



APPLYING 'RRR' IN A POLICY CONTEXT

**Lessons from helping create the Australian Government's
Office of Supply Chain Resilience**

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Applying 'Risk, Resilience, Reward' in a policy context

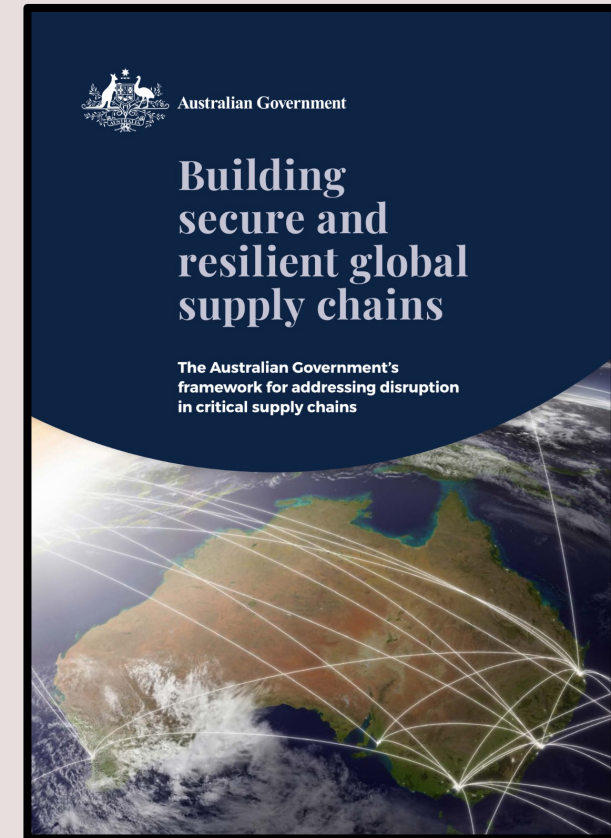
Overview

Phase 1: Acknowledging	1. <u>The policy challenge</u> : grappling with a more complex goal
	2. <u>Early hurdles</u> : recognising our need for nuance
Phase 2: Adopting	3. <u>Defining the drivers</u> : uncovering what drives risk and resilience
	4. <u>Mapping relationships</u> : the less obvious links between risk, resilience and reward
Phase 3: Applying	5. <u>Targeting action</u> : assessing where intervention is necessary
	6. <u>Prioritising action</u> : first testing measures with fewer potential trade-offs
Phase 4: Reflecting	7. <u>Lessons learned</u> : how RRR solved problems – and revealed others

The policy challenge:

Grappling with a more complex goal

- The COVID-19 pandemic sharpened Australia's focus on ensuring our most critical supply chains are not only efficient, but also resilient.
- 'Reward' from efficient supply chains was well defined:
 - Opportunity from a thriving global economy.
 - Access from removing barriers to trade and investment.
 - Capability from having the labour and capital to take up opportunities.
- But we knew much less about where we are at risk, and what made us resilient.



Early hurdles:

Acknowledging a need for nuance

- Elevating resilience as a goal demanded that we flush out categorical assumptions and false dichotomies, and deliver nuanced, more granular analysis.
 - The pandemic caused many to challenge the narrative that open markets would always, on their own, safeguard us against shocks.
 - Early economic analysis defended the role of openness, but stopped short of proposing how to recognise risks that private businesses would not address.
 - Economists needed to convince sceptical colleagues that while openness wasn't a panacea, it was still a vital buffer against disruption.
- We needed to identify the specific drivers of risk and resilience to tell exactly where open markets were a reliable buffer, and where reinforcing action by government was justified.

Government statement on supply chains (2021)

Australia recognises that stable, flexible and dynamic global markets are a natural driver of resilience.

Open trading systems allow nations to access the most competitive and reliable global suppliers, no matter where they are located.

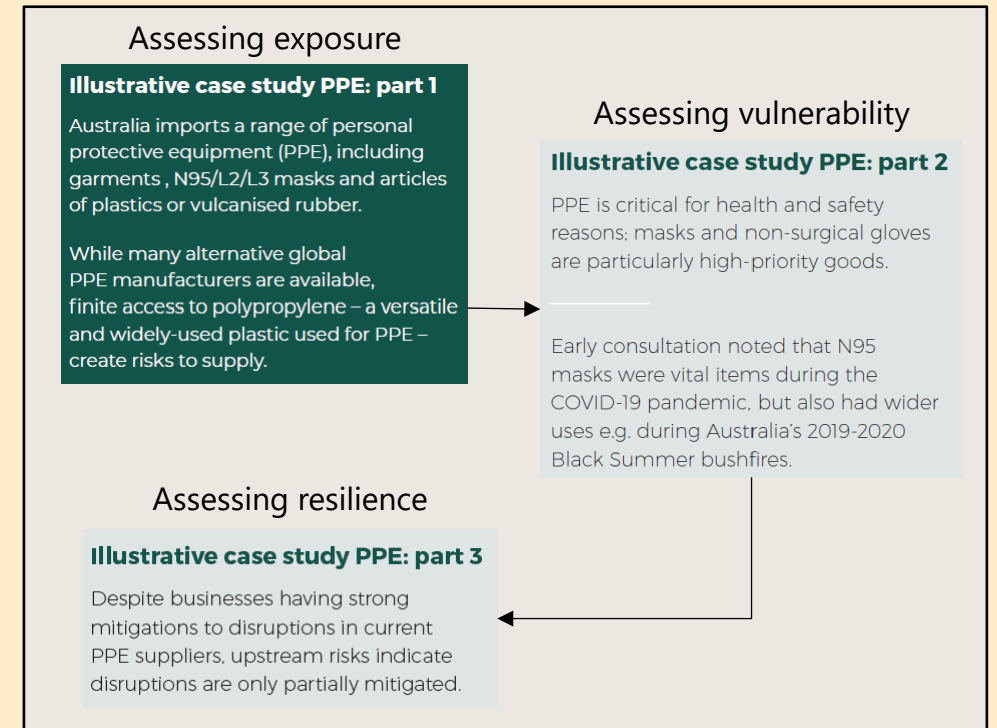
Australia's supply chains have proven to be resilient to disruptions so far. In response to COVID-19, local and multinational companies demonstrated their ability to adapt.

