A VISION FOR AUSTRALIA

'HIDDEN GIANTS': THE FUTURE OF AUSTRALIA'S MIDSIZE BUSINESS

GAP 8th Annual Growth Summit

NSW Parliament House
Sydney, 7-8 September 2017

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DISCLAIMER: This Report represents a wide range of views and interests of the participating individuals and organisations. Statements made during discussions are the personal opinions of the speakers and do not necessarily reflect those of the organisers and sponsors of the Summit.

INTRODUCTION

Growth opportunities, leadership and support for Australia's Midsize Business were the topics of Global Access Partners 8th Annual Economic Summit.

'Hidden Giants': The Future of Australia's Midsize Business was held at the Legislative Assembly Chamber of NSW Parliament House on 7th and 8th September 2017 in Sydney. It welcomed a high-level audience of 123 senior representatives from government, industry and academia, federal politicians, business executives and entrepreneurs, thought leaders and social commentators, and international guests.

The Summit emphasised a powerful role midsize businesses play in the national economy and saw encouraging their growth as the key to Australia's prosperity. Delegates heard speeches by the Hon. Christopher Pyne MP, Minister for Defence Industry, Senator the Hon. Arthur Sinodinos AO, Minister for Industry, Innovation and Science, and The Hon. Ed Husic MP, Shadow Minister for Employment Services, Workforce Participation and Future of Work, and Shadow Minister for the Digital Economy. Albrecht von der Hagen, Chairman of the Management Board of Family-Owned Businesses, Germany, was the keynote speaker at the Opening Dinner, while the Plenary Sessions were chaired and facilitated by the Hon. Philip Ruddock, Australia's Special Envoy for Human Rights, and Dr Ian Watt AC, Chair of the International Centre for Democratic Partnerships.

Keynote presentations and blogs by Summit speakers and delegates are available at *http://www.openforum.com.au/forums/hidden-giants-the-future-of-australias-midsize-business/*

As part of the programme, delegates enjoyed project demonstrations by the Australian Department of Industry, Innovation and Science[1], strategic design firm Huddle[2], wellbeing consultancy WiserLife[3], and IT management advisory ValueFlow[4]. A signing ceremony of the Memorandum of Understanding (MoU) between EnergyAustralia and Kiah Research[5] for the establishment of an incubator for energy tech start-ups was held at the Opening Dinner on Thursday, 7th September.

On Friday, 8th September, delegates were briefed on the establishment of the International Centre for Democratic Partnerships (ICDP), a project GAP has worked since 2015 to strengthen Australia's relationships in the South Pacific. Earlier that day, speaking to Pacific leaders in Samoa, Prime Minister Turnbull announced the $2.2 million *Pacific Connect* pilot programme[6], which will be delivered by the ICDP over the next two years.

The Summit marked the 20th anniversary of the institute for active policy Global Access Partners (GAP) and its two other important milestones – a decade since the launch of GAP's *'Second Track'* taskforce programme and the 10th year of its online discussion platform, Open Forum.

About the GAP Annual Economic Summit

*A Vision for Australia (*formerly the *National Economic Review)* is an annual Summit series designed to lead the national debate on productivity, infrastructure, innovation, employment, education and growth.

The reports of proceedings can be reviewed at *globalaccesspartners.org/think-tanks/growth-summit*.

EXECUTIVE SUMMARY

'Hidden Giants'

Medium-sized companies are a vital but underappreciated sector of the Australian economy. They employ 20 to 199 people and turn over between $20 and $100 million a year, but are often subsumed into the 'SME' category where the multitudes of smaller firms dominate public policy and political attention. There are 51,007 mid-sized firms in Australia, just 2% of the total, but they provide 23% of Australia's employment. Australia has more mid-sized firms relative to its population than the OECD average, but they are less likely to export or lead their niche than their German counterparts.

Barriers to Growth

Scope for market entry, ease of process imitation and managerial selection influence the number and size of firms in an industry. The Australian economy affords ease of entry in most sectors, encouraging the emergence of many businesses. However, high costs of imitation and the drift of managerial talent to larger firms constrain the growth of small and mid-sized businesses. Sectors such as supermarkets and airlines are dominated by a handful of massive firms, and a handful of trailblazing success stories masks the reality that transitions from mid-size to corporate giant are rare.

Mid-sized firms are ten times more likely to shrink away than grow into large businesses. If those which go out of business entirely are counted, then the ratio swells to twenty to one. Only a third of mid-sized businesses have a written strategic plan for their future, and only one in five engage in high-risk, high-reward ventures.

Just a third of principal managers have a degree, a figure no different from the workforce as a whole. Increasing the ambition and ability of mid-sized firms to expand would stimulate growth and employment in NSW and national economy.

Some Australian mid-sized firms are constrained by geographical or market limits, while the owners and managers of others have no wish to grow. However, more ambitious firms are hampered by the unwillingness of metropolitan banks to extend credit to regional firms, a shortage of skilled staff, poor collaboration with academia in pursuit of research, and a lack of financial and managerial acumen within the companies themselves. The CEOs of mid-sized firms can be isolated from their peers and shy from tapping sources of help and encouragement, lowering their horizons for growth.

The Digital Revolution

Many Australian businesses have lagged behind the 'digital revolution' and risk economic obsolescence as a result. Public debate on the future of work must be encouraged, rather than avoided, if the country is to prosper from inevitable technological change. Innovation is the key to prosperity for both mid-sized firms and the nation as a whole. Complacency is not an option, but Australia remains well-placed to enjoy a successful transformation to higher-level activities.

A Global Perspective

Australia can learn from its successful international peers. The rapid transformation of Asian economies is powered by modern manufacturing and educational investment. Germany's *Mittelstand* has been the bedrock of its post-war prosperity, and many of its mid-sized firms dominate global trade in their particular niche in engineering or industry. Australia can boast few of these 'hidden giants'. To increase their number, our mid-sized firms should be encouraged to specialise in high value activities and join international supply chains. German family firms build and retain capital through the generations to reduce their reliance on banks, ride out recessions and finance research. The contrasting economic fortunes of Germany, France and Italy underline the importance of regulation in shaping economic activity

Opportunities in Defence

The nation's defence industry offers major opportunities for innovation and exports. The government's strengthening of the Australian Defence Force (ADF) will safeguard national security in an increasingly volatile region. Major procurement programmes on land, sea and air offer significant opportunities for mid-sized Australian sub-contractors which they can parlay into export success. However, domestic companies must compete in terms of quality, rather than geography, to ensure the ADF receives the high standard of equipment required. Foreign prime contractors are encouraged to use Australian sub-contractors, and the Department of Industry, Innovation and Science (DIIS) is opening IT and infrastructure contracts to smaller Australian firms to improve market access without compromising cost or quality.

RECOMMENDATIONS

The Recognition for Midsize Business

Mid-sized firms require their own category for political and planning purposes, as they have different needs from the mass of smaller 'SMEs'. Mid-sized enterprises should be seen as larger firms which lack resources for expansion, rather than small companies with little potential for growth.

