



Future Perspective

Productivity Commission Business Set-up, Transfer and Closure in Australia Response to Draft Report

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1. Introduction

This submission follows the impromptu discussion with the Commissioners at the Productivity Commission hearing in Melbourne on 22 June 2015.

This submission supports government “taking care not to pick winners” and government programs being focused on state and national strategic priorities and sectors for future resilience and prosperity. In principle, economic prosperity should be achieved by Australians in Australia in industries beyond the strategic priorities, without the need to apply for entrepreneurial/innovation funding assistance from other nations.

This submission draws on personal experience of:

- the Victorian Government Technology Development Voucher program
- the Business Transformation activity of Sustainability Victoria – where the transformation focus is on materials efficiency, including collaboration across the supply chain to bring innovation to market that cannot be achieved within the walls of an individual business
- Government assistance is needed earlier on in the innovation journey, where peer-to-peer needs more certainty/clarity/progress in order for there to be something in which to invest
- Scaled assistance (acknowledging Box 11.8) should not be based on business structure, but other relevant business dimensions
- Nimble assistance (acknowledging Box 11.9)

2. Amendment to Recommendations

Recommendations to reflect tone of Chapter 11

Within 11.2 Rationales for government assistance, the discussion focuses on entrepreneurship and high growth businesses. Unfortunately, the tone of the recommendations does not mirror the preceding discussions on pp 255-263 including Boxes 11.8 and 11.9.

Enabling entrepreneurship can and should occur within the existing business population, as per the following edits and additions to the recommendations.

Additional Chapter 11 recommendation

It is contended that the text on p 272 below draft recommendation 11.1 is significant enough that it should be promoted to be a chapter recommendation, with the proposed edits marked in red.

“Entrepreneurialism is an important feature of markets and results in beneficial outcomes for the whole community, particularly in terms of innovation and economic growth. If governments provide any assistance to promote entrepreneurialism, they should adhere to the governance framework set out in box 11.13. They should also ensure that other conditions are met to support the cost-effectiveness of any assistance (see box 11.9) — in particular, that the assistance:

- targets directly market failures that are barriers to entrepreneurialism (and other types of businesses), including knowledge generating activities that are likely to result in substantial positive spillovers
- is of a scale that is in keeping with the size of the business or market and other relevant business dimensions
- involves matching appropriate commitment from businesses

- is subject to appropriate evaluation.

Governments should also take care not to 'pick winners' by focusing on specific business models, high growth businesses, industries, or locations. This approach can draw resources away from other activities or locations that may be just as, or more, worthwhile from a community-wide perspective."

For discussion on other relevant business dimensions, see – section 4.

Amended Chapter 11 recommendation

It is contended that draft recommendation 11.2 be amended as follows:

"DRAFT RECOMMENDATION 11.2

All government assistance programs for business should be of fixed duration, subject to transparent assessment of the economy-wide net benefits, and incorporate clear and credible objectives, performance indicators and independent evaluation.

Any promotion of entrepreneurialism by governments should:

- target desired outcomes and community benefits, such as knowledge or network spillovers and technology transfers resulting from innovations (rather than prescribing specific business models, sectors or locations)
- be modest appropriate, relative to the scale of the business or market and other relevant business dimensions
- require matching appropriate private sector funds or support where possible, and
- embed frequent assessments to enable early learnings and necessary program evolution or program end.

For discussion on other relevant business dimensions, see – section 4.

3. Financial Assistance

Rationale

There is a mismatch of individual risk and effort and societal reward. The economy benefits from transformations brought about by individual entrepreneurs that is delivered at great personal risk and they should be rewarded as such. Their efforts should not be taken for granted just because these people use their entrepreneurial character traits, for without this innovation, the economy will stagnate and lag other economies.

In addition to:

- what can governments do to support high growth businesses
- what can governments do to support small businesses

The missing question is:

- what can governments do to promote entrepreneurs .

Financial assistance is important to a range of entrepreneurial businesses. In some instances government assistance funding gaps cause work, productivity, and job creation to cease as the entrepreneur has no appetite to increase their risk/debt profile.

