5%
AUD / USD	$0.74

Australia's great *toll poppy syndrome* (Shapiro, 2021) grew out of its egalitarianism, but it is not a predisposition unique to Australia. Through their egalitarianism Australians demand and pay equal respect to everyone, and there are no castes; if you are waiting in line and the Prime Minister comes along, he or she cannot push in front of you! Australians also cannot stand a *bludger*, defined as a lazy person in work (Australian National University, 2017), which is a testament to the Australian work ethic. With these broad characteristics, Australians reacted to imposed lockdowns with these aspects to emerge as one of the most resilient people—especially Victorians, who endured a total of 267 days locked down

(Boaz, 2021). Lockdowns fundamentally changed the fabric of our society with homeschooling, working-from-home, and home-cooking becoming widespread trends (Australian Bureau of Statistics, 2021).

Automation, artificial intelligence, machine learning and the Internet of things continue to dominate advances in technology both in terms of development and adoption (Eckert, Loop, Berlin, Strott, Wendin, Bissell, Open & Lasko, 2017). These are at the *cutting edge* of technological endeavour and engender a sense that the *singularity* is coming (Pandya, 2019). The proliferation of social media has irreversibly penetrated the social fabric, but this tethering is a social concern rather than a technological one (Schroeder, 2016; Hurley, 2019). These technologies are built on top of swipe interfaces, advances in the miniaturisation and digitisation of cameras, and steady increases in data transfer speeds (Bogea & Zamith Brito, 2018). With these advancements, however, come increasing threats to information security (Pierce, Jones & Warren, 2006) and firms in all industries must be on guard against these threats.

Australia's land mass is 7.692 million km2, accounting for less than 5% of the world's land area and is rich in natural resources (Geoscience Australia, 2021). Considered to engender a 'harsh' environment, Australia weathers extremes of nature, enduring heat comparable to the Sahara and cold comparable to the UK (cf. Richards, 2016; McCarthy, 2016). The deserts that consume most of Australia's land base push inhabitation toward coastal areas, where multiculturalism and cosmopolitanism abound (Bongiorno, 2015). Australia's little rainfall results in drought, which propels water conservation efforts, and soil salinity and acidification are ongoing concerns for agriculture producers (State of the Environment, 2016). The Indian Ocean dipole, and El-Niño and La-Niña Southern Oscillations buoy periods of cyclonic activity in the tropics and, when combined with the *Roaring 40s*—that squeeze air between Antarctica and Argentina—make southern Australia feel as cold as Norway (Department of Agriculture, Water and the Environment, 2019).

A constitutional monarchy, Australia is headed by HM Queen Elizabeth, II, whose executive powers are largely ceremonial and delegated to the Governor-General. Australia is also a federation of states, which means that legal power is distributed according to the Constitution. The High Court is the highest power, effectively meaning the regent's role is purely ceremonial (Parliament of Australia, n.d.). Since the 1970s, Australia has set about increasing the role of the free market and its policy and legal environment focuses on ensuring the liberalisation of markets. It means that non-criminal legal activity in Australia tends to focus on consumer protection (Murtough, Pearson & Wreford, 1998).

The Industry Context

The Australian mining industry is capital intensive with world class rivals that include Rio Tinto Limited, BHP Group Limited, Fortescue Metals Group Limited, Hancock Prospecting Pty Ltd all investing significantly and delivering strong financial results. Vale SA has the scale of iron ore operations to be a viable competitor. Notable on the ASX are a number of smaller more speculative mining stocks such as Cyclone Metals Limited and Cauldron Energy Limited which are a characteristic of the Australian economy.

To continue to operate in the industry requires licenses, investments in safety and, of course, a trained and competent workforce, which is heavily unionised. Many of the great industry competitors have been buoyed by share capital and a track record of strong cash flow generation facilitating regular dividends (Fortescue Metals Limited, 2019).

Traditionally, China was the world's largest iron ore customer and because of its enormous production of iron ore, Australia's largest trading partner as a result. There are other nations that have natural resources (e.g., Africa, South American countries) but a limited number of producers that each have significant market power and a financial system and supporting government agencies that will facilitate development. However, iron ore and other natural resources are *commodities*, which means that buyers must pay the 'market price.' China's interest in iron ore resources in Africa has led some Australian miners to take an interest in countries including Sierra Leone and Guinea though this does come with political and legal risk associated with corruption, war, and human rights (Ker, 2021).

Suppliers to the Australian mining industry are connected to the local communities in which incumbents operate. For example, the Olympic Dam mine in South Australia was set up by BHP Limited, and includes infrastructure owned by BHP Limited but serviced by a number of subcontractors. The labour for these mines is unionised but highly skilled, operating in a fly-in-fly-out mode. It means the locations are often undesirable living locations and must include suitable infrastructure including grocery, medical, beauty, fitness, and other amenities (Fortescue Metals Limited, 2019).

Natural resources such as iron ore, aluminium, copper, and even petrochemicals are very difficult to substitute. These materials are used in construction, technology, automobiles, and many other products needed by modern civilisation. A substitute material being trialled in automobiles is carbon fibre, which, apart from being much lighter than steel, is proving to be much stronger and easier to work with in its production (Aston Martin Lagonda Global Holdings plc, 2021).

Critical success factors required for survival in the mining industry include exploration, mining services, workforce, community engagement, occupational health and safety, transport, transport technology, network alliances, distribution channels, mining engineering, and research and development.

Challenges Mount for Cyclone Metals Limited

Tony Sage the Executive Director at Cyclone Metals Limited has made a fortune taking a financial interest in underperforming mining assets, improving the value of those assets, and selling for a profit. He is supported by two non-executive directors and Company Secretary Melissa Chapman.

Cyclone Metals Limited Group Structure is provided in Figure 1 below (Cyclone Metals Limited, 2021, p3.). Cyclone Metals Limited has a range of exploration projects and investments in listed and unlisted entities, with three exploration projects on the Australian mainland and one in Sierra Leone. The investor relations web sites of listed entities Fe Limited, Cauldron Energy Limited and European Lithium Limited can be viewed on their respective web sites.

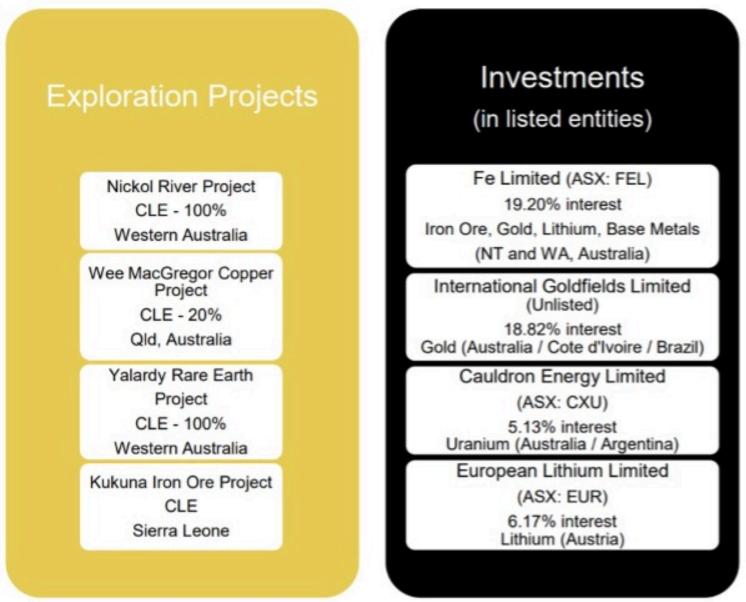

Figure 1: Cyclone Metals Limited Group Structure (Cyclone Metals Limited, 2021a, p3.). Copyright Cyclone Metals Limited. Used with permission.

The Nickol River Project preliminary data report shows several areas of interest that will benefit from test pits to better understand the geology. A Program of Work is in development looking at bedrock structures and alluvial/eluvial gold (Cyclone Metals Limited, 2021b).

The Yalardy Rare Earth Project near Shark Bay in Western Australia is showing potential for a buried diatreme with potential of a number of rare earth possibilities. Further works will be undertaken to better understand prospects (Cyclone Metals Limited, 2021a).

Cyclone Metals Limited wholly owned subsidiary Mining

International Pty Ltd (Mining International) holds four mining leases covering 5.3 km2 at the Wee MacGregor Project 40 km southeast of Mount Isa, Queensland. These tenements located in the Kalkadoon Leichhardt Belt have potential for deposits in copper and gold. Cohiba Minerals Limited enjoys a Farm-in agreement with Mining International Pty Ltd for three mining licences here – ML 2540, ML 2773 and ML90098 (Cyclone Metals Limited, 2021a).

There is tremendous demand for iron ore globally, and also demand for other metals such as copper and commodities including diamonds. Countries including China are interested in geographically diversifying their iron ore supply chain away from Australia and showing particular interest in the African continent and South America.

The Cyclone Metals Limited foray into Sierra Leone has not gone well, with the business experiencing some difficult moments (Cape Lambert Resources Limited, 2020).

Cyclone Metals Limited have an interest in the Marampa Project in Sierra Leone, West Africa. The mine which is in the development stage is situated 90 kilometres (km) from the capital, largest city and major Atlantic Ocean port Freetown. The mining licence granted in 2014 (ML05/2014) covers 97.04 km2 and the exploration licence (EL46A/2011) covers 145.86 km2. Cyclone Metals Limited has spent US$62.7 million on exploration and development (Cyclone Metals Limited). In September 2018 the Sierra Leone Government formally advised Marampa Iron Ore (SL) Limited of the cancellation of the mining licence. Marampa Iron Ore (SL) Limited is a wholly owned subsidiary of Cyclone Metals Limited. Subsequently Marampa Iron Ore (SL) Limited commenced legal action against the SLMOM but has subsequently decided to place this legal action on hold. Marampa Iron Ore (SL) Limited does not currently hold tenure over ML05/2014 (Cape Lambert Resources Limited, 2020). Dialogue continues with SLMOM in relation to reinstatement of licence ML05/2014 and Cyclone Metals Limited remains committed to development of the project. The status of the exploratory licence EL46A/2011 also remains in question with no update provided by the SLMOM. Marampa SL has not paid renewal fees of the exploratory licence since 2017. Due to these ongoing uncertainties the value of the Marampa Project was fully impaired in the accounts dated 30 June 2016, and the value of these assets remain fully impaired. Cyclone Metals Limited are currently committing minimum expenditure on the Marampa Project (Cape Lambert Resources Limited, 2020).

Cyclone Metals Limited also has an interest in the Kukuna Project with an exploratory licence covering 68 km2. The licence area is 120 km northeast of Freetown and 70 km north of Marampa. This project is under care and maintenance (Cape Lambert Resources Limited, 2020).

The project difficulties and then the financial impairment on the Marampa Project were critical moments for Cyclone Metals Limited with the share price on the ASX subsequently plummeting. Further difficulties led to the moment in October 2020 when the company's shares were delisted from the ASX, but in August 2021 they were reinstated after releasing a full form prospectus (Cyclone Metals Limited, 2021a). In September 2021 245,000,000 shares were issued at a price of AU$0.005 per share raising AU$1,225,000. These funds have been directed to the Nickol River Project (Cyclone Metals Limited, 2021a).

Cyclone Metals Limited has further interests on the African continent in the Democratic Republic of Congo with the Kipushi Cobalt Copper Tailings Project which comprises a tailing dam at PE12347 and the Kipushi Processing Plant at mining licence PE481 (Kipushi Project) (Cape Lambert Resources Limited, 2019). The Kipushi Project is 25 km from the Democratic Republic of Congo's second largest city Lubumbashi. Cyclone Metals Limited engaged in a 50/50 joint venture with Paragon Mining SARL (Paragon) to develop the Kipushi Project with La Patience SPRL (Patience). However this project was unable to receive project funding and the joint venture agreement with Paragon is now terminated (Cape Lambert Resources Limited, 2020).

Table 2 below evidences the weak financial position of Cyclone Metals Limited with a particularly poor net equity position. The major portion of financial debt is current, which may be a cause for concern.

Table 2 : Cyclone Metals Limited Summary Financial Highlights (Cape Lambert Resources Limited, 2020)

Balance Sheet Highlights	**2019 $**	**2020 $**	**% Change**
Total Current Assets	447,218	544,027	
Total Non-Current Assets	7,204.352	6,019,543	
Total Assets	**7,651,570**	**6,563,570**	-14%
Total Current Liabilities	7,067,496	6,767,491	
Total Non-Current Liabilities	3,551,627	1,370,504	
Total Liabilities	**10,619,123**	**8,137,995**	-23%
Net Liabilities	**(2,967,553)**	**(1,574,425)**	47%
Equity	**(2,967,553)**	**(1,574,425)**	47%
Financial Debt			
Convertible note (current)	459,737	206,773	
Convertible note (non-current)	–	69,343	
Short term loan payable	733,001	2,200,000	
Long term loan payable	689,734	–	
Profit and Loss Statement Highlights			
Revenue items:			
Revenue	278,746	324,910	

Gain on extinguishment of liability	–	787,568	
Other income	79,316	2,522,638	
Notable expense items:			
Finance expenses	(132,949)	(1,673,840)	
Impairment of investment in associate	(718,723)	(2,991,912)	
Impairment/reversal of impairment in joint venture	(3,383,317)	57,849	
Share of net profits/(losses) of associates accounted for using the equity method	(919,462)	1,430,813	
Share of net losses of joint venture accounted for using the equity method	(1,006,302)	–	
Net loss for the year	**(6,549,163)**	**(1,534,482)**	77%
Basic loss per share (cents per share)	(0.64)	(0.13)	

Cyclone Metals Limited reported another though smaller financial loss in 2020 compared with the previous year; finance expenses jumped significantly in 2020. These overall poor financial results are reflected in the weak share price.