The Development of a National Medium Business Strategy

GAP's Medium Enterprise Advisory (MEA) should discuss, create and pursue the adoption of a comprehensive mid-size business growth strategy. This plan will encourage mid-sized firms to expand, export and employ more people and help State and Federal governments coordinate their efforts of support. A standing status for the MEA should be considered, allowing the Advisory continue their work on building a strategic narrative for the sector.

The Establishment of a Permanent Growth Institute

GAP should promote the creation of a permanent and independent Growth Institute to advise Australian businesses on growth and other pertinent issues. The Institute could offer online information, executive leadership courses and networking opportunities for the mid-sized business sector. It could conduct research into industry trends to inform policy deliberations and forge links with larger corporates and international partners. It could help mid-sized firms embrace the digital age and take advantage of opportunities in space, defence and other leading sectors.

The Gathering of Regional Data

GAP should hold a series of executive roundtables for the heads of mid-sized firms in regional NSW and other states in the near future. These events should canvas 'front line' views to inform the proposed growth strategy and Institute and highlight issues requiring action or research. Such meetings should offer valuable networking opportunities to busy, isolated CEOs and encourage mutually beneficial collaboration.

The Pursuit of High-Value Activities in Global Supply Chains

Australian mid-sized firms should pursue high-value activities at the cutting edge of their sector to increase profit margins and distinguish their offerings in global markets. They should join international supply chains, rather than rely on domestic demand, to maximise their opportunities. The 2018 GAP Economic Summit should focus on trade in its broadest sense to develop strategies for future expansion.

The Encouragement of Digital Transformation

Mid-sized firms should improve and extend their business monitoring to identify areas for process and product improvement. They should plan and implement a comprehensive digital transformation strategy to make full use of current IT approaches, such as social media and cloud computing, and prepare for the coming wave of automation, artificial intelligence and data analytics.

The Improvement of Management Capability

Mid-sized firms must invest in recruiting and renumerating skilled managers and financial staff to empower development as they look to grow in size. Appropriate education providers should offer condensed and affordable courses to busy mid-sized business managers to broaden their outlook and deepen their skills. Short leadership courses should help mid-sized business executives develop and network. Better succession planning should allow family-owned firms to grow over several generations and retain more capital for investment. More reasonable expectations from investors should allow mid-sized firms to raise equity capital when required to invest in modernisation and expansion.

The Targeting of Government Support to the Regions

Federal and state agencies should expand their services for mid-sized firms to encourage their growth and transition to high-value, export-oriented, future-facing activities. Government tenders should be broken down and opened up to mid-sized firms wherever possible in IT, infrastructure and other procurement areas. Federal and state regulation should be streamlined to reduce 'red tape', without eroding necessary public and environmental protection. DIIS research into the nation's economic activity should inform better targeting of government resources.

The Embrace of Closer Collaboration

Collaboration between mid-sized firms and universities, large corporates and research entities must be encouraged, as well as links with start-ups to empower innovation and maximise commercial returns. Academic collaboration with mid-sized firms can reinvigorate manufacturing 'rust belts' by encouraging new activities with employment potential.

The Need for Cultural Change

Excellence should be lauded in Australian culture, alongside fairness and equality of opportunity. Entrepreneurial failures and technical missteps should be forgiven by politicians, investors and the public as inevitable stumbles in the pursuit of success. Patience must be shown for research which takes time to bear fruit. Australia's long-standing ethos of 'she'll be right, mate' should be buttressed by preparation for change in a more interconnected and unpredictable world. Although optimism is never outdated, it always has to be earned.

Global Access Partners will coordinate a number of projects to ensure the Summit's long-term impact on public policy. These will include facilitated stakeholder engagement, online discussions through Open Forum and First 5000, and further consultations and research.

ACKNOWLEDGEMENTS

Host

The Hon. Anthony Roberts MP, NSW Minister for Planning, Minister for Housing,
and Special Minster of State

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Prof Nara Srinivasan, Tanya Stoianoff, Dr Abrie Swanepoel, Scott Wilkinson, Christopher Zinn

Global Access Partners (GAP)

Catherine Fritz-Kalish, Olga Bodrova, Emma Johnson, Helen Hull, Marieke Ter Meer

PROCEEDINGS

DAY ONE - Thursday, 7 September 2017

OPENING DINNER

'Hidden Giants of a Resilient Economy':
A Global Perspective on Midsize Business

Catherine Fritz-Kalish
Co-Founder & Managing Director
Global Access Partners

Catherine Fritz-Kalish acknowledged the traditional owners of the land and welcomed attendees to the 8th Annual Economic Summit. GAP's 20th anniversary called for an inspiring theme, and the mid-sized business sector was chosen to build on GAP's experience and synch with the interests of its partners and participants. The mid-sized sector is not distinguished by its name, as 'middle' often implies mediocrity. Mid-sized companies are routinely bundled with smaller firms under the SME banner and are rarely afforded specialised consideration. Some commentators see them as the 'middle children' of the economy and believe their lack of prominence holds them back, but, as a mother of three, Ms Fritz-Kalish argued that middle children can be as bright and accomplished as their peers.

While there is no universal definition of a mid-sized company, the Australian Bureau of Statistics (ABS) describes them as companies with 20–199 employees. There are over 50,000 such firms in this country, employing 2.5 million people and generating over $700 billion in revenue a year. While some members of the Summit's Steering Committee initially questioned the topic's attractiveness, the goal of securing government, banking and industry support to grow mid-sized businesses spurred their enthusiasm.

With the support of government and industry sponsors, the Summit will spotlight the vital contribution of these 'hidden giants' to the economy. The event builds on the work of a GAP advisory established in 2016 to raise the profile of mid-sized firms. The Medium Enterprise Advisory noted a lack of research on the sector's willingness and capacity to grow, particularly in regional New South Wales where job opportunities are required for young people.

While several business surveys point to a lack of skilled staff, capital and research as barriers to expansion, other factors can be raised, and Ms Fritz-Kalish urged Summit delegates to concentrate on solutions.

The Summit's recommendations will be implemented by newly formed GAP taskforces which delegates are invited to join. GAP offers a safe and neutral forum for open and constructive dialogue to help shape Australia's future. Participants derive what they want from the experience, ranging from networking opportunities and government engagement to business creation and support. While Ms Fritz-Kalish acknowledged the need for courage to step outside one's comfort zone, the rewards are manifold. Summit discussions are held under the Chatham House rule of non-attribution to encourage frank debate and fresh ideas.
The world is run by those who turn up, and Ms Fritz-Kalish thanked delegates for attending the opening dinner.

She introduced Mr Albrecht von der Hagen of *Die Familienunternehmer*, an association of German family-owned businesses, to offer an international perspective.

KEYNOTE ADDRESS

"The secret of success for midsize business: Family entrepreneurs"

Albrecht von der Hagen
Chairman of the Management Board
Association of Family-Owned Businesses, Germany

Mr von der Hagen thanked Global Access Partners for the opportunity to speak and praised Australia's enjoyment of 26 years of uninterrupted growth. Many *Familienunternehmer* members trade overseas, and he noted that a duty free shop at Sydney Airport is owned by the Heinemann-Family of Hamburg.