Job creation should be deemed a spill-over benefit and a moral good. The purpose of business is to make money/profit rather than make jobs. Contrary to the view of the draft report, although spillovers in the commercialisation stage resulting from technology transfer may be limited by intellectual property, job creation is higher at this stage of the processes - thus strengthening the rationale for assistance during commercialisation.

Further, commercialisation assistance rationale is strengthened in those industries where market entry, compliance and certification costs are high.

Although some are concerned that an industry has developed around the grant application process, it is contended that an industry around grants management is acceptable. The internal support inside government departments has been downsized and one grants management expert facilitator services many businesses and brings applicants to government in a much stronger shape and increases the likelihood of success than if they were not facilitated.

This submission supports the approach of not picking winners.

Amount of funding

From the Government's perspective, the level of certainty to size of funding formula should increase as the business innovation crystallises and becomes explainable in business plans, cost/benefit analysis and business cases that deliver government objectives and plateau as the business reaches self-sufficiency delivering years of value to the economy.

From the perspective of the micro entrepreneur, access to funding according to criteria is essential.

Market entry costs

Government assistance that contributes to market entry expenses and establishment costs transfer a portion of this burden from individual businesses. By way of example the brick layers tools of trade versus a high-technology industry tools, can range from 10 to 100 times before one dollar can be made.

In some industries there is further onerous initial design compliance and certification before commercialisation and spill-over benefits are achieved. The industries could be weighted according to the relative market entry burden.

Missing markets, which include future industries, is a special case. Considerable effort should be taken by government that when a missing market is identified, the businesses can quickly respond through the government assistance system to bring about the most efficient value for money, quickest time to market and automatic linkage through the various processes.

Innovation system – a portfolio of grants

The portfolio/suite of grants enable businesses to apply for the type and amount of assistance most relevant for its circumstance, risk appetite, and potential to take the next step toward commercialisation. However, there should be clear linkages from the start of the development journey through to finalisation and commercialisation. The recommendation is for paperwork to transition through the stages/grant programs with minimal repetition in paperwork, redesign, cost and time to businesses (even across Departments and Levels of Government). Although this submission brings the attention of the Productivity Commission to the Victorian Government Technology Development Voucher program (see section 5), it is not to devalue in any way the other programs such as the Australian Government's commercialisation program. In fact, it is the suite of programs and how they sit together that needs consideration in order to keep innovation in Australia. Otherwise, Australian businesses will seek overseas support and the Australian economy will lose value that rightly belongs in our economy.

Therefore it is paramount that the state and federal government have a linkage enabling businesses to effectively and seamlessly move between and throughout the programs at the highest possible speed and lowest expense to the business (and to government) reducing rework burden on both business and government entities, enabling shorter time to market and less cost of overheads to the business. The ultimate benefit is to be internationally competitive, being first to market more often with significant return on investment to Australia.

4. Relevant Business Dimensions for Entrepreneurs

Table 1: Effective categorisation of business

	1	2	3	4	5
Age of Business (1 = <0, 2 = 1-3, 3 = 3-5, 4 = 5-10, 5 = 10+)				X	
Sector Maturity (1 = infancy, 2 = general awareness, 3 = growth, 4 = maturity, 5 = decline)			X		
Maturity of Technology (1 = doesn't exist, 2 = proof-of-concept in development, 3 = proof of concept, 4 = being commercialised required enhancements, 5 = commercialised)		X			
Regulatory Support (1 = not on horizon, 2 = in design, 3 = new regulation, 4 = regulation, 5 = regulation counter to/inhibiting growth)		X			
Size of business* (1 = 0 in-kind contributions, 2 = part-time sub-contractors only, 3 = 1-4 employees, 4 = 5-200 employees, 5 = 200+ employees)		X			

* In regard to size of business, the scale has been selected based on 1 = innovators providing in-kind hours being funded by their income elsewhere, 2 = subcontractors for specific additional assistance, 3 = micro business, 4 = SME (VECCI) and 5 = large businesses.