However, where supply chains are critical to our national interest, businesses will not always have the information, motive or means to sufficiently manage the wider risks of a disruption.

Defining the drivers:

Uncovering what drives risk, and what makes us resilient

- Our definitions of risk and resilience were drawn directly from the RRR model.
- We defined **risk** as a combination of:
 - A plausible trigger for large-scale disruption (Threat/hazard)
 - Concentrated supply in current and global supply chains (Exposure)
 - The criticality of the product for the safety, security and wellbeing of Australians (Vulnerability)
- We defined **resilience** as a mixture of:
 - Ability to continue operating without new supply (Absorptive capacity)
 - Ability to source supply from alternative sources (Adaptive capacity)
 - Ability to adjust local processes to reduce dependence on impacted products permanently (Transformative capacity)



Mapping the relationships:

To better understand where, and how, Government should act

Relationships that inform if action is needed

- Risk ⇔ Resilience: Capacity to adapt to disruptions will grow alongside international trade exposure, *if* global supply chains are diversified
- Risk ⇔ Resilience: The private sector can be relied on to manage risk exposure and resilience, *if* it has the (1) information, (2) motive and (3) means

Balancing behaviour

Relationships that drive which actions to prioritise

- Reward ⇔ Resilience: A dynamic and open economy can more readily adapt to disruption, and has more resources to invest in absorbing/transforming
- Resilience ⇔ Reward: A more reliable ability to handle disruptions bolsters confidence, driving more investment and trade

Reinforcing behaviour



Designating targets:

Assessing where intervention is needed

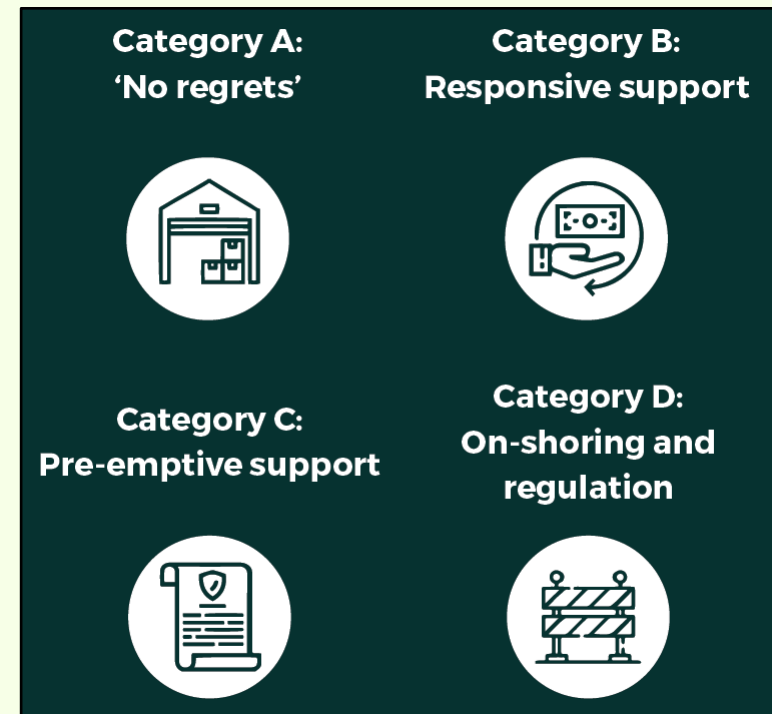
- We narrowed down the supply chains that warranted action by combining our assessments of risk and resilience.
- The need for action was decided by the degree of 'residual risk' – i.e., risks that would not be managed well enough by our existing drivers of resilience.
- It became essential that we had mapped the preconditions needed for market-driven resilience to keep pace with risk.