The Future Strategy for Cyclone Metals Limited

There are complex international strategy matters at play here for Cyclone Metals Limited, with a range of onshore Australian projects, strategic shareholdings in other ASX listed miners, and very sensitive negotiations with the Sierra Leone Government ongoing. The industry context is fast evolving with China's appetite for iron ore a potential rich source of cash flow for mining companies with access to the right mine tenements in the right countries and the resources for development. Cyclone Metals Limited financial situation is precarious. Sage needs a win!

There are a range of strategy issues and challenges for Sage to consider. Which subsidiary and/or which project should benefit from the available equity and debt finance? How can Cyclone Metals Limited strengthen its financial position? Which project will be Cyclone Metals Limited next success? Does Cyclone Metals Limited have the available time and resources to develop the next successful mining venture? What is Cyclone Metals Limited's interest in helping indigenous communities and indigenous opportunity? Should Cyclone Metals Limited focus its attention on exploration and development of Australian mine resources only? What value are these strategic shareholdings in other listed Australian miners? Should Cyclone Metals Limited continue to do business in Sierra Leone? Should Cyclone Metals continue to do business in the Democratic Republic of Congo? Which are the highest priority issues needing attention in the next one to two years?

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BANK OF QUEENSLAND: SUSTAINING A UNIQUE POINT OF DIFFERENTIATION IN A CHANGING WORLD

By Tim O'Shannassy

Acknowledgement

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Introduction

Bank of Queensland Limited (BOQ) is one of the leading regional banks in Australia with over 160 owner-manager run branches, A$56.5 billion in customer deposits and A$75.7 billion in gross loans and advances (Bank of Queensland, 2021a). The banking industry in Australia is particularly strong with big rivals including Sydney-based Commonwealth Bank of Australia and Westpac Banking Corporation, and Melbourne-based National Australia Bank and ANZ Banking Group Limited having a strong weighting of approximately 25 per cent on the Australian Stock Exchange (ASX) (Neiron, 2017).

A unique point of differentiation for BOQ is the staff in the local branches taking time to get to know their customers and identifying the services they need – building partnerships with customers. BOQ offers a range of products and services to its 1.5 million retail and business customers and are noted in the market for their straight-forward banking products.

There are four key BOQ brands – BOQ, ME Bank, BOQ Finance, Virgin Money Australia, BOQ Business, BOQ Specialist (Bank of Queensland, 2021a). BOQ with 163 branches of which 103 are owner-managed is the retail banking arm the Group. ME Bank provides a range of banking products using direct channels, mobile bankers and brokers – this business acquired in July 2021 is branchless. BOQ Business looks after small and medium size enterprises (SMEs), and corporate banking for industries including property, healthcare and retirement, property finance, hospitality and leisure. BOQ Business also supports the owner-manager branch network. BOQ Finance operates in Australia and New Zealand specialising in leasing solutions and asset finance. BOQ Specialist is a provider of banking services to professionals in select industries including veterinary, medical and dental; this business was acquired from Investec Bank (Australia) Limited (Bank of Queensland, 2021a).

BOQ has evidenced an appetite for merger and acquisition (M & A) activity in recent years and in 2021 delivered A$369 million (2020 A$115 million) in statutory profit or A$412 million (2020 A$225 million) in cash earnings. Cash earnings per ordinary share was 74.7 cents (2020 49.6 cents) and dividends per ordinary share 39 cents (2020 12 cents) (Bank of Queensland, 2021a). There are highly competitive industry conditions in banking and finance with regional banks including Bendigo & Adelaide Bank, Regional Australia Bank, Suncorp Bank, Huma Bank and more.

BOQ have had a pleasing set of results in 2021, but faces several challenges looking to the future (Bank of Queensland, 2021b). The "big four" banks dominate the Australian business scene, competition for the business banking and retail customer is intense, and interest rates are likely to rise following the Covid-19 pandemic supply chain challenges and now the war in Ukraine.

Dramatic Shifts in the External Environment

The invasion of Ukraine by Russia has been a big political and economic game changer for all countries with potentially big geopolitical, commodity and economic impacts. This is on top of the effects of the Covid-19 pandemic from 2020, 2021 and now into 2022 with the Omicron variants.

European Union countries are seriously considering their disposition to defence of their own borders (Williams, 2022). Countries including Germany, long a country with a low defence budget, has now committed to significant increases in defence spending.

The invasion of Ukraine by Russia has impacted key commodity markets with price increases seen across a range of key raw materials including coal, liquid natural gas (LNG) and oil. These price increases have not been seen since the oil price shocks of 1974 (Williams, 2022). This trend plus inflationary pressures already brought on by Covid-19's impact on supply chains, housing, manufacturing and food production creates a whole scenario where there is a risk of a period of higher inflationary pressure with implications for interest rate settings by central banks. higher interest rate settings which can be a handbrake on economic growth (Gunnion & Samadder, 2021). S & P Global expects inflation in Australia to be 3.9 per cent in 2022 – an upgrade of 1.1 per cent on their previous forecast for this year and 0.75 per cent higher than the Reserve Bank of Australia (RBA) is forecasting (Wright, 2022). Higher interest rate settings can be a handbrake on economic growth (Gunnion & Samadder, 2021). According to S & P Global Australian GDP is forecast to be 3.6 per cent in 2022 and then 2.6 per cent in 2023 and 2.2 per cent in 2024 (Wright, 2022).

This background is contributing to a strong trend of refinancing of home loans in the Australian mortgage market in a bid by householders to get the best interest rate on their home loan now (Gluyas, 2022). Home loan borrowers are looking not just at their interest rate – with variable rates as low as 2.2 per cent compared with fixed rates now at 3.5 per cent – but also at their relationship with their lender, including if they have the right lender (Gluyas, 2022).

Millennials and youthful customers expect their experience with service providers in industries such as banking and finance as well as education to match their consumer experience on social media (Yeates, 2021). Millennial and youthful customers consumer behaviour is also different to their more loyal parents – they are prepared shop around for a better deal and change their banking and finance service providers.

Covid-19 has also pushed along the embrace of digital banking; this has put at risk the financial viability of bank branches in regional locations such as those serviced by BOQ (Lynch, 2021).

The technology scene continues to evolve and this is having an effect on the banking and finance industry. Cyber-attacks are occurring more frequently on financial institutions. Well designed and implemented online platforms and technology systems can give an edge in relation to the customer experience as well as internal control and audit (Yeates, 2021).

The "big four" banks have a strong influence on the ASX and within the Australian and New Zealand economies, however the "four pillars policy" is a formal policy preference of politicians and not regulation (Ellis, 2016). There remains a viable role for capable regional players such as BOQ and Bendigo & Adelaide Bank.

The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investment Commission (ASIC) oversee the Australian financial scene, M & A activity and the ASX. Trade Practices are overseen by the Australian Competition and Consumer Commission. The Australian company tax rate is comparatively high at 30 per cent – the United States is at 21 per cent.

Corporate social responsibility, carbon emissions and climate change challenges are an increasing priority for Australian corporations (Gluyas, 2020). The Morrison Government committed Australia to a target of net zero carbon emissions by 2050 at the 2021 Glasgow Summit (Chambers & Brown, 2022).

Banking Industry Conditions

The banking and finance industry recipe for success is asset growth in loans and deposits, cost control, credit quality, better technology and better margins than rivals. Technology including the customer experience with technology is important to particular market segments (e.g. millennials); effective and efficient facilitation of customer service by employees at the customer interface can also assist cost control, credit quality and margins.

Suppliers to the banking and finance industry include systems engineers, software developers, real estate valuers, brand valuers, human resource contractors, management consultants, providers of accounting services and providers of legal services. The "big four" due to their scale have an advantage in negotiating access and pricing to the best providers of these products and/or services.

Different market segments (e.g. institutional banking, business banking, retail) and segments within these market segments (e.g. mining, agribusiness, property) have differing buyer power. Generation Z and millennial customers are more prepared to scan the marketplace and change their bank – including their home mortgage – compared to their parent's generation who were more brand loyal. Younger customers have bigger expectations of their online experience compared with their parent's generation and institutions such as Commonwealth Bank of Australia and National Australia

Bank are investing heavily in this area to deliver on this expectation (Yeates, 2021).

Innovative philosophies on banking and finance are having an impact; this is the area of the Australian neobanks such as Douugh, Revolut, Volt and others; the threat of new innovative entrants is real.

Blockchain technology is in the early stages of its development (Pollock, 2019). Bitcoin is another area to watch with the United States Government and Australian Government taking a broad and keen interest in the future of payments. Senior RBA researchers have observed that central bank digital currencies, stablecoins and cryptocurrencies are all evolving at present and are a high priority for more policy work at the RBA (Richards, 2021). The "buy now pay later" (BNPL) trend is another area of the banking and finance industry to watch; Afterpay has had a real consumer impact and achieved significant stock market valuation.

The banking and finance industry is characterised by strong rivalry with the "big four" banks alone comprising 25 per cent of the market capitalisation of the ASX Top 200 (Neiron, 2017). There are also capable regional players including AMP, BOQ, Bendigo & Adelaide Bank, Suncorp Bank and others servicing the Australian market. Regional players like BOQ cannot hope to match the breadth of branch network of a "big four" bank operating in Australia and New Zealand – for example National Australia Bank has over 850 branches allowing significant economies of scale over a smaller regional bank such as BOQ (National Australia Bank, 2020).

Bank of Queensland Strategic Situation

BOQ has a 147 year history. BOQ state their purpose as: “to create prosperity for our customers, shareholders and people through their empathy, integrity and by making a difference” (Bank of Queensland, 2021a: 12). The emphasis of *empathy* is listening to customers, crafting solutions, listening to feedback and building trust. *Integrity* requires BOQ to maintain high standards and take pride in performance. *Making a difference* requires boldness, risk-taking and an emphasis on delivery (Bank of Queensland, 2021a).

BOQ articulates five strategic priorities looking to future sustainability:

1. An empathetic culture
2. Distinct brands servicing niche market segments
3. Personalised digital banking
4. Simple business with strong delivery capability
5. Strength in financial and risk management (Bank of Queensland, 2021b)

Chairperson Patrick Allaway has been in his current role since

October 2019 in an independent non-executive director capacity – he places much emphasis on the customer experience and the importance of the strategic transformation program in progress at BOQ (Bank of Queensland, 2020). Chief Executive Officer (CEO) George Frazis has been in the role since September 2019 and in 2021 has led a significant boost in balance sheet size and earnings (Bank of Queensland, 2021a).

Improving the customer experience is a big part of the BOQ story. In the past financial year BOQ through its subsidiary Virgin Money Australia enhanced the digital financial services offering with transaction and saving account access. A digital platform was used for this work that will also be used by the BOQ retail business, enhancing the digital experience for all BOQ Group customers. BOQ will continue to support customers impacted adversely by the Covid-19 pandemic in 2022 (Bank of Queensland, 2021a).

BOQ like to place experienced lenders in the heart of the community to enhance community financial wellbeing and outcomes (Bank of Queensland, 2021b).

Sustainability of the business is top priority for BOQ, with the delivery of stable returns to shareholders a key objective (Bank of Queensland, 2021b). As seen in Table 1 below BOQ delivered an exceptional financial result in 2021 of cash earnings after tax of A$412 million. BOQ has been able to turn around the weak performance in cash earnings after tax of 2019 A$320 million and 2020 A$225 million; this compares with strong result years in 2017 with cash earnings after tax of A$378 million and 2018 A$372 million (Bank of Queensland, 2021a).

The ME Bank acquisition was completed in July 2021 and was funded by an A$1.35 billion capital raising (Bank of Queensland, 2021a). There were some glitches with the Australia post mail out to shareholders for the capital raising with some shareholders missing out on participation, nonetheless the capital raising was an overall success (Bank of Queensland, 2021a).

A concern for BOQ has been the deterioration in the cost-to-income ratio over the period 2017 to 2020 from 47.3 per cent to 54.9 per cent. The cost-to-income ratio remains high in 2021 results (Bank of Queensland, 2021a).