Mid-sized businesses - the *Mittelstand* – are the backbone of German economic strength. Many of these firms are family-owned, with a family member as the managing partner or chairman of the supervisory board. Family-owned companies are an ancient form of business organisation, and any model which has survived so long remains worthy of attention. Not all family firms are small or medium-sized – indeed, some, such as appliance manufacturer Miele or farm machinery giant Claas, turn over more than €1 billion a year. Germany has around 180,000 family-owned companies with more than ten employees, accounting for almost half of the nation's sales and more than half of its employment.

Family businesses train 80% of Germany's apprentices. The scale of their vocational training is a key to their success, as skilled workers are their most valuable asset. Germany's dual vocational system sees many young people undertake practical training within a company which goes along with specialised public vocational schools for three years, then sit an exam at the regional chamber of industry and commerce. Germany's larger family-owned companies have increased their employment by 19% since 2006, while jobs in public companies grew by just 2%.

The risk and liability of owner-managed companies are ideally assumed by one person. If these owners mismanage their affairs or risk too much, they will lose even their private assets. Business responsibility therefore has a name and a face, unlike publicly quoted firms where management and ownership are divorced and blame can be evaded. The family owner of a firm feels responsible for his employees and, in turn, many workers continue to work for the same firm through the generations, strengthening bonds of mutual respect and loyalty. Such owners also have fealty to their own family's past and future generations and so take their current commitment seriously. If an owner is to fulfil their duty and transfer the company in good condition to their children, they must find the right balance between risk and innovation to succeed.

This long-term perspective and sense of personal obligation leads many German family entrepreneurs to ignore the current tenets of capitalism and make decisions contrary to the opinions of self-interested stock markets or market analysts. While public companies must maximise quarterly results for their current shareholders, family entrepreneurs can pursue long-term strategies for the sake of future generations. While German public companies have an average equity ratio of 36%, the nation's major family firms maintain a rate of 50%, allowing them to finance their own innovation and growth to a much greater extent than their competitors. Germany's family entrepreneurs prefer to rely on their own resources, remaining independent of banks and private equity funds as far as they can, to maintain resilience in times of crisis and keep control of their own destiny.

"German family business owners see themselves as links in a genealogical chain, obligated to both their forebears and offspring. If a family business can be compared to a tree, then each generation may harvest the fruit and perhaps trim dead branches, but must never lay hands on the trunk."

- Albrecht von der Hagen -

Unlike many public companies, family-owned firms recoiled from firing surplus employees to weather the global financial crisis of 2008/2009. This was more than philanthropy, as they realised the importance of retaining well-trained staff for when their particular market recovered. Protected from stock market pressure by their high personal equity, they could afford to keep more of their employees on the payroll and so recovered more quickly than their competitors, when conditions eased and orders returned.

These self-reliant, future-focused strategies make family firms anchors of employment stability in times of economic crisis. Their unfashionable willingness to train and retain staff not only improves their financial results, but means they enjoy a much higher reputation in their communities than their publicly quoted peers.

Family entrepreneurs pay attention to customer value, rather than share price. They succeed on international markets because their senior management forges close ties to their customers, with up to five times more customer contacts than their public counterparts. Germany's 'hidden champions' take pride in their wares, because product leadership creates market leadership, which, in turn, ensures long-term viability. Family entrepreneurs understand their products and their customer's expectations and maintain a loyal customer base as a result.

Exports are the lifeblood of the German economy, and much of the nation's export success is generated by the *Mittelstand*. In contrast to the USA or France, two thirds of German exports originate from mid-sized companies. These 'hidden champions' have little public profile, but are often global market leaders in their particular niche in mechanical engineering or other technical industry.

One small family-owned German company is the world's sole manufacturer of curtains for large theatres, such as the Sydney Opera House. Such niches may be small, but by dominating the global market, these firms generate the economies of scale they need to thrive. A recent study found that almost half of the world's 'hidden champions' are based in Germany. Germany has 16 of these firms for every million people, compared to just one in Great Britain, the USA, Italy and France and 0.5 in Australia.

A national economy does not necessarily need 'hidden export champions' to survive, but they offer significant advantages. Germany, unlike Australia, cannot depend on resource extraction, and its 'hidden champions' drive innovation forward. A recent *Familienunternehmer* survey found that almost half its members had studied engineering or a natural-science at university. More parents should encourage their children to study such subjects in Australia, particularly in cities with excellent technical universities such as Sydney.

Many German family-owned companies are remarkably successful in the high-tech sector, despite its capital-intensive demands and apparent domination by a handful of international firms.

Smaller German firms can finance the research and development (R&D), required to stay ahead, by amassing capital through the generations. In most instances, only a very small fraction of the profits they generate are distributed to the family, with the remainder accumulated to finance innovation, investment and growth. As long as inheritance tax does not tax business assets, this allows midsize family businesses to compete in their niche with massive multinationals.

German family firm owners see themselves as links in a genealogical chain, obligated to both their forebears and offspring. If a family business can be compared to a tree, then each generation may harvest the fruit and perhaps trim dead branches, but must never lay hands on the trunk. Every family member has a duty to nurture the tree and help it thrive as the family expands. While the desire to make money is a prerequisite of business success, it is therefore seldom the highest priority. Family business owners find pride in passing it on in better shape than they found it, and the economic importance of this emotional drive should not be underestimated. The long-term health of the company must come before making a 'quick buck'. It is not uncommon to find German companies managed by a fifth or sixth generation, and one of the oldest is now run by the 32nd generation. As the founder of Ikea, Ingvar Kamprad, once observed, "*The motivating force is to realise your dreams and to do something for someone dear to you*". Family companies generate 'emotional dividends' to keep the business in the family for the next generation, rather than the financial dividends demanded of publicly owned firms. This emotional dividend also embraces pride in the company and its products and brand, as well as the satisfaction derived from transferring something worthwhile to one's children.

While tradition and emotion are the foundation of stable ownership, family businesses must also be flexible and disruptive to adapt to changing times. The oldest firms persist because they retain the ability to transform when necessary. Traditional skillsets must evolve to stay relevant and marketable. Watch manufacturers in the Black Forest, which once specialised in cuckoo clocks, for example, are now using their precision know-how to produce world-class medical technology. Their high level of vocational training contributes to family firms' ability to reinvent themselves in response to changing customer demands. Many exporting *Mittelstand* companies tailor individual pieces to their customer's particular requirements, for example, requiring highly skilled staff.

Although Chinese investors and American investment funds make frequent attempts to buy out *Mittelstand* firms, even far-flung families with several hundred partners reject their highly lucrative offers. Many family businesses maintain a tradition that shareholders may only sell their stock to other family members, and even then at a pre-determined price below the true market value. This mutual commitment ensures family cohesion and prevents the hard work of previous generations being sold to outside entities.

The major threat to family-owned companies is not international competition or foreign purchasers, but domestic politics. The maintenance of the legal status quo therefore motivates family entrepreneurs' engagement in business associations such as *Die Familienunternehmer*. In recent years, the association has lobbied against inheritance taxes which might damage the succession of family firms. German owners must pay relatively high taxes during their working lives, but they can pass business assets to the next generation without undue penalties.

