SUBMISSION TO THE

Productivity Commission

Inquiry into Reducing Barriers to Business Dynamism

Submitted by:

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Introduction

The Ambitious Australia Panel welcomes the opportunity to contribute to the Productivity Commission's inquiry into reducing barriers to business dynamism. We commend the Commission for recognising that stronger business dynamism is essential to improving Australia's productivity, competitiveness and long-term prosperity.

Business dynamism is more than the rate at which new businesses are created. It reflects the ability of firms to innovate, invest, grow, adapt and successfully transition through each stage of the business lifecycle. Dynamic economies are characterised by a continual cycle of business creation, growth, renewal and exit, where capital, talent and ideas are efficiently redeployed to their most productive uses. This process underpins productivity growth, higher living standards and economic resilience.

Australia has many of the foundations for a dynamic economy, including world-class research institutions, a highly skilled workforce, sophisticated financial markets and entrepreneurial talent. Yet Australia continues to underperform in translating these strengths into globally competitive businesses. Business investment in research and development has declined, commercialisation remains weak, and too few firms successfully scale into internationally significant companies. The result is slower productivity growth and reduced economic complexity.

The *Ambitious Australia* report concluded that these challenges cannot be addressed through isolated reforms. Improving business dynamism requires a coordinated policy framework that strengthens innovation, mobilises capital, develops entrepreneurial capability and supports firms throughout their growth journey. This submission draws on the findings and recommendations of *Ambitious Australia* and responds to each of the Commission's five priority areas. It argues that Australia should focus not simply on creating more businesses, but on creating the conditions for more businesses to innovate, scale and compete globally. That is the pathway to stronger productivity, more resilient industries and sustained economic growth.

1. Administrative and Regulatory Costs of Starting and Growing a Business

Reducing unnecessary regulatory burden is an important part of improving business dynamism. Efficient business registration, proportionate regulation and streamlined compliance lower the cost of entrepreneurship and encourage business growth. However, for innovative businesses, the greatest barriers often arise after establishment, as they navigate a fragmented system of regulation, funding programs and government support.

Australia's regulatory burden has increased significantly over the past decade. We heard how Australian businesses face increasing regulatory burdens, with compliance consuming an increasing share of management time. These costs fall disproportionately on startups and small businesses, which have limited resources to manage complex regulatory and reporting obligations.

The *Ambitious Australia* Panel found this complexity is particularly evident within Australia's innovation system. More than 150 Commonwealth research, development and innovation programs operate across multiple agencies, each with different objectives, eligibility criteria and reporting requirements. The result is unnecessary duplication, higher compliance costs and a system that is difficult for businesses to navigate.

The Research and Development Tax Incentive (RDTI) illustrates this challenge. Businesses consistently report that the scheme is complex, uncertain and administratively burdensome, with most relying on specialist consultants to prepare claims, resulting in leakage of funds from the innovation ecosystem into consulting services. Simplifying the RDTI, improving certainty and reducing compliance requirements would increase participation while lowering administrative costs.

The Commission should take a broad view of regulatory reform. While simplifying business registration is important, the greater opportunity lies in reducing the complexity businesses face as they innovate and grow. Establishing a National Innovation Council, improving coordination across government and streamlining Australia's innovation support system would reduce duplication, improve access to government programs and allow founders to focus on building businesses rather than navigating bureaucracy.

Reducing regulatory burden should ultimately be measured not by how quickly businesses can be established, but by how effectively Australia's policy settings enable innovative firms to grow, scale and compete globally.

2. Australia's Innovation Ecosystem

Australia's productivity challenge is fundamentally an innovation challenge. Business dynamism is driven by firms that develop new products, commercialise new technologies and create new markets. These businesses account for a disproportionate share of productivity growth, investment and job creation. Yet while Australia performs strongly on many of the inputs to innovation—including research excellence, education and entrepreneurial talent—it continues to underperform in translating these strengths into commercial outcomes. Business investment in research and development (R&D) has declined over the past decade, research commercialisation remains weak, and too few Australian firms successfully scale into globally competitive companies.