Table 1: Bank of Queensland Limited, Financial Highlights Years 2020 and 2021 (BOQ, 2020, 2021)

	2020 (A$Million)	**2021 (A$Million)**	**+ or – %Change**
Balance Sheet Highlights			
Gross loans and advances	47,043	75,748	
Customer deposits	34,762	56,469	
Total assets	56,772	91,432	
Total liabilities	52,541	85,235	
Total equity	4,231	6,197	
Income Statement Highlights			
Net interest income	986	1,128	
Non interest income	128	130	
Operating expenses	(612)	(684)	
Loan impairment expense	(175)	21	
Cash earnings before income tax	502	574	
Cash earnings after tax	225	412	+83%
Shareholder Performance Highlights			

	2020 (A$Million)	**2021 (A$Million)**	**+ or – %Change**
Market capitalisation at balance date	2,785	6,063	
Cash earnings per share (cents) – basic	49.6	74.7	+51%
Fully franked dividend per share (cents)	12	39	+225%
Cash Earnings Ratios			
Net interest margin	1.91%	1.92%	
Cost-to-income ratio	54.9%	54.4%	
Return on average ordinary equity	5.4%	8.2%	
Capital Adequacy			
Common Equity Tier 1 ratio	9.80%	9.78%	
Total Capital Adequacy Ratio	12.60%	12.73%	

People and culture is an important element of the strategic transformation in progress at BOQ. BOQ recognises that strong leadership, embracing diversity and a quality workforce are important drivers of capability to deliver on the agreed strategy (Bank of Queensland, 2021a). BOQ has achieved 39 per cent representation of woman in senior roles (Bank of Queensland, 2021b)

A performance driven culture, reliability, sound workplace conduct and trust are encouraged. BOQ employees are held to account for their achievement of work plan goals and objectives as they contribute to the BOQ Group result (Bank of Queensland, 2021a). The BOQ employee engagement score in 2021 was 64 per cent (Bank of Queensland, 2021b).

Ensuring BOQ employees are well informed and safe has been a priority during the Covid-19 pandemic. This is especially important for branch employees who are customer facing and BOQ have been able to keep branches open to service and support customers. Where possible employees have been allowed to work from home with a return to the office encouraged subject to health directions (Bank of Queensland, 2021a).

Digital transformation is a priority looking to the future for Australian financial institutions. BOQ takes its responsibilities to stakeholders and the environment seriously and as such is committed to building a sustainable business. BOQ gained carbon neutral certification in the 2021 financial year (Bank of Queensland, 2021b). Transparency and trust are core values for BOQ and internal audit processes are an important and rigorous part of BOQ operations (Bank of Queensland, 2021a).

The Future for Bank of Queensland

BOQ has been pursuing a renewal and improvement of its board of directors since 2019, seeking to increase diversity, skills and intellectual curiosity. The board has been reduced from 11 to eight directors. Mickie Rosen and Deborah Kiers have been appointed to assist in the areas of ME Bank heritage, digital transformation, the consumer experience, human resources and organisation design (Bank of Queensland, 2021a).

BOQ is eighteen months into a corporate transformation. Significant change to the board of directors is complete. Integration of ME Bank acquired in July 2021 is proceeding (Bank of Queensland, 2021b). There is more to do. Is the strategic transformation for BOQ working? Is the trajectory of the strategic transformation at BOQ right? What synergies can be achieved through the ME Bank acquisition and merger? Where is the future source(s) of organic growth? When will BOQ be ready for another round of merger and acquisition? What could be the attributes of a suitable merger and acquisition target? What more can BOQ do to strengthen business sustainability? What can be done to improve the cost-to-income ratio? Is balance sheet and capital management at BOQ prudent, and right?

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10.

ENDEAVOUR GROUP: A FRESH START IN A WORLD OF UNCERTAINTY

By Tim O'Shannassy and Justin Pierce

Acknowledgement

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Introduction

Endeavour Group Limited (Endeavour Group) was founded in 2019 as a proposed demerger from the Woolworths Group

Limited (Woolworths Group) (2021). Endeavour Group was Australian Stock Exchange (ASX) listed in 2021 and soon soared to become part of the ASX top 50 companies (Greenblat, 2021), valued at $10.8 billion (Wilmot, 2021).

The demerger of Endeavour Group from Woolworths Group was a complex transaction and one of the largest demergers in Australian corporate history (Endeavour Group, 2021). In putting the proposal to shareholders, Woolworths Group Chairman, Gordon Cairns, reported a phased approach to the demerger, beginning with a restructure of the Woolworths drinks business in 2019. Following a merger with the ALH Group in the same year (p. 4), Cairns suggested the demerger would increase shareholder value "…through a greater focus on each business' core customer offering and growth opportunities." (Woolworths Group, 2021, p. 3) At the time of writing, his predictions appeared to ring true as the Endeavour Group raised to a 52-week high of AUD $7.92, following its listing price of AUD $6.02 (a 31.56% increase). Woolworths, and its main joint venture partner, Bruce Mathieson Group (BMG), each retained 14.6%, while existing Woolworths Group shareholders were granted an equal amount of scrip for their existing shares (Woolworths Group, 2021).

The demerger allowed Woolworths Group to focus on its core business assets in food—both consumer and business customers—in stores and online, as well as wholesale operations, everyday needs, peripheral services (e.g., insurance and mobile), as well as fulfilment operations (Woolworths Group, 2021). In turn, the Endeavour Group has a more focused portfolio of businesses in the beverage industries. Endeavour Group balances traditional brick and mortar retail with online retail, and pubs and gambling. The two main assets include *Dan Murphy's*, and *BWS*, which are supported by *Pinnacle Drinks* that boasts more than 700 alcoholic beverage brands, and more than 300 global partnerships, all distributed via Dan Murphy's, BWS, Shorty's Liquor, and Jimmy Brings (Pinnacle Drinks, 2021). In addition, the portfolio is supported by e*ndeavourX*, the digital platforms, loyalty programs, and fulfilment platforms, providing a solid digital capability to the Endeavour Group (Woolworths Group, 2021).

A Moment in Corporate History of Great Uncertainty

War in Ukraine has unsettled Europe politically again, impacting the price of oil, gas, wheat, nickel, iron ore and other commodities (Wright, 2022). These political and economic events in Europe are contributing to global post pandemic inflationary pressure with implications for interest rates, economic growth and unemployment if left unchecked (Wright, 2022).

Against this background the Albanese Government has been elected in May 2022 after Liberal Governments under Tony Abbot, Malcolm Turnbull, and Scott Morrison from September 2013 to May 2022. There is much on the national political agenda with implications for business. These are significant Australian political moments in shaping economy and society for the future as the nation emerges from the Covid-19 pandemic.

The importance of climate change to the Australian electorate was evident with the election of Green members to four seats in the House of Representatives, and Teal independents in long-held Liberal seats Kooyong, Higgins, Goldstein, Wentworth and more.

Energy market reforms since 2009 have largely been a national failure in the eyes of some commentators, with concern rising in the community at the lack of progress on renewables as well as the lack of reliability of renewables (Dunsevic, 2022). There remains ongoing concerns with steep recent rises in electricity and gas prices for industry and households, with concerns on interruption to supply.

The Australian corporate scene influenced by the union-controlled superannuation funds is increasingly taking an interest in corporate social responsibility and social impact, and this has unsettled the traditionally pro-business Liberal Party of Australia. Sustainability, corporate social responsibility, reliable and cost effective energy supply, and technology are important to Australian business.

Post-election 2022 there is much conjecture in the media on the impact of inflationary pressures and interest rates on the Australian property market and economy.

In the OECD inflation was 9.2 per cent for the year to April, with energy prices up 32.5 per cent and food prices up 11.5 per cent—war in Ukraine was an influence here. Australian inflation is expected to be 5.9 per cent in December—something not seen in Australia for some years, well above the target band of 2 to 3 per cent (Dunsevic, 2022). Australian real wages are in decline, while on the counter side unemployment is under 4%—the lowest level seen in 50 years (Dunsevic, 2022). Poor weather, bush fires, war in Ukraine and supply chain constraints have all contributed to fresh food, construction costs and petrol prices increasing in Australia (Greenblat, 2022).

On 3 May 2022 the Reserve Bank of Australia increased the cash rate 25 basis points to 0.35 per cent with the Reserve Bank Governor Philip Lowe stating, subsequent to the May board meeting, further increases to the cash rate are imminent. Bank wholesale funding costs are moving higher, resulting in higher fixed mortgage rates and variable mortgage rates for households (Gluyas, 2022). This will impact consumer confidence and future consumer spending with more of the household budget going to mortgage payments and fewer household dollars available for liquor and gaming.

There remains conjecture on the economic growth forecasts for Australia first quarter 2022 yielding gross domestic product growth of 0.8 per cent; the annual growth rate for the year is expected in the range 3.8 per cent with the sum of commentator and policy maker views being the Australian economy remains strong (Dunsevic, 2022).

Australian business is increasingly aware of the need to work for shareholders and be seen to be having a positive social impact. The importance of the responsible service of alcohol and responsible gambling is important to the operation of retail liquor stores and hotels (Endeavour Group, 2021). The Australian corporate scene is also increasingly aware of the importance of indigenous employment opportunity.

The application of digital technology to business strategy is increasingly prominent, with online retailing an increasingly contested space that continues to evolve (Boreham, 2022). Digital connection, loyalty programs and online platforms are central to customer connection and brand development (Endeavour Group, 2021). There is increasing use of data analytics and artificial intelligence to inform digital strategy (Temple & Webster, 2021).

There are a range of Acts that apply to stock exchange listed corporations and liquor and gaming licence holders in Australia, with significant consequences for serious breaches. The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investment Commission (ASIC) oversee the ASX, the financial services scene, and merger and acquisition (M & A) activity. The Australian Foreign Investment Review Board oversees foreign investment in ASX listed companies. The Australian Competition and

Consumer Commission (ACCC) oversees trade practices. The Australian company tax rate is comparatively high at 30 per cent with the United States currently at 21 per cent. The Competition and Consumer Act 2010 gives protection to consumers articulating fair trading and competition law. The Corporation's Act 2001 communicates corporation's law and director's duties.

The Industry Environment

Pubs, Bars and Nightclubs

The pubs, bars and night clubs sector sells alcoholic beverages to consume either on (e.g., public bar) or off premises (e.g., bottle shop drive through). These venues may also provide gaming facilities, betting facilities, live entertainment and/or food service (Wheeler, 2022). Endeavour Group comprises 9.6 per cent of this industry. Major sources of revenue in this industry sector are 40.3 per cent liquor for consumption on premises, 18.9 per cent purchase of liquor for consumption off-premises, 21.6 per cent wagering and gaming, 14.7 per cent non-alcoholic beverages and meals, and 4.5 per cent other. There is an expected growth in domestic tourism in the short to medium term which will assist this industry sector, helping to improve enterprise and employee numbers. Venues with gaming facilities are facing competition from online betting agencies. There is also a five-year trend to reduce alcohol consumption impacting industry profitability adversely, and this is likely to continue (Wheeler, 2022).

Liquor Retail

The liquor retail industry sells beer, wine, spirits, and ready-to-drink (RTD) mixers in packaged bottles and cans for consumption away from liquor store premises (Endeavour Group, 2021); sales activity takes place through brick-and-mortar retail outlets and online (Reeves, 2021).

In the liquor retail industry choices available to buyers are a selection of high turnover, low margin packaged products with the option of some high margin premium products (e.g., Penfolds Grange, Henschke Hill of Grace; Australian craft beer). Responsible service of alcohol is a priority for operators in this industry (Endeavour Group, 2021). Demand for pubs and bars has declined over the past five years, and especially in 2020 and 2021 due to CoViD19 (Reeves, 2021), but is expected to improve in 2021-2022 by just over 10 per cent (Wheeler, 2022). Buyers face few barriers to switching between liquor outlets, but are buoyed in Australia by its 'drinking culture' (Munro, Munro & de Wever, 2009).

First tier suppliers are liquor wholesalers, and second tier suppliers are wineries, spirit manufacturers and breweries. Australia has seen a rise of craft breweries (Terrill & Leith, 2022) and boutique distilleries (Boyd, 2019; Herbison, 2014) and demand for their wares tends to keep upstream buyers in check. The scale of operation of Endeavour Group and Coles Group Limited (Coles Group) relative to rivals gives them significant market power (Reeves, 2021). Most workers in big box formats such as Dan Murphy's are part-time which helps to keep labour costs low (Reeves, 2021).

There are many non-alcoholic beverages that are substitutes for non-alcoholic beverages (e.g., zero alcohol wine including Edenvale Shiraz alcohol removed, zero alcohol beer including Great Northern Brewing Company), with many innovative producers, but Endeavour Group and others sell these products as well (Dan Murphy's, 2022). Consumers can also choose soft drink options, juices, dairy, and sports drink alternatives. As a consequence, threat of substitutes is low.

There are moderate barriers to entry in this industry setting influenced by the market strength of Endeavour Group and Coles Group, ensuring it is difficult for new entrants to get significant traction and scale for a viable business model (Reeves, 2021). These include brand recognition, distribution network, and workforce. The duopoly in the industry compete ferociously, signalling to potential entrants. State government regulation also provides constraint on new industry entrants—for example in South Australia the state government prohibited the sale of alcohol in supermarkets, limiting Aldi's expansion of this product line (Reeves, 2021).