The USA operates a different philosophy, in which "*every man is the architect of his own fortune*"[7]. In contrast to Germany, American entrepreneurs are taxed relatively lightly during their lifetime, allowing people such as Bill Gates, Steve Jobs, Marc Zuckerberg or Jeff Bezos to amass fabulous personal wealth. However, the heavy inheritance taxes levied in the USA make it difficult to transfer a private company to the next generation. Many American entrepreneurs therefore sell their companies and spend their money on themselves or philanthropic activities, or preserve it in a trust, rather than pass management on to their children. In most cases, even if family members initially control it, the management of such trusts is soon taken on by professionals, and filial continuity is lost.

Changes in German tax and employment policy could therefore hamper or even destroy family businesses. Italy, for example, has rigid labour laws which make it difficult for companies to grow beyond 25 employees. This lack of competitive pressure from smaller firms then weakens larger firms by removing their motivation to improve.

France has both extremely high taxes and a rigid 35-hour-work week, which means their labour costs are not competitive.

A business-friendly and reliable political framework is crucial to the development and longevity of owner-managed midsize companies. The core task of *Die Familienunternehmer* is to fight for sound economic policies on its members' behalf, and Mr von der Hagen has held discussions with Chancellor Merkel, Finance Minister Schäuble and other senior politicians to this end. Free market competition and the protection of property and ownership are crucial for the health of the German *Mittelstand* and Germany economic prosperity, while family entrepreneurs need political support against cartels and private and state-owned monopolies. As well as opposing the taxation of assets when a family company is transferred to the next generation, the association seeks reductions in labour costs and improvements in labour flexibility, backs free international trade, and urges close links between universities and companies.

Within a stable and supportive political framework, the recipe for success has many different ingredients. There is 'no one size fits all' solution to account for all niches or nations, but German family entrepreneurs tend to share certain traits. As noted, these include the owner's personal responsibility for risks and liabilities, their financial independence, and a long-term view with an eye on the next generation. Family entrepreneurs nurture close bonds with their employees, are obsessed with product quality and maximise value for their customers, rather than shareholders.

Mr von der Hagen urged stakeholders to support mid-sized and family firms and praised the GAP Summit for raising their profile in this country. He welcomed further exchanges of views and ideas in the future, before taking questions from the floor.
He conceded that although most German family firms are growing, others will falter if they fail to evolve to meet market changes. Companies must sprint to keep their place in a fast-moving economy, challenged by start-ups and international competition. However, the opportunities opened by the European single market are an enormous advantage for German family firms and have helped fuel expansion into other international realms over the last decade.

He agreed that the dynamic interaction between family values and capitalistic vigour is a feature of German culture as well as policy. The ethos of building for the future permeates society and benefits the entire community, encouraging effort and innovation, rather than consumption and complacency.

Limited access to investment capital can stymy Australian companies, but German family firms are wary of issuing equity to raise short-term funds. They are unwilling to erode ownership and self-determination and are reluctant to divulge information on their products and processes to outside interests. German firms which need additional capital to grow, particularly to compete on international markets, will therefore tend to offer company bonds instead.

Successful Australian family firms can be dismembered by family members wanting to cash in their shares, and legal changes could be considered to discourage this. However, the traditional of family continuity in Germany is a matter of voluntary private arrangements, rather than government mandate, although the legal system accepts their validity. German family firms tend to agree a nominal share value and maintain it for long periods, discouraging members from selling out well below market value. Not every family member has been happy with these terms, leading to legal action on occasions, but German courts have always upheld their legality.

The concept of 'horses for courses' accepts that different people or groups do better or worse in different circumstances. Some economic sectors are dominated by large firms, while medium-sized firms are more suited to others. German family companies benefit from the nation's strong manufacturing sector, which still accounts for 20% of total GDP, more than any other developed nation, except Japan. Large companies which export to China are often forced to base a percentage of their production there and will bring their smaller German suppliers along, affording them entry to the large Chinese market. Firms, whatever their size, succeed by excelling at one particular thing. The supermarket giant Aldi, which remains a family-owned firm, grew internationally by offering the lowest possible price to consumers.

Peter Fritz AM
Group Managing Director, TCG
Chairman, Global Access Partners

Peter Fritz AM thanked Herr von der Hagen and observed that everyone has a family, whether they own a company or not. His own family controlled a substantial fraction of Hungary's GDP before the post-war Soviet occupation and subsequent communist take-over. However, his family's ethos lived on despite their financial loss, and he urged dinner guests to celebrate and pass down their family traditions. Recalling that *"people die twice, once when they die and again when their name is mentioned for the last time"*[8], he maintained that the 'knowledge capital' we pass to our children is more valuable than any financial gain.

Mr Fritz then introduced the signing of **a memorandum of understanding between EnergyAustralia and Kiah Research** to create a new class of small to medium enterprises in the energy sector.

Peter Carre, CEO of Kiah Research, welcomed EnergyAustralia's recognition that long-standing corporations will not dominate future energy markets as they do today. He praised EnergyAustralia's willingness to work with new tech companies and scale ups to share in the creative destruction of traditional approaches and deliver smart, efficient, reliable energy solutions for Australia and international markets.

Catherine Fritz-Kalish thanked ministers, sponsors, speakers, steering committee members and GAP employees and brought the evening to a close.

DAY TWO - Friday, 8 September 2017

Catherine Fritz-Kalish welcomed delegates, paid respects to the traditional owners of the land and outlined the day's theme of growing the mid-sized business sector. She stressed that Summit discussions will inform the creation of GAP taskforces and lead to practical outcomes, before introducing Labor Shadow Minister the Hon. Ed Husic MP to speak on digital innovation.

KEYNOTE ADDRESS

'Think Digital or Become History'

The Hon. Ed Husic MP
Shadow Minister for Employment Services, Workforce Participation and the Future of Work, Shadow Minister for the Digital Economy, Member for Chifley

Mr Husic thanked GAP, acknowledged parliamentary colleagues and observed that people's attitude quickly veers from awe to personal anxiety, when contemplating technological change. Australia must face the challenges ahead and reap their benefits, as it has in previous eras, although the speed and breadth of change is increasing. He welcomed the opportunity to hear from 'people on the ground' and elaborated on the imminent arrival of the 'Digital Godzilla' of Amazon to Australia.

Some commentators fear that Amazon will devastate the domestic retail sector with a single 'mouse click'. The online retail giant reaches 85% of people using the internet or mobile phones, and as much as 2.7% of the world's 'digital time' is spent on the Amazon store or its apps, an amazing rate of market penetration, considering the plethora of online options and distractions. Morgan Stanley forecasts that retail earnings will drop by 16%, once Amazon's 'one click' shop opens in Australia, hitting the small electrical goods market in particular. Supermarkets may also be affected, as Amazon is experimenting with a physical grocery store with no traditional check out. MYOB research reveals that 27% of Australian SMEs are worried about Amazon, with 43% believing it will cost them customers and revenue. Retailer Dick Smith has warned of Amazon's 'ultimate greed' and believes it will make an 'absolute fortune' in Australia, while doing 'incredible damage'.

However, on a more positive note, the same MYOB research shows that 57% of SMEs believe Amazon's arrival will force them to innovate, although Australian businesses should not be waiting for the arrival of Amazon to start innovating and investing in digital transformation.

