Tech Council of Australia

Submission: Productivity Commission inquiry into business dynamism

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Introduction

The Tech Council of Australia welcomes the opportunity to contribute to the Productivity Commission's inquiry into business dynamism.

The TCA is Australia's peak industry body for the tech sector. The tech sector is a key pillar of the Australian economy, with the tech sector Australia's third largest industry, and Australia's seventh largest employing sector. The TCA represents a diverse cross-section of Australia's tech sector.

Technology businesses are a key driver of Australia's productivity, competitiveness and economic growth. They develop and commercialise new technologies, create high-value jobs and enable productivity improvements across every sector of the economy. Strengthening business dynamism in technology will therefore deliver economy-wide productivity gains, build sovereign capability and help create a more innovative, competitive and resilient Australia.

1. Business Dynamism Across the Technology Business Lifecycle

Australia's technology ecosystem has matured significantly over the past decade. Startup formation is happening at greater rates, venture capital markets have developed, and Australian technology companies are increasingly competing globally. The challenge must no longer focus solely on creating technology businesses. More focused is required on enabling technology companies to scale into globally competitive companies.

The barriers facing technology companies evolve throughout the business lifecycle. While Australia performs relatively well at supporting business formation, policy settings become progressively weaker as businesses seek to scale, expand internationally and achieve successful exits. The Productivity Commission should therefore adopt a lifecycle approach to business dynamism, recognising that different stages of business growth require different policy responses.

Entry: Creating the Next Generation of Technology Companies

Australia has developed a strong environment for technology entrepreneurship. Business registration is straightforward and startup formation is much more common. The early-stage investment ecosystem has matured significantly over the past decade. Angel investors, venture capital funds and founder support programs have contributed to a healthy pipeline of new technology businesses.

Maintaining a strong pipeline of startup creation remains fundamental to Australia's future productivity and economic growth. However, entry is not the principal constraint currently facing Australia's technology sector.

Scaling: Australia's Biggest Opportunity

Australia's greatest challenge is helping successful startups become globally competitive businesses.

While seed and Series A funding markets have function relatively well (prior to CGT changes) access to growth capital becomes increasingly constrained as companies mature. The TCA estimates Australia faces a **$53 billion scale-up funding gap by 2030**, particularly between Series B and later-stage investment rounds. This funding gap is compounded by limited domestic institutional investment, a relatively small growth equity market and shallow public markets for emerging companies. As businesses seek larger investment rounds, many are forced to raise capital overseas and relocate key operations closer to investors and customers. Australia consequently loses future investment, skilled jobs, intellectual property and economic value.

Closing this gap should be a national priority. This will require regulatory settings that encourage investment in productive, higher-risk assets, modernisation of Australia's concessional investment vehicles, and greater participation by institutional investors and superannuation funds in venture capital and growth equity (see Section 3).

Expansion: Talent and Customers

As technology businesses grow, access to skilled workers and customers becomes increasingly important.

Technology companies compete globally for highly skilled employees, making competitive employee share schemes an essential tool for attracting and retaining talent. While Australia's employee share scheme reforms have improved conditions for early-stage startups, many scale-ups outgrow these concessions and face tax settings that are less competitive than those in comparable jurisdictions.

Government procurement is also an underutilised driver of business growth. Despite governments spending around **$30 billion annually on ICT**, procurement frameworks continue to favour established suppliers over innovative Australian businesses. Better use of innovation procurement would provide technology companies with valuable reference customers, accelerate commercialisation and increase technology adoption across the economy.

Exit: Recycling Capital and Capability

For technology companies, successful exits are not the end of the entrepreneurial journey—they are the beginning of the next. Founders who successfully exit frequently become angel investors, venture capital partners, board members and repeat entrepreneurs. The capital, expertise and networks generated through successful exits are critical to building a self-sustaining innovation ecosystem. Australia's policy settings should therefore encourage efficient business transfers and reward entrepreneurship, while ensuring successful companies can continue to grow from Australia.

Strategic acquisitions are a particularly important pathway for technology companies. They provide founders and investors with liquidity, accelerate the commercialisation of new technologies and enable innovative businesses to access global markets, customers and expertise. Australia's regulatory framework should continue to support efficient mergers and acquisitions while maintaining appropriate competition safeguards. Where acquisitions increase the global reach of Australian technology or provide founders with the capital to build the next generation of companies, they strengthen—not weaken—business dynamism.

Australia also needs stronger domestic public markets. A competitive Australian Securities Exchange (ASX) is essential to retaining successful technology companies, attracting investment and deepening Australia's capital markets. However, too many Australian technology businesses choose to list overseas because they offer deeper pools of growth capital, greater liquidity, stronger analyst coverage and a larger institutional investor base. As a result, Australia often loses the long-term economic benefits associated with high-growth companies, including investment, skilled jobs and corporate headquarters.