Market size in this industry is AUD $16 billion employing 29,417 (Ibis, 2022). Major players include Endeavour Group, Coles Group, Metcash Limited and Aldi Pty Ltd (Aldi) who account for more than 75 per cent of market share in the period 2021-2022 (Reeves, 2021). Coles Group operate 900 stores under the brands Liquorland, First Choice Liquor, First Choice Liquor Market, and Vintage Cellars (Coles Group, 2022). Foreign rivals such as Aldi have limited market share (Reeves, 2021).

Critical success factors in this industry are location, product range, price, technology at point of sale, stock control, loyalty programs, alliance partnerships, and customer service.

Looking more broadly online retail itself is an interesting, contested strategy space where learning for main players continues after the experience of the lockdowns during the CoViD19 pandemic, and the related increase in e-commerce sales activity. A number of online retailers including Kogan, Redbubble, Temple & Webster, Booktopia, and BikeExchange are reporting a pullback or correction in online sales activity with a return of a portion of brickand-mortar sales activity (Boreham, 2022). Temple & Webster is the largest Australian ASX listed achieving valuation above AUD $600 million and is now setting out to take on Bunnings in the online AUD $16 billion home improvement market (Boreham, 2022). There are pure online liquor retailers including Naked Wines Australia and BoozeBud, who have gained some traction in the marketplace during the pandemic (Reeves, 2021).

Endeavour Group Strategic Situation

Endeavour Group's strategy centres on three pillars: "Knowing our customer; Innovating to meet customer needs; and Being one team, living our purpose and values" (Endeavour Group, 2021, p. 18). The "Innovating to meet customer needs" pillar is particularly interesting, as it allows Endeavour Group to seize on the following growth opportunities:

- growing digital engagement
- enhancing existing venue and store footprint
- expansion to better serve communities • expanding range and reach, and,
- enhancing asset efficiency.

The Endeavour Group celebrates its purpose, 'creating a more sociable future together' (Endeavour Group, 2021, p. 1). Its establishment coincided with, and allowed it to seize on six key consumer trends (Woolworths Group, 2021, p. 31):

1. rapid growth in digital channels for sales and engagement
2. discovery, leading to customer's increased demand for premium products
3. rising expectations on ease of doing business

4. changing role of physical stores to engage customers, rather than for transactions
5. increasing demand for total wellbeing, and,
6. increasing awareness of sustainability outcomes with respect to climate action.

Some of these were driven by customer behavioural change, following government-enforced lockdowns (Saul, Scott, Crabb, Majumdar, Coghlan & Hellard, 2020), whereas the rising customer expectations trend is because of rising service levels generally (Lesonsky, 2019). Despite these trends, Endeavour Group enjoys 40% market share of the Australian liquor market and 9% of the Australian hotels market (Woolworths Group, 2021), through its 1962 outlets across Australia and New Zealand. Endeavour Group puts its best foot forward in its *digital strategy*, supported by its endeavourX division. In March 2022, it was reported to invest AUD $35 million in new digital capability, much of it in recruitment of digital, data, user experience, and business analyst positions (Weber, 2022). Indeed, it boasts an 'integrated' digital offering to support its flagship brands, Dan Murphy's and BWS.

Endeavour Group is proud of its entrepreneurial heritage, a culture of innovation, and positive workplace environment (Endeavour Group, 2022). Endeavour Group is conscious of its role across the community and as a business network partner and seeks to act responsibly, contribute to sustainable outcomes, and make a positive contribution to its industry (Endeavour Group, 2021).

Some of the digital initiatives the Endeavour Group boasts include the 'personalisation engine' by which it provides superior customer services via digital channels (Weber, 2022). Hogan (2020) described the number plate recognition system, that allows Endeavour Group to streamline click-and-collect operations—particularly important for facilitating efficiency during the government-enforced lockdown period where social distancing kept customers out of stores (Davis, 2021). A further example of Endeavour Group's digital prowess includes the roll out of electronic shelf labels and near field communication (NFC) technology, which allows customers to access product information (e.g., information on the winery, vintage, or grape variety), and facilitates greater analytics for product placement (Weber, 2022). Endeavour Group average 11 million monthly web site and app visits, with 86 per cent monthly growth in active users of Dan Murphy's and BWS apps (Endeavour Group, 2021). Finally, to support the transition, Endeavour Group shares IT infrastructure assets with its former parent (Endeavour Group, 2021, p. 15).

As part of the portfolio, Dan Murphy's stores are typically 1,000m2 with around 4,500 products and offers customers 30-minute click-and-collect services. It's smaller sibling, BWS stores, are typically 175m2 with 1,500 products and include formats including drive-through and integration to

Woolworths stores. The hotel business operates approximately 330 hotels around Australia in several formats including bars, accommodation, cafés, wagering, and public bars ('pubs'). A vast network of suppliers is brought together by Endeavour Group's relationship with *Primary Connect*, Woolworths' supply chain provider (Woolworths Group, 2021, pp. 32-36).

Endeavour Group summary financial data from their annual report is below in Table 1:

Table 1: Endeavour Group Summary Financial Data (Endeavour Group Limited, 2021)

Summary Financial Data ($Millions)	FY2021	FY2020
Profit and Loss Highlights		
Revenue ($M)	11,595	4,141
Cost of sales	(7,928)	(3,033)
Gross profit	3,667	1,108
Earnings before interest and tax (EBIT)	899	40
Finance costs	(247)	(91)
Income tax expense	(207)	(13)
Net profit after tax (NPAT)	445	(64)
Basic and diluted earnings/(loss) per share	24.8 cents	(8.8) cents
Balance Sheet Highlights		
Inventory	1,213	1,269
Total Current Assets	1,771	1,993
Total Assets	10,764	10,795
Total Current Liabilities	3,812	2,886
Total Liabilities	7,376	7,408
Total Equity ($M)	3,388	3,387
Cash Flow Highlights		
Net cash provided by operating activities	1,114	560
Net cash (used in) investing activities	(318)	(169)
Net cash (used in) financing activities	(734)	(247)

Cash and cash equivalents at end of year	437	375

Endeavour Group has 28,000 team members including 16,100 in retail, 11,300 in hotels and 800 in support office roles (Endeavour Group, 2021). Its size allowed it to redeploy hotel staff members that would otherwise have been furloughed to its retail operations, as well as furnish click-and-collect demand (Woolworths Group, 2021). Team members must be trained in responsible service of alcohol, and responsible gambling, and be specifically trained to refuse sale of alcohol to minors (Endeavour Group, 2021). This can be particularly difficult in the online channel, but Endeavour Group has been recognised as a leader in this emerging challenging area (Endeavour Group, 2021).

Endeavour Group's understanding of consumer behaviour is built on its loyalty program, which boasts 5.1 million *My Dan's* members, and is linked in with Woolworths' 12.8 million *Everyday Rewards* program. Through its endeavourX personalisation capability, it uses customer insights to improve and expand web-based and digital sales channels (Endeavour Group, 2021).

Strategy Challenges for Endeavour Group Looking to the Future

Endeavour Group has a strong property portfolio, is an interesting pubs play, a strong liquor retail business and an interesting digital strategy play. Endeavour Group has capable and experienced leaders at board level and the upper echelons of management. Is the strategy correct? What does financial ratio analysis reveal about the financial risk profile and financial efficiency of Endeavour Group? Is the physical footprint of liquor retailers and pubs optimal? How should this footprint evolve in future? How can the influence of endeavourX, and digital and loyalty platforms be maximised? How can Endeavour Group engage positively with communities across Australia with favourable social impact, including indigenous opportunity?

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11.

AV JENNINGS: STRATEGY IN AN UNCERTAIN BUSINESS ENVIRONMENT

By Tim O'Shannassy

Acknowledgement

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Introduction

Australian Stock Exchange (ASX) listed AV Jennings was established in Caulfield, Victoria in 1932 by Sir Albert Victor

Jennings and has a rich 89 year history. The current Head Office of this iconic Australian brand name is in the inner city Melbourne suburb of Hawthorn and the business is now a majority owned subsidiary of SC Global Developments Pte Ltd, the luxury real estate developer based in Singapore.

AV Jennings have a clearly defined business model, a quality product pipeline in Australia and New Zealand, and have just appointed a new Chief Executive Officer Mr Phil Kearns. Prior to this appointment Kearns had been a non-executive director of AV Jennings for two years and has had a relationship with the business for 10 years. Kearns is a former Australian Rugby Union World Champion and very well connected across the Australian community in sport and business (Australian Property Journal, 2021).

Jim Chalmers the newly appointed Treasurer in the Albanese Labor Government calls the inflation spike in the Australian economy and the drop in the real wages of Australians a 'oncein-a-generation challenge' (Wright & Clun, 2022, p. 1). Inflation is currently at a 21 year high of 6.1 per cent in Australia and is forecast to lift to 7.75 per cent for the three month period to the end of December; this is having major implications for interest rates on home loans for borrowers with the Reserve Bank of Australia (RBA) currently aggressively lifting rates (Wright & Clun, 2022). The Reserve Bank of New Zealand is also aggressively lifting interest rates, and this is impacting business and consumer confidence (Craymer, 2022). The cause of the inflation spike is mainly global factors such as the war in Ukraine and supply chain bottlenecks in China. These dramatic economic and political development have implications for the building and land development industry in Australia and New Zealand.

AV Jennings are conscious of ongoing shifts in customer tastes and preferences, so change and innovation are strategic priorities looking to the future, as is business growth. There is a challenging future agenda for AV Jennings in some of the most difficult economic conditions seen for a generation.

External Environment Challenges

The Covid-19 pandemic has seen a shift in the community to a preference for workplace flexibility including the choice to be able to work from home some or all days of the week. The roll out of Covid-19 vaccines and better medical treatments are assisting the community to return to something more normal (AV Jennings, 2021).

There have been two big social trends that have impacted house design in Australia since the 1950s. Traditionally post – World War 2 (WW2) Australians lived in English homes with two or three bedrooms, a good living room and a separate kitchen. In the 1970s the return of woman to work added much needed income to the Australian household, but it also created need for change in the floor plan of the Australian home. The traditional separate kitchen and lounge room became outdated and was replaced by the large kitchen family room with island bench from which parents could cook, have a conversation with children or guests, or watch television (Salt, 2021). Another change to home design came with the arrival of migrants from Mediterranean countries (e.g., Italy, Greece) who adapted quickly to our Mediterranean style climate with the enjoyment of an indoor-outdoor lifestyle. The adaptation to home design led by these migrants was the alfresco (Salt, 2021).

Population growth is an important driver of the home building and land development industry. Australia's population was 25,766,605 at the end of 2021 with annual growth of 0.5 per cent (Australian Institute of Health and Welfare, 2022). Population growth in Australia has been impacted by the Covid-19 pandemic, with growth slowing. Australia's population is projected to be 29.8 million people in 2033; the major population centres will continue to be Greater Melbourne, Greater Sydney, and Greater Brisbane inclusive of the region from Gold Coast to Noosa Shire. Auckland's population is expected to reach 2,000,000 people in the early 2030s from the current 1,700,000 (StatsNZ, 2021).

The European Union economies are being impacted adversely by the reality of the war in Ukraine and ensuing political and energy market turmoil. The risk of Russia cutting off gas supplies is real and could push the European Union into recession (Dulaney & Fairless, 2022). There remains tension between China, Taiwan and the United States over the political situation in the west Pacific.

The weaker Euro against the United States (US) dollar also in part reflects the strength of the US currency, which now has more buying power compared with overseas currencies than it has had in the past two decades (Dulaney & Fairless, 2022). The central authorities in the US have indicated they are favourably disposed to a strong US dollar as it helps to ease inflationary pressures while they are raising interest rates (Dulaney & Fairless, 2022). The European Central Bank has been slower to increase interest rates compared with the US Federal Reserve. This week the United States (US) Federal Reserve increased interest rates a further 0.75 per cent (Wright & Clun, 2022). The RBA has the cash rate at 1.35 per cent after the July Board Meeting with further increases likely in coming months (RBA, 2022). The Reserve Bank of New Zealand has also been increasing its cash rate in recent months and is currently at 2.5 per cent since its July Meeting (Craymer, 2022).

On balance the coming 12 to 36 month period will be difficult for mortgage holders in Australia and New Zealand whose variable home loan repayments will be impacted by these cash rate increases if and when fully passed on by lenders. Business and consumer confidence is also now falling (Craymer, 2022).

Organizations in the building and land development sector need to use the internet and social media for effective integrated marketing communication, and computer software solutions to coordinate and control resources. Computing capability is an important driver of success for organizations managing significant assets dispersed over a vast geographical area such as Australia and New Zealand. Software as a service (SaaS) enterprises are able to customise solutions to customer requirements providing easy to use integrated software that can be readily supported. This allows a business such as AV Jennings or an industry rival to focus on running its business and the software provider to implement, support and run the software with regular research and development updates (TechnologyOne, 2019).

