Submission to the Productivity Commission Inquiry into Reducing Barriers to Business Dynamism

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Key recommendation: The Australian Government should complement firm-level support with deliberate investment in ecosystem capability. This includes trusted convening, relationship development, capability building, mission-driven collaboration and mechanisms that reduce the cost of businesses finding one another, building trust and assembling the expertise needed to pursue new opportunities.

Australia's business ecosystem contains extraordinary capability. Researchers, consultants, small businesses, startups and independent specialists are developing innovative ideas and solving complex problems every day. Many of these businesses fail to thrive, not because they lack ambition or capability, but because they struggle to connect with the people, opportunities and support needed to grow.

This inquiry rightly considers regulatory barriers, access to capital and management capability. These are important. However, there is another barrier that receives far less attention: the lack of deliberate investment in the relationships and networks that allow businesses to collaborate effectively.

Australia's innovation policy is still largely organised around supporting individual firms. Increasingly, however, innovation is created within ecosystems of complementary organisations that come together in different configurations to respond to emerging opportunities and challenges. As markets, technologies and community needs change, these collaborations adapt, drawing on diverse capabilities without requiring every business to build all capabilities internally. Supporting the health and connectivity of these ecosystems is therefore an important, but often overlooked, driver of business dynamism.

This perspective is consistent with recent OECD work, which identifies networks, leadership, trust and knowledge exchange as core components of high-performing entrepreneurial ecosystems, alongside finance, institutions and regulation. Likewise, the OECD's SME and Entrepreneurship Outlook highlights the importance of business networks in enabling firms to access knowledge, technology, finance and capability beyond their own organisational boundaries.

Fragmentation creates hidden costs. Businesses spend significant time building networks, establishing credibility and finding collaborators instead of delivering work, innovation and productivity growth. These transaction costs are largely invisible within existing policy settings. The opportunity is not simply to reduce friction between businesses and government, but to reduce friction between businesses themselves.

Government has an important role in reducing this friction. Just as governments invest in physical infrastructure because it enables economic activity, there is a strong case for investing in the social infrastructure that enables businesses to collaborate: trusted convening, relationship development, capability building and cross-sector networks. These investments help businesses identify partners, build confidence, share knowledge and pursue opportunities that would otherwise remain beyond their reach.

Government also has a broader role than regulating markets or funding individual projects. It can help shape markets by creating the conditions in which innovation can emerge and grow. This includes bringing together diverse participants around shared challenges, supporting collaboration across sectors, acting as an informed early customer where appropriate, and designing programs that encourage experimentation, learning and iterative scaling. These interventions reduce uncertainty without diminishing the incentives for businesses to innovate and compete.

Australian entrepreneurs and small businesses routinely invest their own time, income and reputation in developing new ideas. Public policy often encourages greater private-sector risk taking while placing comparatively little emphasis on how governments themselves can share appropriate levels of risk to unlock innovation.

Grants remain an important policy tool, but they are fundamentally transactional. Funding is allocated, reporting requirements are met, and the relationship often concludes regardless of whether the innovation succeeds, adapts or scales. Innovation, however, is relational. It requires ongoing learning, iteration and adaptation as new information emerges.

A grant is a transaction – an investment is a relationship. A grant funds a project – a relationship builds a market.

Governments that seek to foster business dynamism should therefore think beyond funding projects towards investing in innovation ecosystems. This means remaining engaged in the success of ideas through approaches such as mission- and challenge-based procurement, staged investment, pilot programs and collaborative demonstration projects. These approaches allow governments and industry to learn together, build evidence progressively and reduce uncertainty over time. They create stronger feedback loops, enabling governments to better understand which interventions are delivering lasting economic and social value.

By shifting from a predominantly transactional model to a more relational one, government moves beyond simply distributing funding to actively creating the conditions in which innovation can emerge, mature and scale.

Business dynamism is not simply about making it easier to start or close a business. It is about creating the conditions in which capable businesses can find one another, build trust, combine their expertise and respond quickly to emerging opportunities. By investing in the health and connectivity of Australia's business ecosystems, governments can strengthen productivity, resilience and innovation while helping Australian businesses compete more effectively in an increasingly complex economy.

References

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