Young or old businesses in a particular market segment is too simple an approach in order to maximise value from government assistance. Financial stability may also provide funding to those less in need as those without financial stability may have greater need.

The table above represents the complex dimensions that exist within various businesses/market sectors that seek to access, benefit from, and provide spill-over benefits back to government. The challenge, as we see it, is that government assistance needs to value the: age of business; sector maturity; maturity of technology;

regulatory support; and size of business dimensions. It is suggested that “the sweet spot” to deliver maximum benefit to the economy is those businesses that score between 2 and 4 in each (or the majority of categories). The sample data in the table above is an actual business (unnamed) that is currently receiving government support and has been assessed as having potential for growth and job creation in an emerging market.

5. Victorian Government Technology Development Voucher

In relation to Box 11.9 on page 256, an example of such a program is the former Victorian Government's innovation and technology vouchers program. Below listed is website content for the overarching program and the \$50,000 Technology Development Voucher program.

Innovation and Technology Program

<http://www.business.vic.gov.au/support-for-your-business/grants-and-assistance/innovation-technology-vouchers>

Potential grant funding

Up to \$10,000 Technology Student Accelerator Voucher (TVP)
Up to \$10,000 Innovation Skills Voucher (IVP)
Up to \$25,000 Smart Design Voucher (IVP)
Up to \$25,000 Business R&D Voucher (IVP)
Up to \$50,000 Technology Development Voucher (TVP)
up to \$250,000 Technology Implementation Voucher (TVP)

Eligibility

All Vouchers are open to all Victorian Small and Medium Sized businesses (SMEs) with less than 200 employees, at various stages of their life cycle. Technology Development and Technology Implementation Vouchers are also open to Large businesses with more than 200 employees. In exceptional cases, and subject to the specific voucher type, non-Victorian businesses may also be eligible to apply.

Program summary

The Technology Voucher Program specifically targets the development, adoption and integration of industrial biotechnology, small technologies (nano and micro scale technologies), and advanced information and communication technology (ICT) by businesses. The Innovation Voucher Program aims to improve the innovation capability and capacity of small and medium sized enterprises (SMEs) and publicly funded research organisations (PFROs). It helps SMEs access the facilities and know-how needed to innovate and helps PFROs improve their ability to service industry projects.

Vouchers fund “suppliers” to undertake work / activities for voucher holders (successful applicant companies). Each voucher type has a specific capability and supplier list which you can link to and explore from this page. You may also be able to bring a new supplier to the program (depending on the voucher type). You will need to identify a supplier that fits your needs and receive a quote from them to undertake the intended voucher project activities before you can apply for a voucher.

Technology Development Voucher

<http://www.business.vic.gov.au/support-for-your-business/grants-and-assistance/innovation-technology-vouchers/technology-development-voucher>

Program Overview

The Technology Development Voucher is available to support commercially focussed projects involving the substantial development/and or absorption of industrial biotechnology, small technologies or advanced information and communication technology (ICT).

Potential grant Funding

Up to \$50,000 Technology Development Voucher - applicants must meet the co-contribution requirement with eligible project expenditure

Eligibility

All Vouchers are open to all Victorian Small and Medium Sized businesses (SMEs) with less than 200 employees, at various stages of their life cycle. Technology Development and Technology Implementation Vouchers are also open to Large businesses with more than 200 employees. In exceptional cases, and subject to the specific voucher type, non-Victorian businesses may also be eligible to apply.

What you get

A business can, for example, exchange a Technology Development Voucher for work to be undertaken by an agreed supplier to:

- develop materials, documents or prototypes for commercial feasibility
- evaluate processes and product design
- undertake product design, testing, validating, prototyping, laboratory verification, certifying or demonstration to get product and/or service to market faster
- access emerging technologies from other commercial entities that can be transferred into the company to improve products, processes or services
- obtain pre-commercial financing for technology based products or services.

Reflecting the maturity of the ICT market in Victoria, the program will support only “high level” ICT applications for projects that involve demonstrably new technology development or exploration and/or testing the application of existing technologies in innovative or novel ways. (Website Development / App Development / E-Commerce / transition from Paper to Digital / relatively Simple Software and System Development are therefore not supported activities.)