The ASX and the Australian financial services scene is overseen by the Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). The Australian Competition and Consumer Commission oversees (ACCC) looks over trade practices in the marketplace. The tax rate for companies in Australia is comparatively high at 30 per cent, compared with the United States at 21 per cent. The Corporations Act details director's duties in the Australian legal jurisdiction. The Commonwealth Work Health and Safety Act 2011 informs occupational health and safety compliance requirements.

Building and land development industry players can have a significant impact on the natural environment including land topography, vegetation, biodiversity, water supply, water run-off, potential for hazardous chemicals emission, risk to indigenous heritage and artefacts, and more. As a consequence, industry players need to be conscious of a range of environmental challenges including compliance with statutory requirements, including environmental considerations in planning and development projects, and delivering environmentally responsible communities and homes (AV Jennings, 2021).

The Building Industry

The building industry is an important sector of the economy. Several builders (e.g., Probuild, Langford Jones Homes) have collapsed in 2022 due to higher costs, fixed price contracts with slim margins, and lengthy delays due to the COVID-19 pandemic caused by factors including labour shortages and supply chain challenges. Several of these builders in difficulty in 2022 were supported financially by government in 2020 and 2021 at the height of the pandemic, resulting in fewer insolvencies in those years. There appears to be a correction in progress with the uptick in insolvencies in recent months (Clun, 2022).

The Australian Government JobKeeper program has assisted many Australian citizens to keep their employment during the worst moments of the Covid-19 pandemic (AV Jennings, 2021).

Buyers are confronted by an industry with major challenges, with large builders such as Metricon showing signs of financial stress and Snowdon Developments going into administration in July with 550 uncompleted homes (Clun, 2022). The impact on customers in this situation can be financially devastating, including new home cost increases potentially well beyond the original fixed price contract if a new builder has to be contracted to finish the uncomplete job. This reduces the bargaining power of buyers significantly.

Industry analysts note that there is a market shift in progress to townhouse and high-density apartment construction, and small block detached housing (Kelly, 2022). Demand for lowdensity housing is in decline due to the influence of higher interest rates and withdrawal of government support (Kelly, 2022).

CPA Australia currently argue that home builders who get into an insolvency situation due to external factors should be allowed to keep trading to avoid a domino effect throughout the industry (Clun, 2022).

The HomeBuilder scheme and low interest rates provided a significant stimulus to land prices over the past five years (Kelly, 2022). Land for high-density development close to transport is more expensive than land for low-density housing developments (Kelly, 2022). It is expected that demand for low-density residential housing will decline in the short term due to higher interest rates and withdrawal of government support (Kelly, 2022).

Supply of skilled labour (e.g., carpentry, brick layer, Hebel installer, plumber) has been tight but is easing, though the cost of that skilled labour is expected to contribute to inflationary pressure in the short to medium term.

The building industry is an entrepreneurial sector of the economy. The building industry includes many small operators with new builders emerging and practicing builders going into administration and insolvency – so there is ease of entry and the incidence of exit.

The modern home is central to lifestyle, and this is well known to be important to Australian society (Salt, 2021). Substitutes for a home are limited and include a caravan or a tent.

It is a difficult year for the building industry. Ease of entry and exit, and the range of product from prestige to budget makes the building industry a highly competitive market, but it differs significantly from a perfectly competitive market. Reasons for this include this differentiation of product from prestige to budget, unequal information access for buyers and sellers, lead time for planning and building, access to credit and interest rates.

There are 78 real estate and property companies in this sector of the ASX including household names such as Goodman Group, Stockland, Mirvac Group, Sunland Group, Servcorp and more (ASX, 2022), and there is intense rivalry. Recent research reveals that industry players are staging the release of land in master-planned communities to obtain the best price results and avoid a supply led decline in prices. This helps developers preserve their profits (Fitzgerald, 2022).

Reflecting challenging industry conditions major builders Probuild, Langford Jones Homes, Snowdon Developments and now Caydon Property Group have failed in recent months (Johanson, 2022). A consistent message in relation to these failures from builders is the impact of construction cost inflation, supply chain challenges, difficulties getting access to skilled labour, builder insolvencies, higher interest rates and a decline in house price sentiment (Johanson, 2022; Kelly, 2022). This is making trading conditions tough for all players in the building industry, with builder insolvencies particularly painful for industry players including trades (e.g. electrician, plumber) not being paid 100 cents in the dollar in some scenarios. It is the preference of the Housing Industry Association (HIA) that builders receive government aid before they are rendered insolvent by these difficult industry conditions (Clun, 2022).

AV Jennings Strategy Situation

AV Jennings Strategy

Covid-19 pandemic has been a challenging period for the board and executive of AV Jennings with changes in identified risks requiring shifts in strategy. The greatest risk was to the health and safety of employees, suppliers, customers, and the wider community as well as the financial well-being of the business during the Covid-19 pandemic. AV Jennings was able to ensure business continuity to enable customers to purchase and build homes during this difficult period (Cheong, 2021).

In the most difficult days of the pandemic there was a real identifiable risk that potential customers would defer a home transaction. This had the potential to create some difficulty for AV Jennings maintaining their pipeline of home projects, including an acceptable level of presales, impacting business continuity. The Australian Government HomeBuilder initiative provided stimulus to the customer community to pursue a home transaction (Cheong, 2021).

The executive and board are monitoring market trends to ensure they are aware of shifts in buyer preferences; they like to see a spread of projects and contract sales across the Melbourne, Sydney, Brisbane and Auckland markets (Bleby, 2022). This was assisted by a shift to a national structure at AV Jennings which helped to reduce overheads by $1.5 million in 2021 and assisted operational decisions, efficiency and flexibility (AV Jennings, 2021).

AV Jennings are renowned for a strong housing and community focus articulating their market position as:

> …one of the most recognised and trusted names in quality, affordable housing…our reputation has been built on…meticulous design and connectivity for our

> customers, whilst operating in a socially and environmentally responsible manner. Our focus is to create a lasting, positive legacy…(AV Jennings, 2021, p. 18).

AV Jennings appreciate there are environmental risks in residential development activities, hence the focus on managing risk and minimising impact in this sensitive area. *AV Jennings Governance Matters*

The Chairman of the board of directors is Simon Cheong; there are eight non-executive directors and one executive director. AV Jennings risk management responsibility rests with the board of directors, overseeing a whole risk management system including periodic review (AV Jennings, 2021).

AV Jennings take Environmental, Sustainability and Governance (ESG) seriously and their ambition is to deliver a high level of customer service, be sensitive to the environment, and a quality partner to a range of stakeholders including suppliers, business partners and communities (AV Jennings, 2021).

Cultural heritage management is respectfully undertaken when heritage items or sites are identified in consultation with local indigenous communities. A Reconciliation Action Plan is in development to guide engagement with indigenous peoples in Australia and New Zealand (AV Jennings, 2021).

AV Jennings Functional-Level

Situation

A strong presales position was an important starting point for the AV Jennings 2021 financial year (Bleby, 2020); the 2021 results show revenue growth of 18.6 per cent to $311.1 million, with strong contract signings performance (AV Jennings, 2021). In a sign of strong marketing and sales performance there was an increase in contract signings to 953 in 2021 (2020 697 contracts signed) worth $327.7 million compared with the 2020 and $241,2 million in contract signings. These numbers were assisted by revenue achieved at Ara Hills, Auckland and GEM Apartments, Waterline Place, Williamstown, Victoria (Summers, 2021).

AV Jennings has 12,180 lots under control including land under option, with 1,537 lots work in progress (AV Jennings, 2021).

AV Jennings published its first Modern Slavery Statement in 2021 and has developed a company policy in this area; the goal is to ensure there is no infiltration of supply chains with slavery (AJ Jennings, 2021). A Code of Conduct for suppliers is in development (AV Jennings, 2021).

There is a strong pipeline of projects across Victoria, New South Wales, Queensland, Western Australia and New Zealand (Bleby, 2022). A snapshot of the largest projects with more than 500 lots with the exception of the largest project in Western Australia at Kardinya are provided in Table 1 below:

Table 1: AV Jennings Major Project Pipeline (AV Jennings, Annual Report, 2021, p. 9)

State	**Community**	**Remaining Number of Lots**	**Maturity**
New South Wales	Rosella Rise, Warnervale	518	Post 2025
Queensland	Riverton, Jimboomba	1,066	Post 2025
	Caboolture, Rocksberg	3,500	Post 2025
Victoria	Lyndarum North, Wallert JV	1,682	Post 2025
South Australia	Eyre, Penfield	1,238	Post 2025
Western Australia	The Heights, Kardinya	62	2023
New Zealand	Aar Hills, Orewa	605	Post 2025

In 2019 AV Jennings committed to a five-year contract with TechnologyOne to rebuild their major enterprise applications, with implementation expected October 2020. The focus of this digital strategy project has been to give the AV Jennings a simple, unified, technology that can be used by a mobile workforce dispersed around Australian states and New Zealand. AV Jennings have struggled in recent years with several legacy software applications causing unnecessary complexity. The software application developed assists management of documents, capital, financials, and assets (TechnologyOne, 2019).

AV Jennings embrace diversity and inclusion in their workforce, with 45.5 per cent of the workforce female. On the senior executive team female representation is 22 per cent and on the board of directors 12.5 per cent. Employee engagement in the annual survey was strong at 4.2 out of 5; employees described the workplace culture as positive, friendly, respectful and fun (AV Jennings, 2021). Wellness resources are available to employees through the AVJ Wellness Hub, and in 2020 a mental health support program for employees was established. Flexible work arrangements, a mentoring program, and paid parental leave is available. Regular Workplace Health and Safety inspections are undertaken on work sites, with 96 per cent compliance on built form inspections (AV Jennings, 2021).

AV Jennings has a strong balance sheet position, with the directors relieved to have seen off the worst moments of the Covid-19 pandemic in 2020 and 2021 (Cheong, 2021). The directors target a gearing range of 15 to 35 per cent with current gearing reported at 20.1 per cent with net debt currently $125.4 million (AV Jennings, 2021). Summary financial data is provided in Table 2 below showing a broad improvement in key financial indicators in 2021 including a 4.1 per cent improvement in net assets:

Table 2: AV Jennings Summary Financial Data (AV Jennings Annual Report, 2021)

$'000	**2020**	**2021**	**% Change**
Income Statement Highlights			
Total revenue	262,354	311,090	18.6
Gross margins	22.8%	22.6%	
Net profit before tax	13,158	26,676	
Net profit after tax	9,041	18,716	
Basic earnings per share (cents per share)	2.23	4.62	107.2
Balance Sheet Highlights			
Total current assets	218,850	215,119	
Total non-current assets	436,327	410,149	
Total assets	655,177	625,268	
Total current liabilities	24,343	41,936	
Total non-current liabilities	237,704	174,223	
Total liabilities	262,047	216,159	(17.5)
Net assets	393,130	409,109	4.1
Cash Flow Statement Highlights			
Receipts from customers (including GST)	275,993	331,084	19.5
Net cash from operating activities	10,635	63,969	
Net cash (used in)/from investing activities	119	(196)	

Net cash used in financing activities	(23,284)	(56,343)	
Net increase/(decrease) in cash and cash equivalents	(12,530)	7,430	
Cash and cash equivalents end of year	5,703	13,099	129.7

The Future for AV Jennings

Following the appointment of Phil Learns as CEO, can AV Jennings 'supercharge' growth? Or should AV Jennings maintain a steady, incremental rate of sales growth? How can AV Jennings improve their ESG performance? What functional improvements can AV Jennings make to make the business more effective? Can AV Jennings improve diversity and inclusion on the board? In what Australian states, cities and locations can AV Jennings improve its landbank and contract signings? Is AV Jennings rate of contract signing sufficient? Is AV Jennings commitment to the indigenous community, indigenous culture, and indigenous employment opportunity sufficient, and fast enough?

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12.

BENDIGO AND ADELAIDE BANK: ENVIRONMENTAL, SOCIAL, AND ECONOMIC SUSTAINABILITY

By Justin Pierce and Tim O'Shannassy

Acknowledgement

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Introduction

Bendigo and Adelaide Bank Limited (Australian Stock Exchange Code: BEN) is Australia's fifth largest bank (Duncan, 2022), with a strategic focus on community engagement and customer service. During Full Year (FY) 2021 BEN increased its market share, customer base, total lending, and deposits—all while maintaining its commitment to community and delivering on environmental, social and governance (ESG) measures where is has proven leadership (Bendigo & Adelaide Bank Limited, 2021). During FY2021, BEN confirmed its commitment to a multiyear project to simplify operations, expand capabilities, and better communicate the purpose of the firm. The broader forward economic forecast for the Australian economy presents several opportunities for BEN. Although the previously low interest rates placed pressure on margins, higher demand for lending is expected as Australia emerges from the pandemic (Janda, 2022).

