



Future Perspective

**Productivity Commission
Business Set-up, Transfer and
Closure in Australia**

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1. Scope of Inquiry to include business operations

Business transfer and closure in many instances are the symptom. Arguably, a cause may be described as business operations that overwhelm the capability and circumstance of the business owner. Consequently I contend the business operations phase should also be the subject of the Productivity Commission's inquiry.

In regard to business operations, general comments on government activities that impact business productivity are as follows:

1. Government to business transactions are arguably unnecessarily slow and are negatively impacted by Machinery of Government change, change of government, slow policy implementation and slow procurement processes. This in turn impacts business efficiency, no more so than micro businesses, SMEs and not-for-profits. Examples include:
 - Slow procurement processes result in sub-optimal resource allocations in SMEs whilst they wait to a) be informed their short-listed status, b) be deemed preferred supplier, c) negotiate the contract and d) commence the work. It can be a case of each day that passes by is a day of lost income.
 - The procurement approach that public servants do not to inform unsuccessful respondents until after contract execution limits good will and limits business releasing or re-allocating those resources to income generating activities.
2. Grants administration red tape remains problematic for entrepreneurs. The process impedes real business innovation. Two aspects include:
 - The cancellation of grant programs without imminent replacement and/or policy certainty grinds economic activity to a halt. For example, the limited communication of the cancellation of the Commercialisation Australia program in the May 2014 budget that did not transition to the Entrepreneur Infrastructure Fund until November 2014. Other funding uncertainty examples cited in the media include researchers going overseas and annual allocations to homeless sector services.
 - Grants administration challenges include a) uncertainty of outcome reducing the willingness to submit an application, b) significant time delays in decision making delaying economic growth or missing market place opportunities and c) the quantity and type of grants related paperwork distracts the business from income generating activities.

In regard to the Productivity Commission discussion paper comment that business entry and exit is a sign of a competitive economy, each SME business wind up from insolvency has other significant impacts, including:

- being very expensive to mental health and household cash flows(disposable income including rent/mortgage payments), and
- should be seen as a social liability for the individual, family and the community in which that business spends its money.

2. Responding to the Inquiry Paper

1.1. Question 2

Although not published indexes, consideration should be given to the below as a contribution to a comprehensive Performance and Activity measure (PA) that more comprehensively reflects business productivity.

| Measure | Description |
|------------------------------------|--|
| GDP | Traditional GDP measure |
| GDP InG | GDP plus innovation and growth pipeline |
| GDP Plus Resilience and Prosperity | GDP plus resilience and prosperity |
| Change Index by Sector | The amount of change in which businesses operate |
| WotB Ratio | Working on the business in contrast to working in the business |
| FCS Ratio | Free content/service in contrast to paid content/service delivered to prospects and customers |
| MMM Cash Flow Analysis | Mean, median and mode cash flow analysis trends (where SMEs are not in the unemployment statistics but earning less than the average wage) |
| Resource Efficiency | Reduced quantities of resources to create a given amount of output in the traditional GDP economy |
| Resource Efficiency Plus | Reduced quantities of resources to create a given amount of output in the social and cultural economy |

1.2. Question 3

Although not providing a response to this question, I challenge the bundling of established businesses such as franchises and business consultants. As a generalisation, I contend this is not helpful as the nature repetitive franchise work is in contrast to the unique nature of business consulting services. Business consultants are aware of the challenge of providing what the customer wants as well as what the customer needs.

1.3. Question 4

There are too many businesses opening in individual segments. The first example is charities where too much funding is lost in administration rather than being directed to the intended purpose. An option would be to establish an administrative service provider for all charities under a certain size. The second example, is in the for-profit sector, where for example there are too many cup-cake stores, where it is likely that many will need to fold once the fad has passed. The foreseeable economic drawback of business failure could be mitigated if the government was to provide high quality current information on like businesses with a focus on SMEs – where knowledge, time or resources are reduced. This capital is lost and unlikely to be available to be reinvested.