For more examples of how the Technology Development Voucher could be used, refer to the Program Guidelines.

Program Conditions

Voucher applicants are required to make a minimum cash co-contribution from the business:

- Victorian small to medium businesses (1-199 employees) applicants must make a minimum cash co-contribution of 25 per cent of the voucher amount requested (i.e. \$12,500 cash contribution for a \$50,000 voucher)
- non-Victorian and large Victorian businesses (200+ employees) applicants must make a matching cash co-contribution from the business (i.e. \$50,000 cash contribution for a \$50,000 voucher)

Voucher applicants:

- may apply individually or jointly with other applicants
- cannot redeem vouchers to pay for services already funded through other local, state or federal government grant programs
- must be an entirely separate entity from the supplier(s), with no financial or other ties (companies/organisations and suppliers may not be owned by the same parent company, share governance or have common directors)
- declare any existing governance relationships between themselves and the nominated supplier(s), including whether any of the project suppliers:
- are subsidiaries or related bodies corporate within the meaning of Corporations Act 2001
- share common directors, officers or senior manager
- must commence project within 3 months and complete the project within 12 months of the date of voucher issue
- must not make any public announcement or issue any press release regarding the receipt of a voucher, except in consultation and with the approval of the the Department of Economic Development, Jobs, Transport and Resources (DEDJTR).

What can't the Technology Development Vouchers be used for?

The voucher cannot be used to cover 'business as usual' expenses. As such, vouchers funds may not be used to cover the following expenses (unless approved in writing by the Victorian Government through its the Department of Economic Development, Jobs, Transport and Resources (DEDJTR):

- business plans
- legal/intellectual property costs (excluding Freedom to Operate searches)
- purchase or licensing of commercial, off-the-shelf technology (e.g. software)
- design and production of advertising material
- sales, marketing and promotion activities
- costs associated with applying for government grants and programs
- basic professional services such as ongoing, routine accounting, tax and legal business requirements, and financing fees
- routine maintenance
- travel costs and entertainment costs
- any expenditure of time by in-house personnel of the applicant
- any amount paid on account of goods and services tax
- any administrative fee or surcharge for administering such expenditures
- anything else as determined by the Victorian Government discretion not to meet program conditions.

The program will not support business as usual ICT activities or support businesses to acquire ICT products or services that can be readily accessed in the market. The Program is not intended to support projects which primarily involve:

- basic research
- routine replacement or upgrade of plant and equipment
- activities that would be undertaken in the normal course of business, including but not limited to: capacity expansion, the development and/or integration of business software applications and systems (e.g. accounting, financial management, HR, e-commerce) or upgrades and/or modifications to existing software applications
- development of simple mobile and tablet applications
- website development
- simple software and system development
- straight-forward biotechnology product development activities not involving the industrial application of enzymes or microorganisms (e.g. drug design, development or clinical trial).

Funding will not be provided for retrospective activities (i.e. where project expenditure is incurred prior to voucher issue).

Number of vouchers a successful Technology Development Voucher applicant can receive:

Victorian small to medium companies (1 - 199 employees)

One Technology Student Accelerator Voucher and One Technology Development Voucher and One Technology Implementation Voucher and One Innovation Skills Voucher

Large Victorian companies

One Technology Development Voucher or One Technology Implementation Voucher only

Non-Victorian companies (including foreign owned)