Considering future challenges, BEN remains steadfast in its commitment to purpose, values, strategy, and shareholders. Customers will continue to be at the centre of strategic decisions (Bendigo & Adelaide Bank Limited, 2021).

The External Environment

The passing of Her Majesty Queen Elizabeth II on 8th September 2022, ended the longest reign by a monarch in British history. The United Kingdom and Commonwealth of Nations (Commonwealth) members now face a period of renewal as His Majesty King Charles III assumes his new monarchical duties (Hart, 2022). The Albanese government set the agenda for stronger reconciliation with Australia's first peoples, earning public approval and respect for early progress in this area (Grattan, 2022).

The Ukrainian war has reverberated around the world, causing increased commodity prices, gas shortages, and inflationary pressures (The World Bank, 2022). In Australia, unemployment is at an historical low rate, putting further pressure on inflation. At the same time, wages have stagnated, igniting calls from labour unions for significant increases in takehome pay (Jericho, 2022).

Australians enjoy their bank 'bashing', part of its egalitarian culture that aims to level out social power structures (Denniss, 2020). It comes with the notion of the "fair go" (Bolton, 2003), and the *great Australian dream* of owning a home, for which most Australians require property mortgages (Robson, 2019).

Technological advancement was at its greatest during 1920-1970s, but may have slowed in recent times (Clancy, 2021; Nolan, 2021). Technologies of note in service-based industries include artificial intelligence, including machine learning, and natural language processing. For physical goods industries, robotics and automation continue to deliver efficiencies (Rathman, 2022; Goodman, 2022).

Australia's huge land mass as the largest island nation is home to 26 million people (ABS, 2022), most living around the coastal areas. Climactic conditions vary across the continent, and between one year and the next (Bureau of Meteorology, 2022). Air quality has been impacted by bushfires, extreme weather events, and water management continues to be a delicate issue (Department of Climate Change, Energy, the Environment, and Water, 2021).

In Australia, the Corporations Act of 2001 establishes the regulations applicable to corporations, including the responsibilities of directors. The Competition and Consumer Act of 2010 establishes competition and fair dealing law, as well as consumer rights. Australia's corporate tax rate is 30%, compared to the United States' rate of 21%.

The Industry Environment

This banking industry is highly competitive, contributing significantly to Australia's gross domestic product (GDP). Experience from the boom and bust cycles of Australian economic history and ensuing difficulties in the banking and finance industry has led central policymakers to pursue the "four pillars" policy with some success in recent decades (Ryan, 2018; Ellis 2016). Millennials seek out innovative solutions, and demonstrate lower brand loyalty, and this has provided an opportunity for buy now pay later (BNPL) providers, and neobanks, which have proven highly appealing to this demographic (Yeates, 2021).

Embracing these shifts in the market, banks have been acquiring start-ups, with the most recent example being NAB's purchase of 86 400. Interest in bitcoin is currently at an all-time high, which presents a challenge for the "big four" trading banks and ASIC (Eyers, 2021), while blockchain technology is still in early stages of development (Pollock, 2019).

The banking market is segmented into retail, corporate, and institutional customers. Each sector has specific technological requirements, particularly in online and real-time processing (Yeates 2021). Each sector has a range of choice of banking and finance provider, and there is little differentiation between these market players. On the supplier side, IT infrastructure providers, and professional services firms (i.e., consultancies, auditors, etc.) make up the bulk of value chain partners. Unlike some forward sectors, these tend to be large, established businesses with bargaining power to boot!

Establishing a new bank requires significant capital investment, registration with the regulator, APRA, licensing, and a disruptive point of differentiation to entice customers over.

Alternatives to retail banking include credit unions, and mutual funds. For institutional clients, investment banking, brokers, and equity markets provide viable alternatives.

Company Analysis

BEN's vision is to be "*Australia's bank of choice for customers, employees, partners, and shareholders*", and declares its purpose is "to feed into prosperity, not off it" (Bendigo & Adelaide Bank Limited, 2021, p. 16). To achieve these ambitious outcomes, BEN aims to reduce complexity, invest in capability, and focus on customers, growth, and transformation (Bendigo & Adelaide Bank Limited, 2021, p. 16).

BEN's operations focus on the provision of a broad range of banking and financial services (Bendigo & Adelaide Bank Limited, 2021, p. 11). Following the recent Royal Commission, BEN has improved checks and balances in all operations, emphasising identity checks, and monitoring for money laundering. The service aspect of BEN highlights the importance of process and procedure management in its operations. Call centre operations, online processing, and data retention typify operational priorities.

BEN is required to understand its market, position itself among competitors, and maintain a steady flow of new—while retaining existing—customers. The marketing function uses a *community partner* image and reputation to differentiate from its competitors. A separate 'community banking' arm allows rural communities to register, operate, and share in the profits it generates (Bendigo & Adelaide Bank Limited, 2021).

BEN commits to employee development, empowerment, and wellbeing. Branch staff are trained in customer service, with shifts timed to allow for child drop-offs, and other family commitments. Succession planning is a key consideration at the corporate level, and of note is the majority female board (Bendigo & Adelaide Bank Limited, 2021).

Technology challenges include the near constant barrage of cyber-attacks, phishing attempts, and scams affecting Australian customers. Maintaining a network of automatic teller machines (ATMs), data centres, and corporate networks that are resilient, fault-tolerant, and secure is a key challenge for the technology team.

Leading corporate reputation indices place BEN ahead of its key competitors. When combined with a human-centric strategy, strong levels of trust, and positive net promoter scores, BEN's innovation investment is 29.8 points greater than the average of the major banks. This enables BEN to become even more nimble in responding to client needs, and to expand its market share (Bendigo & Adelaide Bank Limited, 2021).

BEN reported a statutory net profit of $524 million for the year ending 30 June 2021, an increase of 172%. There were increases in residential, agriculture, and commercial lending. The Common Equity Tier 1 Capital Ratio increased by 32 basis points to 9.57 percent, showing a well-managed balance sheet and excellent risk management, while enabling continuing lending growth and future investments in transformation. In addition, BEN declared a fully franked final dividend of 26.5 cents per share, bringing the total payout for the year to 50 cents per share. The following Table 1 provides a high-level financial insight into BEN.

Table 1: Bendigo & Adelaide Bank Limited Financial Highlights FY2020-21 (AUD$ millions unless otherwise stated)

	2020 (AUD$ millions)	2021 (AUD$ millions)	+/- % Change
Balance Sheet Highlights			
Net loans and receivables	64,980.4	71,920.6	
Goodwill and other intangible assets	1,564.6	1,549.4	
Total Assets	**76,008.9**	**86,577.2**	+13.9%
Deposits	64,182.6	74,355.6	
Notes payable	35,03.5	3,597.7	
Total Liabilities	**70,210.7**	**80,223.7**	
Total Equity	**5,798.2**	**6,353.5**	+9.6
Financial Position – Other Highlights			
Risk weighted assets	38,215.2	40,469.3	
Additional tier 1 capital ratio (%)	2.34%	2.04%	
Common tier 1 capital ratio (%)	9.25%	9.57%	
Tier 2 capital ratio (%)	2.02%	2.20%	
Income Statement Highlights			
Net interest income	1,333.8	1,422.5	6.7%

Other revenue	300.6	382.9	
Operating expenses	(1,179.8)	(1,033.7)	
Credit expenses	(168.5)	(18.0)	
Profit before tax	286.1	753.7	
Income tax expense	(93.3)	(229.7)	
Profit after tax	192.8	524.0	+171.8%
Key Trading Indicators			
Number of employees (persons)	4,776	4,483	
Assets per employee	15.9	19.3	
Shareholder performance highlights			
Basic earnings per share (cents)	38.1	98.1	
Fully franked dividend per share (cents)	35.5	50	

Strategy Challenge

Central to the strategy of BEN is its ongoing commitment to ESG, keeping in mind its purpose over the long-term. What are the overall challenges of the external environment? How can BEN best be proactive about its future and shape its industry, particularly in the face of a weakening property market and changes in monetary policy? What does financial ratio analysis tell you about BEN's performance and risk profile? How will BEN sustain growth and deliver profit growth in the short, medium and the long term given the current business? How can BEN better manage the increased competition resulting from mergers and acquisitions, changes in customer behaviour, and entry of new participants? How will BEN manage current and future strategic risks? What major projects should have priority for BEN in the medium term? How will BEN remuneration arrangements impact the organisation's growth and transformation strategy? Is BEN doing enough on reconciliation and indigenous opportunity?

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13.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED: THE EYES OF THE WORLD ARE WATCHING

By Tim O'Shannassy and Chris Hope

Acknowledgement

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Introduction

Taiwan Semiconductor Manufacturing Company Limited (TSM) operates in a difficult and uncertain business environment in the semiconductor industry, and is the world's largest business in this fast growing sector (Forbes, 2023; TSM, 2021). As a consequence TSM's strategy and success, or failure, is important to governments and corporations around the world. Semiconductors have major household, academic, industrial and military use.

There have been significant global political, and trade tensions between major economies since 2018, plus the Covid-19 pandemic (TSM, 2021). Covid-19 alone with its impact on health institution overload and lockdowns in particular legal jurisdictions (e.g., China) has led to global supply chain disruption – and this has impacted the semiconductor industry.

The threat of war for Taiwan with China is real (Power-Riggs, 2023). Russia is at war with Ukraine. There continues to be the risk of the placement of tariff barriers, non-tariff barriers, and trade sanctions against particular countries, corporations and/or individuals. These types of trade barriers have the potential to have a strong impact on the semiconductor industry, adversely impacting TSM ability to produce product and/or provide services to customers (TSM, 2021).

TSM enjoyed another year of strong revenue and profit growth, but there remain a variety of challenges and uncertainties. What is their optimal strategy focus for the future?

Business Environment Challenges in the Semiconductor Industry

Currently, the political situation is very delicate for global business. China is pushing for the European Union (EU) and other regions to avoid official dealings with Taiwan, and the United States has made several plays to assist TSM, including partnering to develop a US$12 billion United States chip fabrication plant in the United States (Arizona) and banning technology access to Chinese companies (Power-Riggs, 2023). After the invasion of Ukraine by Russia, many United States and EU policy makers remain concerned about the reliance of the world on Taiwan and namely TSM to produce advanced chips (The Economist, 2023).

A recent study in the US State Department predicted that a blockade on Taiwan by China would have a significant adverse impact on access to semiconductors and world Gross Domestic Product (Power-Riggs, 2023). This has led to a complex political situation where TSM currently hold a great deal of industrial and political power for Taiwan, with the United States motivated to protect Taiwanese interests in relation to China because of this (Crawford, Dillard, Fouquet & Reynolds, 2021).

A semiconductor chip shortage has been caused in recent years by a series of global events which include raw material shortages, trade wars and the COVID-19 pandemic which led to a drop in demand. With difficult economic conditions including a rising cost of living across the globe and slower world economic growth (International Monetary Fund, 2023), companies are also now forced to balance the political element of their purchasing decisions and who to align with (China or the United States) (Power-Riggs, 2023). There is big money in the semiconductor industry, with the EU, United States and China throwing around billions of dollars to improve their position in the industry and avoid a reliance on TSM. Tokyo is attempting to lure TSM into Japan also for research and development (R & D) with US$1 billion plus the potential for further financial support for a manufacturing facility. China itself is also spending big, with US$1.4 trillion earmarked in 2025 alone for spending on chip development (Crawford et al., 2021). The US recently introduced the "Chips and Science Act" which as a result means more capability and R&D for US companies who are developing the microchips. This is expected to be worth several billion dollars to the industry in the US (Powers-Riggs, 2023).

Taiwan has begun to increase investment in its education sector, with a focus on recruiting students to the semiconductor industry and increasing the number of specialised schools that focus on the industry (Wu, 2022). A well educated workforce is important in the semiconductor industry. The complex geopolitical situation with China means that the Taiwanese population are directly affected by the economic and industry status of the semiconductor industry, and how the great power rivalry of the United States and China plays out (Power-Riggs, 2023). It is a delicate time.

Taiwan produces around two thirds of the world's semiconductors (65%) and approximately 90% of the advanced chips. By comparison, China produces just over 5% while the US produces approximately 10% (Crawford et al., 2021).

Protecting intellectual property is crucial for success in this industry. In particular, it is important that industry players are prepared for any cybersecurity breaches or industrial espionage which could undermine the integrity of their intellectual property (Reuters, 2021). There is discussion among lawmakers in Taiwan to establish legislation to prevent China from poaching Taiwanese technology talent and offering them jobs in the Chinese semiconductor industry (Reuters, 2021).

Environmental considerations are very import in the semiconductor industry, and an important focus for governments and corporations; sustainability may affect future investment flows from governments, superannuation funds, or other corporate entities.

Samsung, Intel Inc., Micron and TSM are locked in battle for dominance of the chip industry, and this rivalry is only set to develop further as the political landscape is volatile and rapidly shifting, and technology in this sector advances (Investing.com, 2023; Ting-Fang & Li, 2022). For instance Huawei has made several recent investments to improve its chip capabilities to produce both chips at scale and to develop more advanced chips, after the United States moved to reduce their access to United States technology. In 2021, Huawei invested in just under half of domestic China chip technology companies which doubled their 2020 investment. Approximately 70% of these Huawei investments were in relation to semiconductor-related supply (Ting-Fang & Li, 2022).