1.4. Question 5 and 9

Regulation and governance arrangements are likely to place a greater burden on older entrepreneurs that risk catastrophic loss of their family assets, in comparison to younger entrepreneurs that are less likely to hold the same responsibilities or asset base. Further, the disincentives are also highlighted when big corporates manage to protect their assets from business failure. Both examples highlight equity issues.

1.5. Question 14

Access to finance is central to business growth.

The Victorian Government's former Department of State Development, Business and Innovation provided a nimble well regarded technology development voucher program. This program has not been re-launched following the Victorian Government election.

The Civil Aviation Safety Authority Certificate of Airworthiness represents a significant cost to Australian businesses seeking to commercialise products. This is especially so when viewed in comparison to international products that receive timely access to finance to support their product development.

See Section 3 – Proposed Program Design, where the superannuation industry could fund SME innovation and growth, without government funding burdens.

1.6. Question 15, 17, 18 and 20

See Section 3 – Proposed Program Design, where the superannuation industry could fund SME innovation and growth, without government funding burdens.

The bar in regard to the entrepreneur risk equation is worthy of consideration. Why do people have to risk losing their houses? Older entrepreneurs that have established families, homes and mortgages suffer a much greater consequence of business failure. Why can't superannuation investment funds spread risk appropriately to allow for timely investment to merit worthy SMEs. Superannuation fund investment should be at a system level rather than SMSF level in order to distribute the risk and calculate an appropriate ROI.

1.7. Question 26

The aviation sector regulatory environment is complex and is worthy of consideration with the interplay of CASA, Airservices Australia and the SMEs wishing to bring product to international markets. The risk is Australian businesses being uncompetitive.

1.8. Question 41

The innovation culture is a locked up inside institutions that have not yet rebalanced their risk portfolio with the future economy.

3. Proposed Program Design

Future Perspective is in the business of strengthening resilience and prosperity in those businesses it supports. When in a period of transformation change, often it is difficult to see it and name it until long after it has passed. Bigger thinking and resultant action is needed in order to restore the balance so SMEs are able to implement their vision and strategic agenda and deliver economic productivity.

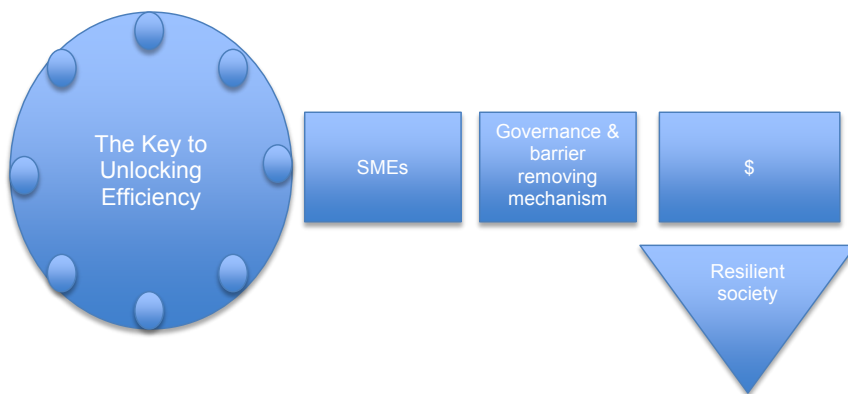


Figure 1: The Key to Unlocking Efficiency

The Government could structure and the superannuation industry maintain a portion of its investment funds in a manner that unlocks intellectual capital for SME innovation and growth. Successful SMEs could be required to pay back to the fund in a royalties or HECS-like manner borrowing investment phraseology where “historic performance is not an indicator of future performance”. See the proposed investment logic map Figure 2: Proposed Investment Logic Map - Growth from funds invested in super.