The *Ambitious Australia* Panel concluded that this is not because Australia lacks good programs or institutions. Rather, it lacks a coordinated innovation system with clear national priorities, effective governance and strong links between research, industry and capital. Innovation policy is fragmented across multiple portfolios and agencies, with overlapping responsibilities and inconsistent objectives. Businesses seeking to innovate face a complex landscape of grants, tax incentives, research organisations and support programs that can be difficult to navigate, particularly for early-stage companies. This fragmentation reduces the effectiveness of public investment while increasing the cost and complexity of innovation.

Improving business dynamism therefore requires strengthening Australia's innovation ecosystem as a whole. The Panel's recommended the establishment of a **National Innovation Council** to provide strategic leadership and coordinate innovation policy across government. Reporting to National Cabinet, the Council would align Commonwealth investment, establish long-term national priorities and provide greater certainty for business, researchers and investors. Complementing this reform, the Panel proposed six National Innovation Pillars to focus investment on areas of comparative advantage and ensure that innovation policy supports long-term productivity growth rather than short-term program delivery. We commend the Government on the announcement of the National Science and Resilience Council in the 2026 Budget. We must ensure that this Council is successful in achieving strategic leadership and national coordination.

A stronger innovation ecosystem must also improve Australia's ability to translate research into commercial value. Australia consistently ranks among the world's leading nations for research quality but lags behind comparable economies in commercialisation. Too few discoveries become new products, companies or industries. Strengthening collaboration between universities, publicly funded research organisations and industry should therefore be a national priority. This includes reforming incentives to reward research translation alongside academic excellence, expanding industry PhDs, supporting researcher mobility between universities and business, and encouraging entrepreneurial pathways for researchers. Research excellence is an important national asset, but its full value is realised only when it generates economic and societal outcomes.

Government also has a critical role in creating demand for innovation. Public procurement remains an underutilised mechanism for supporting Australian startups and emerging technology companies. Strategic procurement can provide innovative businesses with an important first customer, demonstrate the commercial viability of new technologies and accelerate business growth. Better use of procurement would complement existing supply-side measures, helping firms reach the scale necessary to compete internationally while improving the delivery of public services.

The Commission should also consider the broader institutional settings that shape entrepreneurial ambition. International evidence suggests Australians are more risk averse than many comparable economies, with cultural attitudes towards business failure acting as a barrier to entrepreneurship and innovation. While insolvency reforms have improved Australia's framework in recent years, further work is needed to ensure that responsible business failure does not discourage future entrepreneurship. Successful innovation ecosystems recognise that business failure is often part of the innovation process, enabling founders to apply their experience to future ventures. Reducing the stigma associated with entrepreneurial failure and supporting "second chance" entrepreneurship would strengthen business dynamism by encouraging greater experimentation and risk-taking.

Finally, Australia's innovation ecosystem should be measured by outcomes rather than inputs. Success should not be judged by the number of programs, grants awarded or research publications produced. Instead, policy should be evaluated against the outcomes that matter for business dynamism: growth in business R&D, increased research commercialisation, higher rates of startup formation and scale-up, greater private investment, stronger productivity growth and the emergence of globally competitive Australian firms. These are the measures that demonstrate whether Australia's innovation system is creating economic value.

The Productivity Commission has an opportunity to reposition innovation policy as a core element of Australia's productivity agenda. Innovation should not be viewed as a standalone research policy or industry policy issue. It is the mechanism through which new businesses are created, existing firms become more productive and new industries emerge. A more coordinated innovation system—supported by stronger national leadership, better research commercialisation, effective procurement, improved entrepreneurial incentives and clear performance measures—will create the conditions for more Australian businesses to innovate, scale and compete globally. These are not simply innovation reforms; they are fundamental reforms to Australia's business dynamism and long-term productivity.

3. Human Capital and Management Capability

People are the engine of business dynamism. While access to capital and supportive policy settings are essential, businesses only grow when founders and managers have the capability to identify opportunities, innovate and successfully scale their enterprises. Improving Australia's management capability should therefore be viewed as a productivity reform, not simply a workforce or education issue.