Amazon ran at a loss for many years, gradually expanding from selling books online to selling everything in response to customer demand. Australian retailers should have innovated in response, rather than waiting, as consumers now expect to conduct much of their business online. Vested interests inevitably appeal for legislative protection against innovative competition, but retailers should have collaborated to meet consumer demand for new online approaches in good time.

If amendments to competition law are required, they should be instituted and Amazon should not have free reign, but their arrival should be used as a catalyst for internal change. Digital engagement by Australian SMEs remains poor, but Alpha Beta, an economics analysis firm, believes $1 trillion could be added to the economy by 2030,, if businesses invest in digital transformation today. Automation, robotics and artificial intelligence will increase the speed of business and free workers from mundane tasks but SMEs must be proactive if they are to gain, rather than suffer, from change. While lip service has been paid to the need for digital innovation, actual engagement remains low.

A 2016 Department of Industry report exposed the growing gap in growth and productivity between SMEs with and without a digital business strategy. While most Australian SMEs have a website and are connected to broadband, their 'digital transformation' often stops there. Less than 50% use an e-commerce platform, fewer than 40% use social media, and around 20% use cloud computing and/or digital supply chain management.

A Sensis e-business report in 2016 also found a high level of surface level engagement masking a lack of deeper commitment. Almost all SMEs used computers – 94% had desktops, 49% used laptops and 41% utilised tablets – but only 45% of procurement was transacted online, and only 34% advertised on social media. Digital transformation demonstrably increases revenue, jobs and exports, but despite digital tools becoming easier to use, SMEs are still failing to use them to gain and retain customers, improve internal operations and export goods and services.

A new wave of automation, robotics, artificial intelligence and machine learning will transform the nature of work. The Organisation for Economic Co-operation and Development (OECD) estimates that between 9% and 15% of current jobs could be automated, but Oxford University research claims that 47% will be lost. Australian analytics firm Faethm estimates that 40% of financial service jobs and half of those in manufacturing could be lost. Fast food and hospitality, which now offer entry level jobs for young and mature workers alike, could lose as much as 60%.

Only 9% of Australia's listed companies have declared their plans to invest in digital transformation, while a quarter of Swiss firms are already investing in automation and preparing for the changes ahead. While minimal Australian interest may spare jobs in the short term, more will be lost in the end, as Australian firms lose out to more efficient foreign competition. Australia may then be forced into abrupt and roughshod adjustments, failing to reap the benefits of change while disrupting employment and increasing social unease. This may, in turn, provoke a political reaction and regulatory response that further isolates Australia in the past.

"Over 3.5 million jobs could change or disappear out of Australia's total of 12 million, posing a huge challenge to the nation. Politicians must pull their heads from the sand, recognise the changes to come, explain what can be done, and help Australia prepare to take advantage."

- The Hon. Ed Husic MP -

Hotel guests already use automated establishments in Japan and the USA, checking in and out without seeing a staff member. Fast food machines can prepare a hamburger without human hands involved, and chains are already calculating the savings they could make by automating counter staff. Many low skilled jobs will inevitably be lost, affecting young people, current workers and older people wanting to return to or stay in the workforce alike. Over 3.5 million jobs could change or disappear out of Australia's total of 12 million, posing a huge challenge to the nation. Young people are being trained for jobs which will soon disappear or change beyond recognition. Schools, TAFE and universities can no longer offer skills which guarantee a job for life, and the notion of a single career is increasingly outdated. While people have talked about the importance of lifelong learning for years, it must finally become a reality.

A combination of online learning, reformed vocational and tertiary education and shorter spurts of instruction to instil particular skillsets must be embraced by policy makers, educational institutions and individual learners alike. A 'one size fits all' approach will not help people with different skills and backgrounds adjust, posing another major challenge to government.

Canberra should analyse current developments and contemplate likely changes in the years to come. Politicians should advocate for change, rather than ignore or oppose it, offering the public a future to rally towards, rather than fear. Politics should offer a vision for the future and a roadmap of how to get there.

CSIRO's *Tomorrow's Digitally Enabled Workforce* report was coordinated across relevant departments and launched by the Employment Minister last year, but progress on the issue has stalled. Although reforms to the public sector's employment services contract are contemplated after 2020, the innovation issue has been dropped by the Turnbull administration after it failed to resonate with the electorate.

Politicians must pull their heads from the sand, recognise the changes to come, explain what can be done, and help the nation prepare to take advantage. Mr Husic criticised the government for offering no sense of direction, as venture capitalists and trade unionists alike are wondering what the nation's leaders are doing about the future of work. The mood of a recent workshop for senior executives and CEOs changed, when they contemplated their own children's future. Automation will destroy white collar jobs, such as paralegals, just as other economic trends decimated blue collar workers.

Mr Husic asked for the future of work to be included in his portfolio to ensure the opposition worked on the issue rather than merely criticise the government for not doing so. The Shadow Minister for Finance, Dr Jim Chalmers MP, will soon release a paper on the notion of 'a fair go' in the machine age, written with the former head of NBN Co, Mike Quigley, and Mr Husic welcomed the opportunity to work with Summit delegates on solutions to benefit the nation.

SESSION ONE

'Stuck in the Middle': Midsize Businesses and Barriers to Growth

Catherine Fritz-Kalish thanked Mr Husic and introduced the Hon. Philip Ruddock, Australia's Special Envoy for Human Rights, to chair the first session.

Mr Ruddock welcomed his parliamentary colleagues and drew the attention of attendees to the barriers to performance outlined in the Summit papers. He was surprised that government regulation appeared a lesser concern than profit margins and stressed the importance of a better regulatory environment to encourage business growth. He recalled Herr Von Albrecht's opposition to inheritance taxes to ensure family succession and the ways in which German taxation encourages economic activity while French taxes dissuade it. He criticised Australia's failure to back its own innovation with investment and introduced Mark Cully, the chief economist at the Department of Industry, Innovation and Science, to discuss the role of mid-sized business in the Australian economy[9].

'Stuck in the Middle: Midsize Businesses and Barriers to Growth"

Mark Cully
Chief Economist, Department of Industry, Innovation & Science, Australian Government

Australia has hundreds of thousands of small businesses, tens of thousands of mid-sized firms and thousands of large companies. The larger the firm, the more likely it is to innovate and export. Large firms are also more likely to be digitally active and have higher productivity than smaller businesses. Larger firms employ more highly skilled workers and more capable managers, and pay them higher salaries. Australian productivity and wages might therefore benefit from more mid-sized and large businesses, a task easier set than accomplished.

The Medium Enterprise Advisory, established by GAP in 2016, discussed whether Australia has too few mid-sized companies and possible barriers to growth. While the highly skewed distribution of businesses by size is so persistent over time that it appears immutable, economists argue it arises from three factors - ease of entry, ease of imitation, and a selection /sorting effect.[10]

Ease of entry refers to how difficult or costly it is for new businesses to enter an industry. The easier entry is, the less likely that undue market concentration by incumbent businesses will occur. Ease of imitation means the ability of an individual business to grow by mimicking the success of others. There may be technologies or organisational processes that give some businesses a competitive edge which are easily replicable, but the more difficult or costly they are to copy, the harder it is for other businesses to compete. Patents can slow the uptake of new technologies, and regulations which affect scale or narrow competition might also impede growth. Greater ease of imitation diffuses innovation across the economy to benefit consumers through lower prices and higher productivity.