One Technology Development Voucher or One Technology Implementation Voucher only

6. Other program opportunities

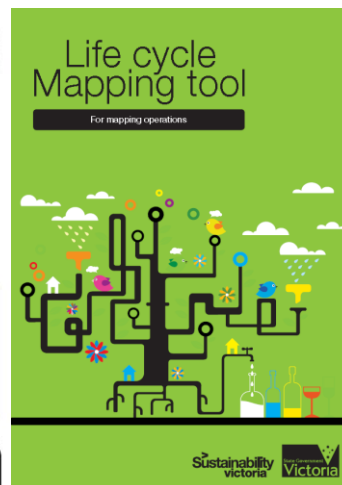
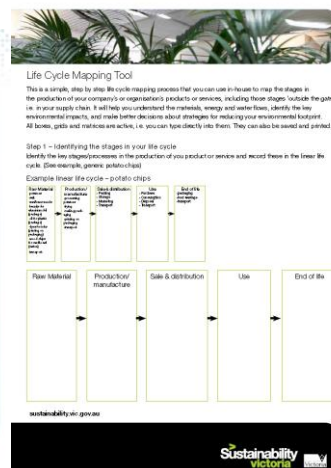
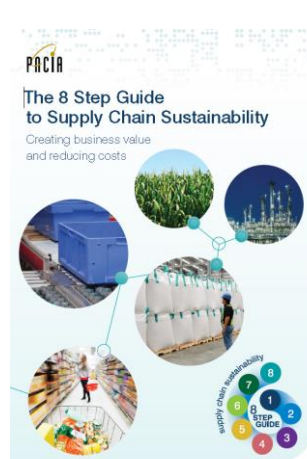
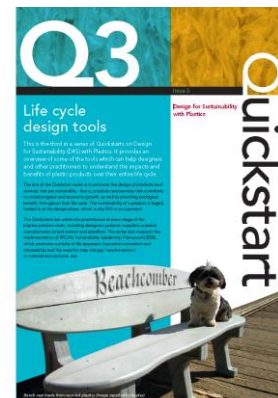
Materials/Feedstock Efficiency Grants \$50,000

The Future Perspective Issues Paper submission discussed resource efficiency. That is, reduced quantities of resources to create given amount of output a) within businesses and, where possible b) across the supply chain. This results in business transformation of existing processes/ technologies/ businesses to move to innovative materials and efficient design.

There is no need to invent business transformation support from the government sector to the private sector as much great work exists that can be applied nationally. For example, in previous years Sustainability Victoria provided funds to industry associations including the Plastics and Chemicals Industries Association. Contract outputs include the Design 4 Sustainability Publication series. Of particular interest are Q3 where sustainability/materials efficiency/ feedstock quantities are locked in at the design stage and Q12 where business models are the focus.

Although the language of sustainability may not resonate with all workers, businesses and industries, materials, feedstock or inputs efficiency is of interest to everyone. A recommendation to the Productivity Commission is to rebadge the Design 4 Sustainability materials and launch a national materials efficiency grants program for SMEs.

<http://www.sustainability.vic.gov.au/services-and-advice/business/energy-and-materials-efficiency-for-business/resources-and-tools/life-cycle-management>



Quickstart

- [Q1: Design for sustainability with plastics \(PDF 1.3MB\)](#)
- [Q2: Plastics and the environment \(PDF 1.1MB\)](#)
- [Q3: Life cycle design tools \(PDF 1.1MB\)](#)
- [Q4: Degradable polymers in product design \(PDF 861kB\)](#)
- [Q5: Design for recovery at end of life \(PDF 529kB\)](#)
- [Q6: Sustainable design principles for plastic building products \(PDF 2.2MB\)](#)
- [Q7: Specifying recycled plastics \(PDF 1.3MB\)](#)
- [Q8: Life cycle assessment \(PDF 2.4MB\)](#)
- [Q9: Innovations for sustainability \(PDF 1.3MB\)](#)
- [Q10: Adapting to a carbon constrained economy \(PDF 3.0MB\)](#)
- [Q11: Sustainable design principles for packaging \(PDF 212kB\)](#)
- [Q12: New business models \(PDF 1.0MB\)](#) -

See more at: <http://www.pacia.org.au/programs/quickstartpublications#sthash.4JF7zEly.dpuf>

Materials Efficiency in the supply chain

http://www.supplychainsustainability.org.au/the_eight_steps - program overview

http://www.supplychainsustainability.org.au/the_guide - for the guide and tools

http://www.supplychainsustainability.org.au/life_cycle_thinking/life_cycle_tools