Risk
once accounting for
Resilience
equals
Residual Risk

Prioritising action:

Testing options with potential for fewer trade-offs first

- Mapping relationships between risk, resilience and reward uncovered a wide range of policy options
- This also allowed us to group options to boost resilience into broad categories:
 - Some were 'no regrets': they either boosted efficiency (reward) at the same time, or had few-to-no trade-offs
 - Some involved trade-offs, but had the potential to be more affordable than others
 - We still recommended costlier measures for some cases, but testing alternatives first ensured they were necessary



The result:

Targeted, holistic advice on a complex issue



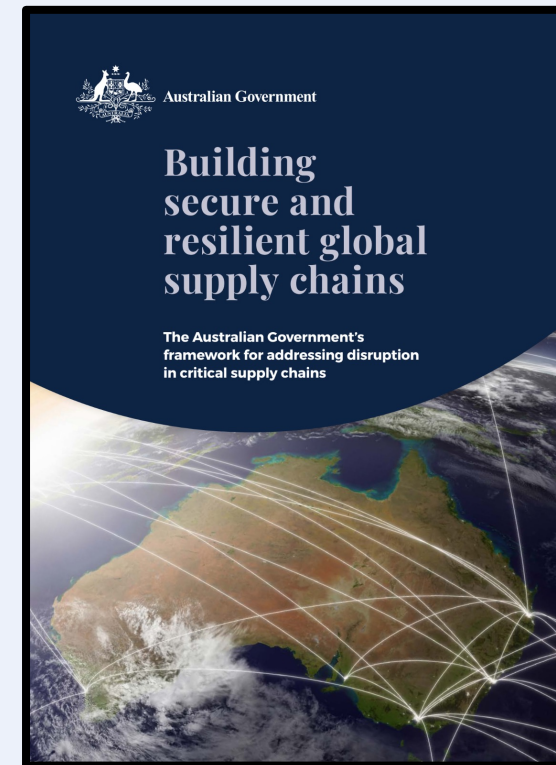
Evidence-based assessments that targeted attention where it was needed most



Holistic policy recommendations that were proportionate and necessary

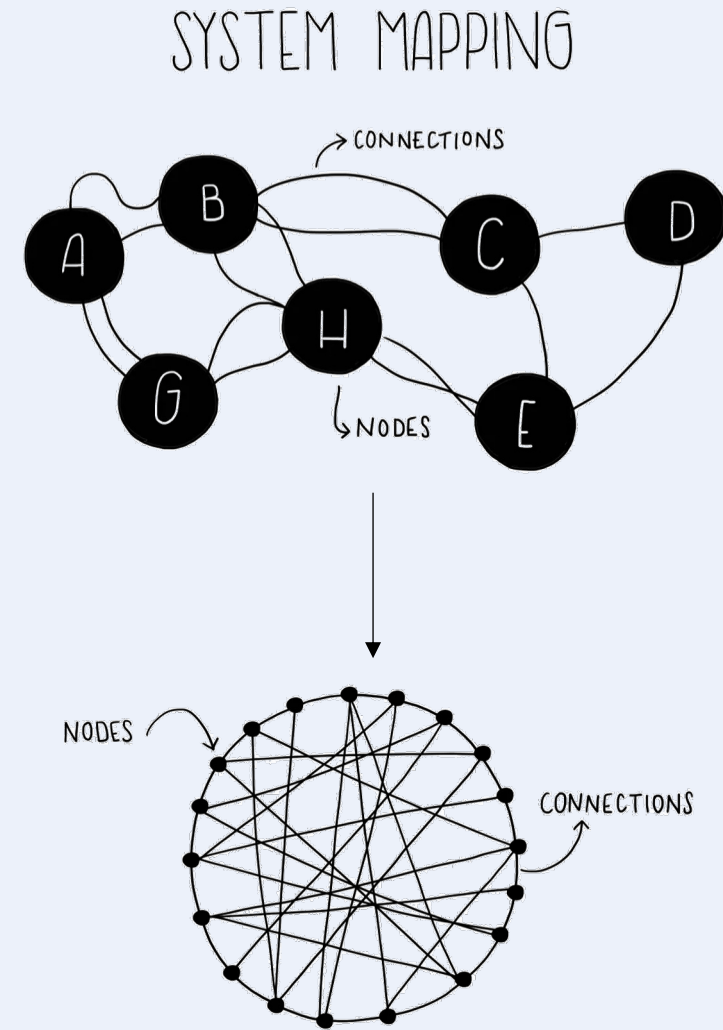


An intuitive framework that informs advice to this day, and gained attention internationally



Lessons learned: Why did it work?

- **The people involved:**
 - saw how they fit into the bigger picture
 - were encouraged to test and qualify their assumptions
- **The problem solving process:**
 - uncovered complex, policy-critical connections
 - broke analysis down into practical, digestible steps
- **The final advice to government:**
 - synthesized advice from experts in multiple fields
 - was intuitive and practical



Lessons learned

What barriers to integration did the process uncover?

1. **Incentives and culture**: public servants need an authorising environment that shifts the goal of debate from 'winning' to finding the right answer
2. **Processes and structures**: bureaucratic systems must make joining up simpler and give policy teams more time to unpack problems properly
3. **Capability and capacity**: training and hands-on support from in-house experts would help policy leads in future