The *Ambitious Australia* Panel found that Australia must place greater emphasis on developing entrepreneurial capability alongside technical excellence. Founders require skills in leadership, commercialisation, product development, international expansion and capital raising, while researchers need clearer pathways to translate research into successful businesses. Stronger collaboration between universities, publicly funded research organisations and industry—including expanded industry PhDs and greater researcher mobility—will help develop leaders with both technical expertise and commercial capability.

Management capability is particularly important as businesses transition from startup to scale-up. Many Australian founders report difficulty recruiting experienced executives with expertise in scaling high-growth businesses, expanding internationally and managing rapid organisational growth. Building a stronger pipeline of experienced operators will require founder development programs, greater mobility between startups and established firms, and immigration settings that attract globally experienced entrepreneurs, executives and technology leaders.

Business dynamism also depends on a culture that encourages ambition and accepts responsible risk-taking. Successful innovation economies recognise that entrepreneurship involves uncertainty and that business failure is often a valuable source of learning. Policy should therefore support not only the development of skills, but also the institutional and cultural settings that encourage experimentation, resilience and repeat entrepreneurship.

The Commission should recognise management capability as a strategic driver of productivity. Investing in entrepreneurial leadership, strengthening industry–research collaboration and attracting experienced scale-up talent will help create more businesses capable of growing into globally competitive firms. Australia's challenge is not simply to create more entrepreneurs—it is to create more founders and managers with the capability to build world-leading companies.

4. Capital Markets

Access to capital is fundamental to business dynamism. Innovative businesses require different forms of finance as they grow—from angel investment and venture capital to growth equity, debt finance and public markets. While Australia has one of the world's largest pools of institutional capital, too little is directed towards high-growth businesses. The challenge is not a shortage of capital, but a shortage of patient, risk-tolerant capital reaching the firms most likely to drive productivity, innovation and economic growth.

The *Ambitious Australia* Panel found that Australia's capital markets are not effectively supporting the growth of innovative businesses. Early-stage companies continue to face funding gaps as they transition from startup to scale-up, while Australia's $4 trillion superannuation system invests only a small proportion of its assets in venture capital and growth-stage companies compared with leading international peers. This represents a significant missed opportunity to mobilise domestic capital to support innovation, strengthen productivity and build globally competitive Australian businesses.

The Panel recommends reforms that increase both the supply of risk capital and the efficiency with which it reaches innovative firms. This includes modernising the Early Stage Innovation Company (ESIC) and Early Stage Venture Capital Limited Partnership (ESVCLP) programs to improve their effectiveness and international competitiveness. These incentives have played an important role in developing Australia's early-stage investment market but are now overly complex and no longer reflect the needs of founders or investors. Simplifying eligibility requirements and strengthening incentives would encourage greater private investment into innovative Australian businesses.

Institutional investment must also play a greater role in Australia's innovation economy. The Panel recommends removing unnecessary barriers that limit superannuation investment in venture capital and growth equity, while recognising trustees' fiduciary obligations. Expanding high-quality fund-of-funds models and co-investment vehicles would enable superannuation funds to gain diversified exposure to innovative businesses while increasing the supply of patient capital available to Australian firms. Even modest increases in institutional investment would have a transformational impact on the availability of growth capital.

Capital alone, however, is not sufficient. Angel investors, venture capital funds and growth equity investors contribute expertise, governance, networks and commercial experience that help businesses scale successfully. Policies that strengthen Australia's venture capital ecosystem therefore deliver benefits beyond financing by increasing access to experienced operators who can support businesses through successive stages of growth.

Strong capital markets also depend on efficient exit pathways. Successful acquisitions and public listings reward entrepreneurs and investors, recycle capital into the next generation of businesses and create experienced founders who become angel investors, mentors and repeat entrepreneurs. These "founder recycling" effects are a defining feature of the world's leading innovation ecosystems and are essential to sustaining long-term business dynamism.

