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The Australian HR Institute

Submission to the Productivity Commission

September 2025

The Australian HR Institute

The Australian HR Institute (AHRI) is the professional body for Human Resources in Australia, with over 18,000 members from Australia and internationally.

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1. Summary

1.1 The Australian HR Institute (AHRI) welcomes the recommendations of the 'Building a Skilled and Adaptable Workforce' Inquiry. In particular, AHRI supports:

- the proposed examination of financial incentives, such as tax credits, to encourage small and medium-sized enterprises (SMEs) to invest in work-related training
- the development of dedicated SME advisory services to assist employers in accessing support for work-related training on a trial basis. This aligns closely with our own advocacy to the commission for tailored support for employers¹.

1.2 AHRI believes that a central future goal of an advisory services offering should be to strengthen people management capability in Australian workplaces. AHRI recommends that employers be able to access expert advice on best practice leadership and people management skills training.

1.3 A second key objective of the advisory services provision would be to promote the adoption and spread of High-Performance Work practices across the economy given the relationship between the adoption of HPWS and superior organisational performance.

2. Background

2.1 AHRI research shows that skills shortages and skills gaps appear in a variety of ways and act as major barriers to the development of productive workplaces.

2.2 Recent AHRI research shows that 33 per cent of organisations reported recruitment difficulties in the September 2025 quarter. Skilled trades, professionals/ associate professionals and senior leaders/managers are perceived to be the most difficult vacancies to fill. Related AHRI research highlights the problem further, with employers reporting that around one fifth of employees are not "fully proficient" in their role².

¹ [AHRI submission to productivity inquiry march 2022.pdf](#)

² [AHRI-Work Outlook-Report-2025-Q1.pdf](#)

2.3 Our evidence also suggests that further skills shortages and gaps will almost certainly appear as the demand for labour changes as automation, AI and technological change reshape job roles. Recent AHRI survey evidence indicates that almost a third (32 per cent) of survey respondents say that more than 20 per cent of roles in their organisation are vulnerable or subject to considerable change over the next three to five years³.

3. The case for SME advisory services

3.1 AHRI agrees with the Commission's proposal to establish SME advisory services that offer support for work-related training on a trial basis. This aligns closely with our own advocacy for bespoke support that we put to the Productivity Commission in a previous inquiry⁴.

Prioritising people management skills

3.2 AHRI believes that a central goal of a future advisory services offering should be to strengthen people management skills. As the Productivity Commission notes in its consultation paper, management capability in Australian workplaces compares unfavourably with our international counterparts. International research shows that around 30% of total factor productivity differences across firms to variations in management practices (Bloom et al., 2016). There is therefore ample scope to lift productivity growth in Australia through improved management capability.

3.3 To help realise this potential, AHRI proposes that this service provides employers with expert advice on best practice leadership and people management skills training.

3.4. As AHRI has previously argued, Australia suffers with a 'people management deficit'. Weaknesses in leadership and management capability are often a root cause of broader organisational performance failures, particularly when inadequate leaders and managers fail

³ [AHRI-WorkOutlook-Report-2025-Q3.pdf](#)

⁴ [AHRIsubmissiononproductivityinquiry_march2022.pdf](#)

to engage and motivate staff or harness their full potential. Ineffective management also results in the underutilisation of workers' skills, to the detriment of individuals, employers and productivity growth. AHRI's proposal is designed to address this 'deficit'.

Prioritising High Performance Work Systems (HPWS)

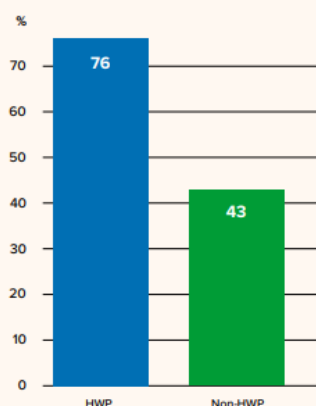
3.5 AHRI recommends that an advisory services offering should also prioritise and promote the adoption and diffusion of High-Performance Work practices.

3.6 High-Performance Work Systems (HPWS) refer to the implementation of a combination of strategic HR practices, that align with the organisation's strategy and improve employee engagement and organisational performance. There is no universal definition of what practices comprise HPWS, as it is highly dependent on the organisational context. However, HPWS typically includes flexible working, employee consultation, reward incentives, training, job design, autonomy and information sharing. What makes the HPWS approach distinctive is that it promotes extensive communication, greater employee autonomy and involvement in decision-making and teamworking.

3.7 International research shows that HPWS enhances the discretionary effort of employees, enables employees to expand and fully utilise their skills and improves the financial performance of organisations. Recent AHRI research into High-Performance Work Systems (HPWS) supports this relationship⁵. The research shows that increased productivity is another key benefit.

⁵ [AHRI-HPWS-Report.pdf](#)

Figure 4: Proportion of private-sector organisations that report higher-than-average financial performance by High-Performance Work System adoption



Base: All private-sector employers n=471 (HPW firms: n=210; non-HPW firms: n=261)

3.8 Despite the compelling evidence, the AHRI research shows that fewer than half of Australian workplaces have adopted HPWS. This suggests that many Australian businesses are limiting their potential to improve their financial performance.

3.9 Overall, the evidence suggests that the use of skills is much less effective when detached from other high performance working practices, such as job sharing, employee communication and autonomy. Without these complementary practices, skills risk being underutilised, leaving organisations unable to raise productivity and performance levels and making individuals frustrated at being unable to perform to their potential.

3.10 In this respect, AHRI is greatly encouraged by the policy proposals to set up an advisory services offering that priorities people management capability. However, we also recommend that High-Performance Working practices form an integral part of this initiative alongside a broader policy narrative that explicitly states that employers do not needs skills for skills' sake; but rather, skills embedded within a broader system of high-performance working.

4. The case for targeted training incentives for SMEs

4.1 AHRI supports the proposal to target training incentives such as tax credits at SMEs to overcome the fall in employer investment in skills that remains disproportionately concentrated in larger organisations. Targeting incentives at SMEs will help redress this imbalance and minimise the risk of deadweight.

4.2 AHRI research shows that tax incentives have the potential to unlock more employer investment in skills. According to one report, 80 per cent of large organisations say that tax relief via a 20 per cent tax deduction for the cost of external training by providers registered in Australia would encourage skills investment in their organisation⁶. AHRI would welcome working with the Commission to examine employer attitudes towards various policy proposals aimed at encouraging greater levels of employer investment.

5. Conclusion

5.1 Taken together, AHRI believes that financial incentives and an advisory services can help advance a more broad-based strategy for Australian skills that will improve the general employability and technical skills of the domestic workforce. As part of this, however, there should be an equally strong focus on developing people management skills and high-performance work practices.

5.2 There is no better time than the current period to begin putting one or two the essential building blocks in place while productivity remains the key focus of the government's agenda. We believe that this policy prescription will contribute to a more adaptable, productive, and skilled workforce that benefits employers, employees and the broader economy.

5.3 AHRI welcomes the opportunity to discuss both this submission and ways in which AHRI can help the Productivity Commission meet its policy objectives.

⁶ [AHRI-Quarterly September.pdf](#)