The Productivity Commission should consider reforms to improve the competitiveness of the ASX as a listing venue for innovative growth companies. This should include reviewing listing requirements and ongoing compliance obligations to ensure they remain proportionate for high-growth businesses, encouraging greater institutional investment in listed technology companies, improving market liquidity and analyst coverage, and ensuring Australia's public markets remain internationally competitive. The objective should be to create an environment where successful Australian technology companies choose to list, grow and remain headquartered in Australia.

2. Capital Markets and Financing High-Growth Technology Companies

Access to capital is one of the most significant constraints on business dynamism in Australia's technology sector. While Australia's early-stage investment ecosystem is maturing, too few companies can access the patient capital needed to scale. The challenge is not a shortage of capital—it is a shortage of capital flowing to high-growth technology businesses.

Private investor play vital role in technology company investment, providing capital to high risk but productive businesses. Their importance must be recognised, and investment incentives must encourage placement of capital these business (over passive or unproductive assets) including through remaining internationally competitive. The **Early Stage Innovation Company (ESIC)** and **Early Stage Venture Capital Limited Partnership (ESVCLP)** programs have helped develop Australia's startup ecosystem but have become increasingly complex and are no longer well aligned with the needs of scaling technology companies. Modernising these programs would encourage greater private investment and improve Australia's competitiveness for innovation capital.

Increasing access to later stage capital can be enabled through Australia's superannuation industry. Australia has more than **$4 trillion in superannuation assets**, yet only a small proportion is invested in venture capital and growth-stage technology companies. At the same time, as noted above, Australia faces a projected **$53 billion scale-up funding gap by 2030**.

Closing this funding gap should be a national priority. Government should encourage greater institutional investment in venture capital and growth equity by expanding fund-of-funds models, supporting co-investment vehicles and removing unnecessary barriers to participation, while recognising the fiduciary obligations of superannuation trustees. Even modest increases in institutional investment would materially strengthen Australia's innovation economy.

3. Other issues

In addition to the Commission's five priority areas, the Tech Council of Australia encourages consideration of three broader issues that will shape Australia's future business dynamism: technology adoption, regulatory certainty and policy coordination.

Accelerating Technology Adoption

Australia's greatest productivity opportunity lies not only in creating more technology companies, but in increasing the adoption of digital technologies across the broader economy. While the technology sector develops new products and services, productivity gains are maximised when businesses across all industries adopt and use these technologies effectively.

Artificial intelligence represents the clearest example of this opportunity. AI has the potential to transform productivity across manufacturing, healthcare, financial services, agriculture, professional services and the public sector. However, many Australian businesses—particularly small and medium-sized enterprises—lack the capability, confidence or incentives to adopt these technologies. Policies that support digital capability, workforce skills and business investment in AI will deliver economy-wide productivity gains while creating stronger domestic markets for Australian technology companies.

Providing Regulatory Certainty

Technology businesses operate in fast-moving markets where investment decisions depend on stable and predictable regulation. Regulatory uncertainty can delay investment, reduce innovation and encourage businesses to commercialise products in overseas markets.

The Commission should support principles-based, technology-neutral regulation that protects consumers while providing businesses with confidence to innovate. This is particularly important for artificial intelligence, cybersecurity and digital technologies, where regulatory frameworks should enable responsible innovation rather than impose unnecessary barriers to adoption. Clear and consistent regulation will encourage investment while maintaining community trust in new technologies.

Improving Policy Coordination

Finally, business dynamism requires greater coordination across government. Innovation, investment, skills, competition, taxation and technology policy are often developed independently despite their combined influence on business growth. The result is unnecessary complexity and missed opportunities to support high-growth firms.

The Commission should encourage a more coordinated, whole-of-government approach to policies affecting innovative businesses. Regulation should be assessed not only on its individual objectives but also on its cumulative impact on business formation, investment, scaling and technology adoption.

4. Conclusion

Australia's productivity challenge is fundamentally a business growth challenge. Australia has a scale-up problem. While the country continues to produce innovative technology companies, too few successfully grow into globally competitive businesses.

Improving business dynamism requires a lifecycle approach. Policy should support businesses from startup creation through to scaleup, expansion and exit by improving access to growth capital, attracting skilled talent, simplifying the innovation ecosystem, accelerating technology adoption and strengthening domestic capital markets.

The Tech Council encourages the Commission to adopt a broader definition of business dynamism. Success should not be measured solely by the number of new businesses created, but by the number that successfully scale, export, innovate and compete globally. Australia's opportunity is to build more globally significant technology companies while accelerating technology adoption across the wider economy. Achieving these twin objectives will deliver stronger productivity growth, greater international competitiveness and higher living standards for Australians.

Technology is one of Australia's greatest productivity opportunities. A stronger technology sector, combined with faster adoption of digital technologies and artificial intelligence across the economy, will drive higher productivity, stronger international competitiveness and sustained economic growth.

The Tech Council of Australia encourages the Productivity Commission to recommend reforms that enable more Australian technology companies to start, scale and succeed from Australia. Creating the conditions for more globally competitive technology businesses will strengthen business dynamism, create high-value jobs and deliver lasting improvements in Australia's productivity and prosperity.