Australia's public markets should therefore be an attractive destination for high-growth companies. However, an increasing number of Australian technology businesses are choosing to list overseas or pursue trade sales because of concerns about the depth of domestic growth capital, analyst coverage, liquidity and regulatory settings. While maintaining strong investor protections, reforms to the ASX should seek to improve its attractiveness as a listing venue for innovative growth companies. This should include reviewing listing requirements and ongoing compliance obligations for growth businesses, strengthening institutional investor participation in emerging companies, improving research coverage and liquidity, and ensuring Australia's market settings remain internationally competitive. A stronger domestic IPO market would allow more successful Australian companies to remain headquartered in Australia while providing investors with attractive exit opportunities and recycling capital back into the innovation ecosystem.

The Productivity Commission should view capital markets as an integrated system that supports businesses throughout their lifecycle—from startup to successful exit. Improving access to risk capital, strengthening institutional investment and creating more competitive domestic exit pathways will encourage more Australian businesses to innovate, scale and remain Australian as they grow. These reforms will not only strengthen business dynamism but also increase productivity, deepen Australia's capital markets and create a stronger pipeline of globally competitive Australian companies.

5. Transfer of Successful Businesses

Business dynamism depends not only on the creation and growth of new firms, but also on the efficient transfer of successful businesses.

For innovative businesses, successful exits are also a critical component of the entrepreneurial ecosystem. Acquisitions and public listings provide investors with liquidity, reward founders for taking risk and create the capital that funds future businesses. Just as importantly, successful founders frequently become angel investors, venture capitalists, mentors and repeat entrepreneurs. This recycling of capital and experience is a defining feature of the world's most successful innovation ecosystems and is essential to sustaining long-term business dynamism.

Australia's policy settings should therefore support efficient business transfers throughout the business lifecycle. This includes reducing unnecessary regulatory and tax barriers to business succession.

The Productivity Commission should also recognise that business transfers are closely linked to the effectiveness of Australia's capital markets. A strong domestic mergers and acquisitions market, together with a competitive ASX that supports successful IPOs, provides founders with viable exit pathways while ensuring that successful Australian businesses can continue to grow domestically. Efficient exit markets increase investor confidence, attract risk capital and strengthen the incentives to build innovative, high-growth companies.

Business transfer should therefore be viewed not as the end of the entrepreneurial journey, but as an essential mechanism through which business dynamism is renewed. Every successful succession, acquisition or public listing creates opportunities for capital, talent and experience to flow into new businesses. Policy should support these transitions, ensuring that Australia's most successful businesses continue to contribute to productivity growth while helping create the next generation of ambitious Australian enterprises.

Conclusion

Australia's productivity challenge is, at its core, a business dynamism challenge. While Australia has world-class researchers, entrepreneurs and investors, too few businesses successfully grow into globally competitive firms. This is not the result of a single policy failure, but of a business environment in which regulatory complexity, fragmented innovation policy, skills shortages, constrained access to risk capital and limited exit pathways combine to suppress business growth and renewal.

The Productivity Commission's inquiry provides an opportunity to adopt a broader view of business dynamism. The objective should not simply be to make it easier to start a business, but to create an environment in which businesses can innovate, attract capital, build capability, scale internationally and successfully transition through each stage of the business lifecycle. Dynamic economies are characterised not by the number of businesses they create, but by their ability to continually generate, grow and renew ambitious firms that drive productivity and economic growth.

We recommend the *Ambitious* Australia report to the Productivity Commission (https://www.industry.gov.au/publications/ambitious-australia-strategic-examination-research-and-development-final-report). The report provides a practical roadmap for achieving this outcome. Its recommendations—including stronger national innovation leadership, a more coordinated innovation system, improved research commercialisation, greater entrepreneurial capability, deeper capital markets and more effective pathways for business growth and exit—are mutually reinforcing reforms that address many of the structural barriers identified in this inquiry. Implemented together, they would create a more dynamic economy that encourages innovation, rewards investment and enables Australian businesses to compete successfully on the global stage.

The Panel encourages the Commission to adopt a whole-of-system approach to its recommendations. Regulation, innovation, skills, capital markets and business transfer are interconnected, and reforms in one area will have the greatest impact when supported by complementary reforms across the broader business ecosystem. Success should ultimately be measured not by the number of new businesses created, but by the number that innovate, scale, export and become globally competitive.