The proposed design suggests program principles should include:

- Sitting along-side government funding
- Promotion of local economy enabling activity
 - Supported and networked services and/or know-how to time and resource poor SMEs
- Independence from government and government policy to:
 - withstand machinery of government changes
- Provision of ongoing and nimble funding
 - Inform unsuccessful applicants promptly
 - Redistribution of risk to enable SMEs
 - Contribution to business climate certainty
- Inclusion of solutions for wicked problems that:
 - may be disruptive change, but allows society to be resilient and flourish
 - may rebalance the value equation
 - may be beyond the constraints of government timeframes, conservative nature of bureaucratic risk taking, legislation and regulation
 - uses a systems- level approach which is likely to involve the private sector, industry, multiple tiers of government, statewide, interstate and funding sources – large interests, governments and industry associations

LEVERAGING BUSINESS GROWTH FROM FUNDS INVESTED IN SUPERANNUATION

Responding to the needs for business innovation

Funding strategy

INVESTMENT LOGIC MAP Program

PROBLEM

BENEFIT

STRATEGIC RESPONSE

Traditional thinking by silo-focused institutions limit solutions to wicked problems
20%

Improved quality of life at society level 20%
KPI 1: Wicked problem solutions that enable productivity
KPI 2: Disruptive change ideas supported and progressed

Contribute to solving wicked problems that stand in the way of productivity
25%

Few SME funding sources outside government results in dependence on unreliable government timing and limited funding
15%

Increased and ongoing sources of innovation funding for SMEs 30%
KPI 1: Increased in non-government investment in SME innovation
KPI 2: Investment during policy uncertainty

Establish legislative frameworks in which superannuation funds are a source of ongoing SME funding
20%

Reliance on government funding subjects business to policy uncertainty, election cycles that limits certainty
15%

Supported SMEs 20%
KPI 1: Well governed pro-innovation mechanism that is nimble and light touch
KPI 2: Supported SMEs
KPI 3: Less business closures due to complex business environment

Create light touch governance structures that deliver flexible funding to merit worthy SMEs
15%

Failure to develop fit for purpose funding sources impedes timely SME support, innovation and growth
50%

Greater SME productivity 30%
KPI 1: Stronger Australian contribution to innovation
KPI 2: Increased economic growth
KPI 3: Increased social and cultural infrastructure
KPI 4: Royalties returned to the fund

Provide supported and networked services/ know-how to SMEs
10%

Enable innovation, provide pathways and advocate on behalf of merit worthy SMEs
30%

Investor: Proposal for Productivity Commission
Facilitator: Future Perspective
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Figure 2: Proposed Investment Logic Map – SME growth from funds invested in super

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The problem is described as follows:

- Traditional thinking by silo-focused institutions limit solutions to wicked problems
- Few SME funding sources outside government results in dependence on unreliable government timing and limited funding
- Reliance on government funding subjects business to policy uncertainty, election cycles that limits certainty
- Failure to develop fit for purpose funding sources impedes timely SME support, innovation and growth

The proposed benefits and their KPIs are listed below:

- Improved quality of life at society level 20%
 - KPI 1: Wicked problem solutions that enable productivity
 - KPI 2: Disruptive change ideas supported and progressed
- Increased and ongoing sources of innovation funding for SMEs 30%
 - KPI 1: Increased in non-government investment in SME innovation
 - KPI 2: Investment during policy uncertainty
- Supported SMEs 20%
 - KPI 1: Well governed pro-innovation mechanism that is nimble and light touch
 - KPI 2: Supported SMEs
 - KPI 3: Less business closures due to complex business environment
- Greater SME productivity 30%
 - KPI 1: Stronger Australian contribution to innovation
 - KPI 2: Increased economic growth
 - KPI 3: Increased social and cultural infrastructure
 - KPI 4: Royalties returned to the fund

And finally, the proposed strategic response is as follows:

- Contribute to solving wicked problems that stand in the way of productivity 25%
- Establish legislative frameworks in which superannuation funds are a source of ongoing SME funding 20%
- Create light touch governance structures that deliver flexible funding to merit worthy SMEs 15%
- Provide supported and networked services/ know-how to SMEs 10%
- Enable innovation, provide pathways and advocate on behalf of merit worthy SMEs 30%