The selection/sorting effect sees the most capable business owners and managers gravitate towards growing businesses. The best managers end up in the best run, and in time largest, businesses.

The size of a business is often calculated in terms of employees, as turnover can be distorted in industries with high input costs, although governments use both measures for tax and regulation. Payroll tax exemptions are typically defined by employment thresholds, while the recent company tax cut used a revenue threshold.

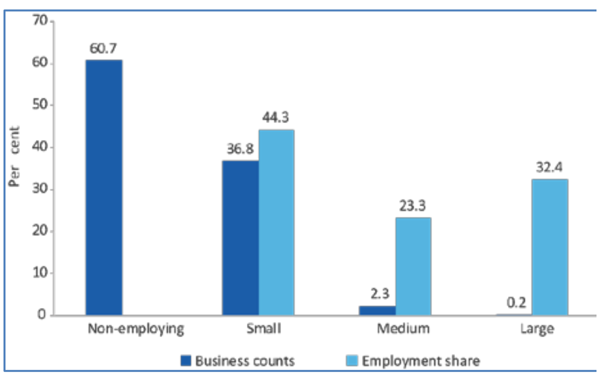
"There is no shortfall of mid-sized businesses in Australia, and there are plenty of examples of trailblazing high-growth firms. However, management capability in many firms is below par and successful transitions from mid-sized to large businesses are rare."
- Mark Cully -

The ABS counted 2.2 million active businesses in June 2016.[11] About 1.3 million were run by people working on their own account with no employees, 599,000 were micro-businesses with 1–4 employees, 199,000 were small businesses with 5–19 employees, and 51,000 were mid-sized businesses with 20–199 employees. Less than 4,000 Australian businesses have 200 employees or more.

These numbers do not correspond to the respective economic contributions of these sectors, and while mid-sized businesses account for just 2% of all companies, they generate 23% of total employment.

Exhibit 1: Business counts and employment share, by business size

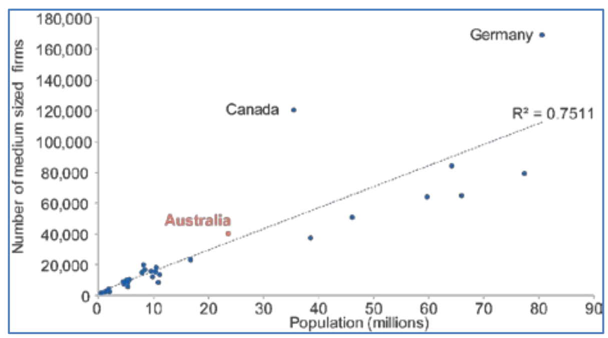
Business counts and employment shares by size[12]



The implicit premise of the GAP Summit that Australia has too few larger businesses may be tested by comparing the number of mid-sized and large businesses proportional to the population in Australia and similar nations. Relative to the OECD average, this calculation reveals that Australia has slightly more mid-sized businesses than our population size would suggest. There are 1,700 mid-sized businesses in Australia per million people, compared to an average of 1,440 per million across the OECD.[13] Germany tops the table, as might be expected from its focus on the *Mittelstand*, and Canada ranks highly, possibly reflecting its proximity to major markets in the United States.

Exhibit 2: Medium-sized businesses per million people in OECD countries[14]

Medium business counts by population — OECD



Australia also has more businesses overall per million people than other OECD countries, particularly in terms of small businesses. The ABS estimates that 310,000 businesses began trading in the 2015–16 financial year, a record high. The World Bank's annual multi-national report on *Doing Business*[15] consistently rates Australia as a country where it is comparatively easy to start a company. Australia ranked 7th in the world in 2017, barely behind the leader, New Zealand, in terms of procedures to observe and costs to meet.

Despite these healthy figures overall, several sectors retain substantial barriers to entry. There were just 15 start-ups in banking and seven new department stores in 2015–16, for example, compared to nearly 9,000 new cafes and restaurants. Bernard Salt observed[16] that the top ten businesses on the Australian Stock Exchange were founded before 1970, while half the USA's top ten were formed after 1975. Dr Andrew Leigh MP and Adam Triggs calculate that the four largest businesses in 461 industries in Australia account for an average of 36% of revenue, indicating market concentration.[17] Several important consumer-oriented industries, such as supermarkets, banks, health insurance providers and domestic airlines, see the four largest businesses take more than 80%. It is obviously hard for small and mid-sized businesses to mimic the success of these large players. An independent suburban supermarket is constrained by the size of its local market and lacks the massive scale required to adopt the sophisticated supply chain and operational logistics of the major supermarket chains.

Ease of imitation may be estimated by the transition rates from one size category to another. Analysis of BLADE, a longitudinal database of all businesses in Australia created by DIIS and the ABS, finds that most mid-sized businesses stay mid-sized. After the global financial crisis, around two in three stayed mid-sized between 2010 and 2014.[18]

The data regarding those which changed in size is sobering. Businesses are about ten times more likely to shrink back to small than they are to grow into large businesses. If those which exited business altogether are counted, the ratio increases to 20:1.

Exhibit 3: Business size transitions[19]

Business size transitions

	Small	Medium	Large	Exit
Medium (2002–2006)	20.1	58.7	2.1	19.1
Medium (2006–2010)	21.3	59.0	1.9	17.9
Medium (2010–2014)	19.5	64.6	1.8	14.0

Selection effects drive differential management capability across businesses of different size. In July 2017, the ABS published headline results from the Australian Management Capability Survey, the first time that official statistics have been collected on this topic.[20] The survey was funded by DIIS and covered almost 15,000 private sector businesses across all industries. Its findings are stark:

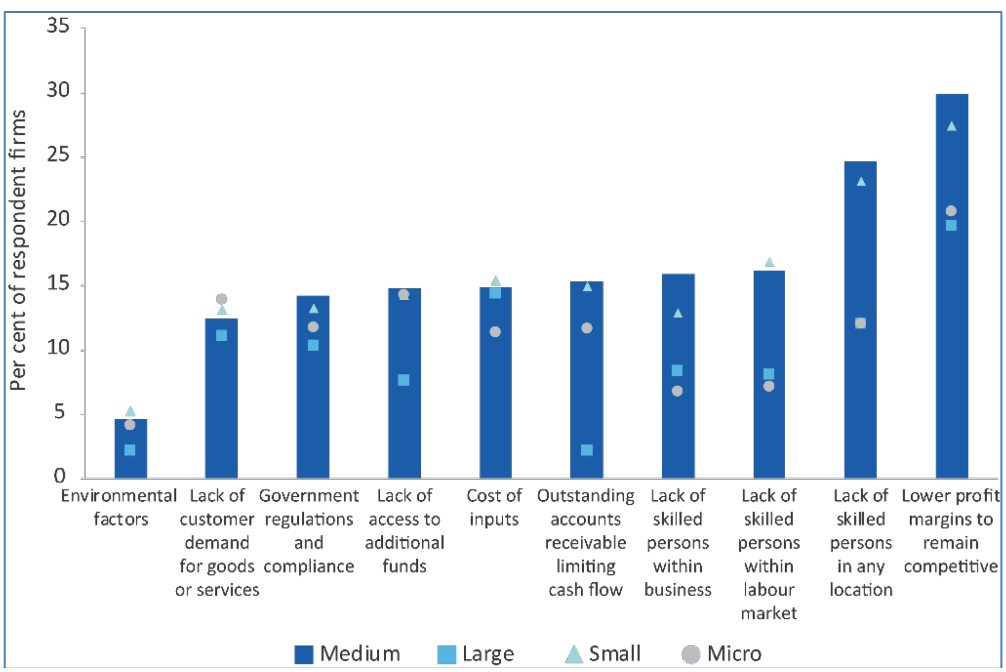
- Only one in ten businesses had a written strategic plan in place, including around a third of all mid-sized businesses.
- Half the businesses surveyed did not monitor any aspect of their performance, although four in five mid-sized firms monitored one or more aspect of performance. Nine in ten tracked revenue, two in three indicators of quality, but just one in four monitored innovations in the business.
- Just over one in ten businesses agreed that they embarked on high-risk and high-reward ventures in their business, rising to one in five mid-sized businesses.
- Only a third of the principal managers had a degree or higher, a percentage no different to that in the workforce at large and 20 years after the Karpin Report criticised the skill profile of Australia's business managers as inadequate.[21]

The Australian economy therefore offers ease of entry in most sectors, encouraging the emergence of many businesses, but high costs of imitation and strong selection/sorting effects combine to constrain the growth of small and mid-sized businesses.

Many business owners, perhaps the bulk of people working on their own account and those in micro-businesses, have no aspiration to grow. But mid-sized businesses were not created at their current scale, meaning they have grown to mid-sized respectability. When their principal business manager was asked what stopped them growing further, the answers from mid-sized firms differed strikingly from larger businesses.[22] All businesses, irrespective of size, cited low profit margins as their major constraint, but managers of mid-sized businesses were much more likely to cite difficulties sourcing workforce talent, problems with cash flow and with access to finance than larger firms. All of these factors point to problems in ease of imitation.

Exhibit 4: Barriers to performance[23]

Barriers to performance



Government regulations and compliance were reported as a barrier to growth by 14% of mid-sized businesses and a tenth of large businesses in the most recent Business Characteristics Survey.

Regulation affects businesses of different size in two ways. First, due to scale effects, businesses of a smaller size incur proportionally higher costs in complying with regulation and they cannot afford to employ specialist staff to professionally deal with these issues. In a federation like Australia, this can be magnified for businesses operating in more than one State, as many State regulations are not harmonised. Secondly, there are a range of regulations, such as payroll tax exemptions, that are conditional or vary in their application according to business size. There are some benefits and tax concessions available to small businesses that peter out beyond a certain threshold, but while these benefits and regulatory exemptions compensate small businesses for the higher regulatory burden they face, they can, if not checked, become an impediment to growth.

A recent French study found a sizeable cluster of businesses with 49 employees to avoid a range of regulations applying to businesses with 50 employees or more.[24]

Mid-sized firms complain they are too large to benefit from the range of government support provided to small business, but not large enough to hold sway when government seeks industry input on changes to regulations and policy, leaving them doubly disadvantaged. Despite this, mid-sized firms are more likely than small businesses to participate in government programs like the Entrepreneurs' Programme and to access the R&D Tax Incentive.

While many businesses are content to operate as they are, others such as Atlassian, Seek and Redbubble looked to enter and disrupt markets and thrive. The forthcoming *Australian Innovation System Report* will explore their success and outline their disproportionate contribution to employment and turnover growth in Australia. It will also note that mid-sized businesses make up the largest subset of these high-growth firms, relative to their share in the population, and that they are found across all industries.

These figures show there is no shortfall of mid-sized businesses in Australia, and there are plenty of examples of trailblazing high-growth firms. However, management capability in many firms is below par and successful transitions from mid-sized to large businesses are rare.

GAP's Medium Enterprise Advisory discussed the need for a dedicated national mid-sized growth strategy. Such a plan might begin by examining regulatory and competition settings and the extent to which they unduly benefit large businesses, with a view to nurturing the potential of small and mid-sized businesses with ambitions to grow.
A permanent Growth Institute might also offer advice and services to mid-sized firms.

Mr Cully closed by asking attendees to consider the merits of these ideas.

Mr Ruddock thanked Mr Cully and introduced Tim Rose, the managing director of Southern Oil Refining, to discuss the difficulties his company has encountered.

"Growing a Business – Snakes and Ladders of Government Policies"

Tim Rose
Chief Executive Officer
Southern Oil Refining

Southern Oil now has two refineries, in NSW and Queensland, which recycle waste lubricating oil from vehicles, ships and planes. It was bought out by its managers from Babcock & Brown, but after a year of successfully servicing its debts, its bank demanded full repayment within three months. Other banks refused to extend additional loans, but the company was saved by another large private investor, J.J. Richards and Son, which bought a 50% stake in the business.

This demonstrates the importance of capital to medium-sized businesses, but Mr Rose noted that banks flocked to support it, once private investment had been secured, allowing Southern Oil to build its new plant in Gladstone. Other firms which lack a 'big brother' still struggle to access the capital they need to expand, as banks are reluctant to loan money to regional industries outside their metropolitan comfort zone.

The plant at Gladstone is three times the size of the Wagga refinery, but greater automation means it employs half the workforce. Southern Oil chose the site because the Queensland Government had set it aside as a 'state development area' for heavy

"Firms which lack a 'big brother' still struggle to access the capital they need to expand, as banks are reluctant to loan money to regional industries outside their metropolitan comfort zone."

- Tim Rose -

industry and many environmental and regulatory approvals were already in place. Planning approval was granted by Queensland's Coordinator General, and the refinery was completed within 18 months when the bureaucracy in NSW might have taken years to approve it. The new refinery highlights how streamlined planning can attract investment and jobs to a state.

Industries in rural areas can suffer from 'one size fits all' environmental regulations. Plans for a plant to burn agricultural waste for power 10 km outside Leeton, a small town of 3,000 people in the Riverina, have stalled because it must meet the same emissions criteria as a factory in Parramatta. This is despite farmers burning stubble in the area and releasing more particulates in an afternoon than the factory would emit in a year.

Research and development is crucial to growth, and Southern Oil reinvests up to 90% of its profits. 24/7 production means that employees tend to the process as little as possible to maximise productivity, minimise costs and maintain quality. Conducting research therefore adds interest to an otherwise tedious and repetitive regime, helping to retain talented staff and boost their commitment. Southern Oil is now branching out into bio-fuels which larger, oil-focused refineries ignore. A host of small businesses have sprung up to investigate ways to turn waste products into oil, and Southern Oil has spent $25 million to create an innovation cluster at its Gladstone refinery with Queensland Government support. Bio-fuels have enormous potential and could help power private and commercial vehicles which run on petrol and diesel today.