There are high barriers to entry for the semiconductor industry due to the challenging technology required to make the chips (TSM, 2021). One such entry barrier is the large amount of investment required to be in the industry which creates a high financial hurdle for new players. Another hurdle is mastery of manufacturing capability at scale, something that the Chinese government and Chinese enterprise have not been able to achieve (Power-Riggs, 2023). Taiwan companies including TSM dominate the advanced chips industry now with more than 90% market share, and 60% market share in semiconductors (Power-Riggs, 2023). The political situation can dramatically shift this analysis (TSM, 2020).

There are no evident substitutes for semiconductors, but materials that could replace silicon include indium gallium and black phosphorus.

Should Europe or others rely on a large industry player like

TSM given the geopolitical situation? How much advanced microchip making can Europe really do, or how much does it really need? These are some of the considerations to make when thinking about the threat of substitutes. Could quantum computing make an impact on the future of chipmaking? (Deloitte, 2023).

Volumes are falling in the semiconductor market with demand weakness evident. However, many semiconductor companies including Intel and TSM have long-term contracts with their suppliers and are unlikely to want to damage a relationship by breaking a commercial agreement (The Economist, 2023).

During the COVID-19 pandemic, the demand for cars dropped which meant car makers did not want to extend contracts with semiconductor companies. However, there was an increased demand in other sectors which resulted in a reallocation of semiconductor manufacturing capacity to these contracts. There is now a shortfall of semiconductors in the car industry due to these circumstances.

There is a focus on diversification in all parts of the semiconductor supply chain, with trends leaning to traditional supply chain strongholds in Asia shifting to North America and Europe (Power-Riggs, 2023). China will seek to influence this trend to its advantage in the short and medium term, however replicating Taiwan's manufacturing capability will not be easy. When considering this and how it impacts suppliers to the industry, it is important to consider the impact of how partnerships and alignment with either the European Union, China or United States play a part (Deloitte, 2023).

Critical success factors required for survival in the semiconductor industry include manufacturing capacity, alliance partnerships, research and development, technology, design, intellectual property, patents, trademarks, product quality, service quality, political lobbying, distribution channels, employee training and development, employee mobility, and advertising.

Taiwan Semi-Conductors Strategy Situation

Taiwan Semi-Conductors Strategy and Governance

TSM's mission is "to be the trusted technology and capacity provider of the global logic IC industry for years to come" delivering industry leading and advanced semiconductor products (TSM, 2021:2).

TSM's stated vision "is to be the most advanced and largest technology and foundry services provider to fabless companies and IDMs, and in partnership with them, to forge a powerful competitive force in the semiconductor industry" (TSM, 2021: 2).

TSM core values include integrity, customer trust, commitment, and innovation (TSM, 2021).

In the previous financial year the key elements of the TSM differentiation strategy was:

- Improving quality and productivity from TSM fabrication facilities
- Generate greater wafer output from existing capacity
- Create greater production capacity, strengthening capital expenditure
- Improve customer service
- Improve research and development infrastructure (TSM, 2021).

TSM revenue is earned through customers using smartphones, internet of things (IoT), computing and digital consumer electronics (TSM, 2020).

TSM undertakes long-term demand forecasting for its operations and has determined the need to increase the capacity of its operations Taiwan, Nanjing in China, Arizona in the United States and Kumamoto in Japan (TSM, 2021).

During the Covid-19 pandemic TSM took strong measures to protect employees whilst ensuring the continuation of fabrication facilities to support customers. This action helped TSM to achieve a strong profit outcome (TSM, 2020).

TSM is committed to environment-social-governance (ESG) performance with green manufacturing, an inclusive work environment, supply chain responsibility and looking after the underprivileged priorities (TSM, 2021).

The TSM board comprises 10 directors including Taiwan's Director, National Development Fund. The chairman is Mr Mark Liu. Mr C.C. Wie is Vice Chairman and Chief Executive Officer (CEO). Nine directors are male and there is one independent female director. Five directors are Taiwanese, four from the United States and one from the United Kingdom (TSM, 2021).

Taiwan Semi-Conductors Functional-Level Situation

The board and executive believe TSM is about to enter a period of high growth given the growth industry conditions with 5G, high performance computing and applications likely to push high demand for computing power (TSM, 2020). The TSM differentiation market strategy has been a clear winner for them (TSM, 2021).

The customer profile for TSM product and services is dynamic, so TSM need to be agile. A further risk management issue is the concentration of sales with the current largest customers currently at 71% of net revenue (2020 74%; 2019 71%) (TSM, 2020; TSM, 2021). In the current financial year the two largest customers of TSM account for 36% of net revenue. The nature of the electronics industry is that customer concentration is a characteristic, with only a small number of firms worldwide with capacity to produce mobile devices, applications and software with required capability at scale (TSM, 2021).

Net revenue by geographic segment is provided in Table 1 below and shows a clear reduction in sales in China over the three year period:

Table 1: Net Revenue by Geographic Segment (in New Taiwan Dollars Millions) (TSM, 2021)

	2019 Net Revenue	2019 %	2020 Net Revenue	2020 %	2021 Net Revenue	2021 %
Asia-Pacific (excluding China & Japan)	96,512	9	144,448	11	225,950	14
China	208,101	20	233,783	17	164,552	10
North America	640,335	60	827,511	62	1,035,982	65
Europe, Middle East, Africa	67,568	6	70,214	5	89,010	6
Japan	57,469	5	63,299	5	71,921	5
Total	1,069,985	100	1,339,255	100	1,587,415	100

Semiconductor manufacturing operations at TSM are conducted across the globe, are a substantial investment, and are mainly a fixed cost asset once established (TSM, 2021). There are significant operations in Taiwan, Nanjing in China, Arizona in the United States and Kumamoto in Japan (Power-Riggs, 2023; TSM, 2021). When manufacturing output rises, and costs at the manufacturing operations is fixed, these costs are spread over higher output, and then profit margins increase. Applying the same principles when output declines, profit margins decline (TSM, 2021).

TSM maintains an ecosystem of employees, suppliers and semiconductor fabrication facilities in Taiwan that provides a flexible, efficient and effective resource that allows operational synergies (TSM, 2019; TSM, 2020).

TSM does extensive business in China, but is wary these "operations...may be delayed, interrupted, suspended or cancelled due to unforeseeable social and political factors" (TSM, 2021: 4).

TSM considers its human resources its most important business asset. The great majority of the TSM workforce of 65,152 (2020 56,831; 2019 51,297) is located in Taiwan, as is the majority of the top management team. The China business and operations has a head count of 4,131 and North America business and operations a head count of 2,188. Workers in small numbers are located in Europe (2021 54 employees; 2020 52; 2019 50), Japan (2021 152; 2020 78; 2019 32) and Korea two employees (TSM, 2021).

TSM maintain a workforce of engineers that is flexible in work location and can be moved temporarily from one manufacturing facility to another if required (TSM, 2021). This can assist working on a semiconductor design problem, or a manufacturing process issue in a timely way (TSM, 2021). This is easier to do between Taiwan, Japan and the United States, there remains risk on the ongoing ability of TSM to move human resources for this type of work in China who are not Chinese citizens (TSM, 2021).

In terms of education 4.1% of TSM employees have a PhD, 47.3% a Master's degree, and 27.6% a university bachelor degree (TSM, 2021).

TSM are well aware of the risk of cyberattacks and have been proactive in establishing a comprehensive security network for internet access and computing. However despite these efforts TSM know they remain vulnerable to cyberattack on computing systems, and key corporate functions (e.g., accounting, manufacturing operations) (TSM, 2020).

ASML Holding N.V. makes the photolithography machines used to make computer chips. The major suppliers of wafers to TSM are GlobalWafers of Taiwan, Formosa SUMCO Technology Corporation of Taiwan, Shin-Etsu Handotai of Japan, SUMCO Corporation of Japan, and Siltronic AG of Germany (TSM, 2021).

Research and development (R & D) is an important requirement for success in the foundry segment and more broadly in the semiconductor industry (TSM, 2019). This is a fast moving industry environment with rapid technological change that can render recently introduced products and their associated technology obsolete (TSM, 2021). Sustained investment at scale is required to remain competitive, and

TSM has established a large number of patents in the United States and other legal jurisdictions (TSM, 2020).

TSM spending on R & D in the past three years in New Taiwan dollars (NT), and United States dollars (USD), and as a percentage of total revenue is provided in Table 2 below:

Table 2: Taiwan Semiconductor Manufacturing Company Limited R&D Spending 2019-2021 (TSM, 2021)

	NT (Millions)	USD (Millions)	% Total Revenue
2019	91,419		8.6
2020	109,484		8.2
2021	124,735	4,497	7.9

R & D is currently focused on advanced process technologies including 5-, 7-, 10- and 16- nanometre technology to beat our rivals to the market. It is anticipated that process technologies will go to the 3- and 2- nanometre in future years requiring further R & D spend. R & D is also required on TSM mature technologies to service existing customers (TSM, 2021).

TSM currently do centralised R & D work, plus R & D located at each of their fabrication facilities. Centralised R & D is in a variety of areas: advancement of new logic (e.g., metal oxide semiconductor logic), system on a chip, system in package, derivative design approaches, and cost effective system integration solutions (e.g., chip on wafer substrate)

(TSM2021; Sperling, 2012). The fabrication facilities R & D is focused on improvements in manufacturing process.

The majority of revenue is earned in Taiwan, though significant revenue is earned offshore (TSM, 2020). There is an historical trend of decline in average selling price for end use applications and the components such as semiconductors that go into these products (TSM, 2021).

In 2021 there has been a significant expansion in non-current liabilities, current assets and non-current assets. The 16% improvement in net profit after tax in 2021 compared to 2020 has assisted the improvement in net assets up 35% (TSM, 2021). Summary financial data is provided in Table 3 below. There has been a strong long run sales growth trend (TSM, 2021).

The Future for Taiwan Semiconductor Manufacturing Company Limited Strategy

The 2021 financial year has seen a strong increase in cash, total assets, net equity and earnings per share as the five key strategy elements were pursued:

- Improving quality and productivity from TSM

fabrication facilities
- Generate greater wafer output from existing capacity
- Create greater production capacity, strengthening capital expenditure
- Improve customer service
- Improve research and development infrastructure (TSM, 2021).

But now, political tensions between Taiwan and China has been associated with a depressed TSM share price; these are matters of some social and political complexity which are difficult for the top management team and board to control (TSM, 2021). Great investors like Warren Buffet are significantly and quickly reducing their shareholdings (Forbes, 2023). Will the current strategy settings be enough?

What will be the best future for TSM? Is the corporate symbolism in the mission, vision and values correct? Is TSM doing enough on ESG? Should TSM diversify geographically its operations more? Or should TSM simply try to improve within its existing manufacturing footprint in existing countries? Should TSM diversify its key clients by total revenue more? What level of commitment is suitable for R & D? Is the structure of the board of directors optimal?

<tdstyle=”width: 20%; font-weight: bold;” colspan=”5″>Balance Sheet Highlights

Table 3: Taiwan Semiconductor Manufacturing Company Limited Summary Financial Data (TSM, 2021)

$'000	2020 NT$ Millions	2021 NT$ Millions	% Change	2021 US$ Millions
Income Statement Highlights				
Total Revenue	1,339,254.8	1,587,415.0	+19	57,224.8
Cost of Revenue	(628,124.7)	(767,877.7)		(27,681.3)
Gross Profit	711,130.1	819,537.3		29,543.5
Finance Expenses	(2,081.5)	(5,414.2)		(195.2)
Net Profit Before Tax	584,746.3	663,036.0		23,901.8
Net Profit After Tax	511,008.0	592,880.6	+16	21,372.8
Basic Earnings Per Share	$98.48	$114.22	+16	$4.12
Balance Sheet Highlights				
Total Current Assets	1,092,185.3	1,607,072.9		57,933.4
Total Non-current Assets	1,668,415.2	2,118,229.3		76,360.1
Total Assets	2,760,600.5	3,725,302.2	+35	134,293.5
Total Current Liabilities	631,898.4	758,352.8		27,337.9
Total Non-current Liabilities	292,938.3	815,266.9		29,389.6
Total Liabilities	924,836.7	1,573,619.7	+70	56,727.5

$'000	**2020 NT$ Millions**	**2021 NT$ Millions**	**% Change**	**2021 US$ Millions**
Net Assets	2,760,600.5	3,725,302.2	+35	134,293.5
Cash Flow Statement Highlights				
Cash from Operations	874,028.6	1,195,658.6	+37	43,102.3
Net Cash from Operating Activities	822,666.2	1,112,160.7	+35	40,092.3
Net Cash (used in)/from Investing Activities	(505,781.7)	(836,365.8)		(30,105.2)
Net Cash used in Financing Activities	(88,615.1)	136,608.5		4,924.6
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(23,498.1)	(7,583.8)		(273.3)
Net Increase/(Decrease) in Cash and Cash Equivalents	204,771.3	404,819.6	+98	14,593.4
Cash and Cash Equivalents End of Year	660,170.6	1,064,990.2	+61	38,391.9

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14.

MANDARIN ORIENTAL IN VIETNAM: THE CHALLENGES OF ESTABLISHING A NEW PROPERTY

By Tim O'Shannassy and Stephen Jasper

Acknowledgement

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Background

In late 2018 Group Chief Executive James Riley, a long-term Jardine Matheson employee, is grazing the breakfast buffet and enjoying the company of colleagues at the Mandarin Oriental Hotel Group's (Mandarin Oriental) flagship hotel in Hong Kong, and cannot stop thinking of the opportunity and the challenges of opening a five-star luxury hotel in Ho Chi Minh City Vietnam, formerly known as Saigon. Has Mandarin Oriental chosen the right country and the right location within that country for this investment? Will the Ho Chi Minh City property be able to achieve and sustain the required room rate and ancillary revenues to deliver return on investment? How will Mandarin Oriental deliver their signature customer service and service quality in Ho Chi Minh City? There was much to reflect on with a tension between Jardine Matheson corporate objectives and Mandarin Oriental business-level concerns.

Ho Chi Minh City is a logical choice for a Mandarin Oriental property with the growing Vietnam economy, low labour costs and comparably low property ownership or lease costs compared with other major Asia-Pacific cities such as Hong Kong, Sydney and Melbourne. Ho Chi Minh City is the centre of economic activity in Vietnam and the major hub of the southern region of the country.

In relation to ownership structure Mandarin Oriental International Limited is the parent company of Mandarin Oriental and a subsidiary of Jardine Matheson Group. Jardine Matheson Group own a 66% shareholding in Mandarin

Oriental International Limited. Mandarin Oriental International Limited is incorporated in Bermuda and listed on the London Stock Exchange with secondary listings in Bermuda and Singapore (Jardine Matheson, 2018).

Mandarin Oriental is famous world-wide an award-winning owner and operator of 31 hotels and eight residences across 21 countries and territories operating more than 7500 rooms globally (Mandarin Oriental International Limited, 2018). These are some of the most luxurious hotels, resorts and residences in the world. Each hotel, resort and residence reflect the brand's oriental heritage, strong emphasis on customer service, and sense of space.

The Company

Mandarin Oriental is a small part of the much larger Jardine Matheson Group. Mandarin Oriental is responsible for 3% of the Jardine Matheson Group's total underlying profit (Jardine Matheson, 2018), bringing in US $44 million in 2018.

The Jardine Matheson Group has its headquarters in Hong Kong, and its activities are heavily focused in Asia, with 56% of its assets in China, 40% in South East Asia, and only 4% in the rest of the world (Jardine Matheson, 2018). As a result, the Jardine Matheson Group is heavily dependent on Asian economies, particularly China.

As with the much larger Jardine Matheson Group, Mandarin Oriental also has an Asian background. It was founded in 1963 with the opening of 'The Mandarin' in Hong Kong, and in 1974, Mandarin Oriental acquired 49% of Bangkok's famous historic hotel, 'The Oriental', forming the 'Mandarin Oriental'. Mandarin Oriental has grown to a global brand with a total of 12,500 employees and total capital investment US $125 million (Jardine Matheson, 2018). The company is incorporated in Bermuda and listed on the stock exchange in London, Singapore and Bermuda (Mandarin Oriental International Limited, 2019).

The current group chief executive of the Mandarin Oriental Hotel Group, James Riley, has had a long career within Jardine Matheson, having been there since 1993. His previous roles include Finance Director of Jardine Cycle & Carriage and Jardine Pacific, and Managing Director of Jardine Pacific before being appointed Jardine Matheson's Group Finance Director in 2005. From 2012 to 2016, Mr Riley was a non-executive Director of the Hong Kong and Shanghai Banking Corporation and Chairman of its Audit Committee. Before joining Jardine Matheson he qualified as a Chartered Accountant with Price Waterhouse in London and then spent seven years as an investment banker with Kleinwort Benson (Bloomberg, 2016).

Given the diversity of divisions within the Jardine Matheson Group, it would seem that there is a great deal of autonomy in Mandarin Oriental in terms of operations, as it is a very distinct identity within the portfolio of the Jardine

Matheson Group's assets. However, the leadership team of the Mandarin Oriental is paid somewhat below the industry average (Bloomberg, 2019), although this may reflect the Mandarin Oriental being part of a much larger group of companies.

The Branding

Mandarin Oriental is branded as a prestige offering, with luxury five-star accommodation. Their stated mission is to 'completely delight and satisfy our guests. We are committed to continual improvement, to making a difference every day and to being the best' (Mandarin Oriental Hotel Group, 2019a). The hotel chain began in Hong Kong and Bangkok, with location being a significant factor in the decision to build a hotel. Mandarin Oriental hotels are located in prestigious neighbourhoods in cities such as the Passeig de Gràcia in Barcelona and Knightsbridge in London and clients include royalty and some of the richest industrialist families in the world.

There is also a strong marketing campaign for the Mandarin Oriental using high profile celebrities (Mandarin Oriental Hotel Group, 2019a) such as actors Morgan Freeman and Lucy Liu, singer-songwriter Zayn Malik and champion golfer Adam Scott (Mandarin Oriental Hotel Group, 2019b), to enhance the sense of prestige and luxury.

Information technology has also been a significant component building the Mandarin Oriental brand. Microsoft technologies were working with Mandarin Oriental to provide premium digital experiences for guests (Microsoft Corporation, 2014). However, digital experiences for guests has not always gone to plan. For example, Mandarin Oriental was hacked and credit card data was stolen in a hack attack on the company's network (BBC News, 2015). Since then Mandarin Oriental has worked hard to restore faith in their digital technology (Delporte 2018), with an ongoing commitment to continue to make investments in technology to ensure a high quality customer experience as technology steadily advances (Mandarin Oriental New York, 2018). As evidence of this commitment Mandarin Oriental is the first hotel to offer "business and technology butlers" on-site who provide information technology support to guests 24 hours a day (Mandarin Oriental Hong Kong, 2018).

Mandarin Oriental was slow to initiate a loyalty program for its customers (Skift Inc., 2018), finding that their customers wanted different benefits for their stays (e.g., upgrades) rather than complementary nights at a hotel. However, the Mandarin Oriental has invested heavily in digital marketing, using websites with multiple languages that can be viewed easily on a mobile (Mandarin Oriental Hotel Group, 2019a).

Mandarin Oriental room prices in Asia can vary at the low end from US$135 to US$140 per night in Kuala Lumpur and Jakarta to very expensive in Hong Kong depending on the season. Ancillary sales with each room booking (e.g. food, alcohol) also influence profitability of room bookings overall for a property.

Mandarin Oriental Hotel Group Financial Performance

In 2018 earnings before interest, tax, depreciation and amortisation were higher at US$179 million (2017 US$158 million). Underlying profit was higher at US$65 million (2017 US$55 million) with earnings per share at US 5.16 cents (2017 US 4.37 cents). Mandarin Oriental net debt at year end 2018 was US$285 million (2017 US$327 million) with gearing as a percentage of adjusted shareholders' funds 5% (2017 6%). Within the Mandarin Oriental portfolio of properties Hong Kong and Singapore were the best performers, with one-off fees for Las Vegas and Atlanta also assisting 2018 results positively. Jakarta is also showing noticeable improvement in 2018 (Mandarin Oriental International Limited Annual Report, 2018).

The Current Situation in Vietnam

Despite a change in leadership due to the sudden death of president Trần Đại Quang in 2018, Vietnam is relatively stable politically and economically, with gross domestic product forecast to expand 7% in 2019. Vietnam has a stable currency and inflation rate, and the central authorities are committed to sustainable growth (Central Intelligence Agency 2018; Nguyen, 2018). Vietnam has successfully made the transition from a centralised planned economy to a free market economy (Fforde, 2019). There is also a strong manufacturing sector in Vietnam, and a relatively young population (Central Intelligence Agency, 2018). Investors are also attracted to the Vietnamese economy and Vietnam has strong foreign direct investment inflows as Vietnam opens economically (Central Intelligence Agency, 2018). Consumer confidence is relatively high in Vietnam compared with Thailand, Malaysia or Singapore (Nguyen, 2018).

However, there are potential problems looming for the Vietnamese economy, with economists stating that 'Vietnam needs to keep an eye on borrowing', with credit card use increasing, the Vietnamese government being close to its debt ceiling, a high proportion of bad debts in the banking sector, a collapsing real estate sector, and the potential of economic downside from the effects of a trade war between the U.S. and China (Nguyen, 2018).

Due to the rapid development of the Vietnamese economy there are significant environmental challenges, with water pollution and solid waste treatment being substantial issues, and the environmental situation in Vietnam is deteriorating due to a lack of governmental resources (GlobalSecurity.org, 2019). Because of the poor environmental conditions in Vietnam there is a very high risk of infectious diseases, especially food or waterborne diseases for travellers to Vietnam (Central Intelligence Agency, 2018).

Another issue is a reluctance to use internet banking in Vietnam, with many retailers not online, including restaurants (Toan et al. 2018). While the banking system is highly regulated (similar to China and India), the Vietnamese banking sector is not as efficient as either China or India, but is relatively inefficient (Nguyen TPT, 2018). The Vietnamese banking sector faces a number of difficulties in terms of human resources, with a lack of employees with the skills to use banking information technology effectively and information technology professionals to support an online banking system (Toan et al., 2018).

There are also a number of legal restrictions in Vietnam. While Vietnam is politically and economically stable, legal avenues such as freedom of information legislation, while aligned with best practice, is in practice ‘mainly symbolic and might not facilitate practices of real transparency in the country’ (Dang Trung & Do, 2018).

Culturally, using Hofstede’s six dimensions of culture model, Vietnam has a relatively high power distance index (Hofstede, 2017). This high power distance index implies that Vietnamese people ‘accept a hierarchical order in which everybody has a place and which needs no further justification’

(Hofstede, 2017), implying that in the hospitality industry, particularly high-end operations catering to the top end of the market, staff attitudes are more likely to facilitate customer comfort.

Ho Chi Minh City as a Destination

Most of the major hotels in Ho Chi Minh City are clustered around Nguyen Hue Street which runs from the landmark Ho Chi Minh City Hall. These hotels include the Reverie Ho Chi Minh City, the Park Hyatt and the famous Rex Hotel which is owned by the state-owned enterprise Ho Chi Minh City Tourist, and this location is likely to be where the Mandarin Oriental locates its new hotel in Ho Chi Minh City.

In recent years the hospitality industry has had substantial changes to its landscape, with the rise of online booking systems rather than the use of travel agents to secure bookings. Additionally, the rise of hotel price comparison sites such as Trivago and Wotif have put more power in the hands of customers, although these sites are less frequently used for large hotel chains such as the Mandarin Oriental (Martin-Fuentes & Mellinas, 2018), as well as a number of hotel review sites such as Yelp and TripAdvisor (Bigné, William & Soria-Olivas, 2019; Duffy, 2015). Also, the rise of AirBnB has significantly altered the use of hotels, although again this product focuses on the low end of the market rather than five-star accommodation such as the Mandarin Oriental (Belarmino et al., 2019; Guttentag et al., 2018).

Because of the shift in technology in the hospitality industry, the Mandarin Oriental Hotel Group has sought to be a leader in this space, investing heavily in digital marketing (Mandarin Oriental Hotel Group, 2019a).

In terms of hotel operations, because of the high risk of food or waterborne infectious diseases (Central Intelligence Agency, 2018), extra care needs to be taken with the water supply, water purification and kitchen in the proposed hotel, as well as training hotel staff in safe food handling techniques to achieve Mandarin Oriental quality standards. Overseas suppliers, including suppliers from Australia, are keen to supply produce to the Vietnamese market, and with a strong French influence on Vietnamese cuisine, dairy products are particularly well received in the Vietnamese context (Australian Trade and Investment Commission, 2019).

The Future

The Vietnamese market clearly offers a number of opportunities to multinational corporations such as the Mandarin Oriental, with a strong, stable and growing economy, stable currency and political stability. However, there are also several significant challenges in operating a premium hotel in the Vietnamese market, and the Mandarin Oriental Hotel Group needs to balance the opportunities offered in Vietnam with the challenges of opening and operating a profitable hotel in Ho Chi Minh city. Should Mandarin Oriental open a luxury hotel in Ho Chi Minh city? If so, what precautions should it take to ensure that the brand is protected and enhanced by this operation? What price point per room night can Mandarin Oriental hope to achieve in Ho Chi Minh City? How will Mandarin Oriental achieve its signature level of customer service in Ho Chi Minh City? What value will the Ho Chi Minh City property add to the Mandarin Oriental in support of the overall expansion strategy?

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