These research projects appeal to the engineering spirit in the company, although their commercial potential is still to be explored. While it is tempting to take money out of a business to enjoy a comfortable life, ploughing it back into research can produce much greater long-term rewards.

Mr Ruddock thanked Mr Rose for relating his experience and wondered how the NSW Department of Industry and Westpac might respond. He then introduced Su-Ming Wong, an investor and advisor, to deliver the session's final presentation.

"The Impact of Capital, Competitive Pressures and Networks for Support on the Sector"

Su-Ming Wong
Managing Director
Champ Ventures

Mr Wong said he was inspired by the passion and commitment of Australian entrepreneurs who have turned small firms into large corporations over the last 25 years. He offered insights gained from working with them and understanding the challenges they face, rather than belabour macroeconomic issues that confront all Australian businesses such as the strength of Australian dollar and high energy costs.

Mr Wong identified five challenges facing smaller Australian businesses. These include the availability of risk capital to sustain growth, the need for quality management teams, the problems caused by lack of scale, building complementary networks, and overcoming reputational risk. A lack of confidence among owners and senior managers and the problems of succession are also issues of concern.

All businesses need capital to fund growth. SMEs tend to fall back on personal resources, or assume expensive bank debt secured by personal real estate or other guarantees. However, these avenues will not suffice for further expansion, and while private equity offers alternative capital it is often seen as overpriced and intrusive. As with any financial product, there are cases of mismatch between the providers and users of private equity, but over the last 30 years it has become an increasingly reputable source of risk capital. The main challenge is to align the expectations of providers and users, bridging the growing gulf between the returns expected by investors and those delivered by businesses.

Mr Wong championed the importance of better management skills. Growth requires the development or recruitment of a more powerful management team, as a successful SME will eventually outgrow its founders' capacity to manage it over time. To sustain its growth, its founders or owners must be sufficiently self-aware to realise they need to hire good executives and pay them commensurate salaries. However, this takes great conviction, and business owners are understandably reluctant to spend $300,000 on a chief financial officer when the post does not immediately contribute to greater revenue.

Despite this, every company needs a robust management and financial information system to inform sound decision making. Without this data, business owners cannot properly execute their business plan, but the need to invest in management for growth is not appreciated by most SMEs. Institutional investors must work hard to convince owners of the need to recruit a quality management team when they put money into the business and become part owners themselves.

By its nature, a business of modest scale faces many competitive challenges and financial inefficiencies. Its managers are often multitasking as well, responsible for everything, from production and logistics to marketing and human resources. An SME is further disadvantaged, as larger companies prefer to play safe by working with more established firms. The saying that 'you can't go wrong buying IBM' reflects this reputational risk, and medium-sized firms suffer when talking to banks or prospective customers, in contrast to larger firms. Corporate and public decision makers are understandably risk averse and have no incentive to take a chance on a medium-sized firm when they can play safe with a well-established competitor. Their CEOs can lack access to peer networks which might enhance their business development, a problem seen in the Asian business community.

Managers of medium-sized firms can also lack confidence when contemplating opportunities for growth. It can be 'lonely at the top', and they lack peers to discuss these issues with. They are wary of expansion lest they risk the business they are responsible for and so do not reach out to outside capital or advice which could share the risk and help their business grow.

A well-implemented succession plan is the ultimate measure of a smaller business entity. Succession proves that a sustainable business which can survive its creators has been established and no longer depends on its founder or a single 'key' individual.

> "Managers of medium-sized firms can lack confidence when contemplating opportunities for growth. It can be 'lonely at the top', and they lack peers to discuss these issues with."
>
> - Su-Ming Wong -

All these challenges stem from the human factor, from the passion and maturity of the company's founders to their ability to engage with outside partners, admit vulnerability and successfully network. Improving these skills is as important as more commonly cited financial or macro-economic factors. The mid-sized business sector is a spring well of passionate and committed entrepreneurs who care about their employees, customers and the country, and Mr Wong praised the Summit's focus on their efforts to grow.

DISCUSSION

Mr Ruddock invited comments from delegates.

The first speaker said his research into mid-sized firms in the 1990s revealed their relatively small numbers, compared to the rest of the economy, and that their most likely fate was extinction rather than growth. Many medium-sized firms are in a vulnerable position and either grow fast, get bought out, or shrink in size.

Another speaker did not see a takeover as failure, as it rewards its entrepreneurs for their hard work, and the eclipse of unsuccessful companies is inevitable in a free market.

The next speaker recalled the holding of a small business forum alongside the G20 meeting in Melbourne. The G20 leaders pledged to boost growth by 2% by 'energising enterprises', but had neglected the vital role which smaller firms can play. Hosted by GAP, this G20 SME Summit[25] was the first of its kind and shifted the dialogue from the behemoths which tend to dominate the debate. Despite their massive contribution to the economy, major companies have shed jobs, rather than create them, and are no longer drivers of employment growth. Although Australia's G20 SME Summit had been hailed as a success, and was repeated in Turkey the following year, the exercise was abandoned, when China took its turn to host the G20.

If innovation is 5% inspiration and 95% perspiration, then more attention must be paid to the management skills required to turn ideas into reality. Many people have ideas for growth or innovation but, do not know how to embark on the logical sequence of practical steps required to achieve it. The debate must specify the 'magic that is missing' and the capabilities firms need to attain their goals. Mid-sized companies must assess risks before they take decisions, but thought must also be given to the appropriate division of risk between entrepreneurs, managers and employees. Many people choose to work for others because they want to minimise risk to themselves, rather than become entrepreneurs, but a company's workforce shares the risks undertaken by the firm in a volatile and uncertain world.

Southern Oil employs 65 people, and the risks it takes are considered thoughtfully. While the excitement of new opportunities may drive managerial decisions, a balance must be found to safeguard the company. Proper procedures should ensure the company does not over-invest in speculative ventures or risk its base capital. Southern Oil's management consults the workforce on the company's direction, and its employees understand the need for growth, given their own investment in superannuation schemes and negatively geared properties. Presented in the right way, risk can motivate employees who might otherwise stagnate through endless operational.

Workers want to feel part of an ambitious business which plans ahead and thinks laterally about solving problems. Calculated growth will make their jobs more secure, rather than risk them, and though it is impossible to quantify in mathematical terms, an intuitive approach to risk can be effective.

Another attendee suggested that managers of mid-sized businesses might benefit from short-term training schemes to build the skills required to grow their companies, just as start-ups benefit from incubators and accelerators.

Another speaker urged the creation of a Growth Institute to keep the mid-sized sector in the spotlight long term.

State governments and private backers are experimenting with a range of support for start-ups, and similar schemes might be offered for mid-sized firm. The Entrepreneurs' Programme run by the Department of Industry, Innovation and Science partners firms with retired business owners who can offer advice and help plan their next stage of growth. This programme is modest in size, helping less than 20,000 SMEs a year, and could well be extended.

Attendees were again to consider the merits of a mid-sized growth strategy or the services a Growth Institute might provide.

Another speaker stressed the need for governments and industry to focus on mid-size enterprise. The B20, the business facet of the G20, did not include the Chamber of Commerce when Australia hosted the G20, and its $200,000 subscription ensured its domination by major banks and large firms like Wesfarmers and BHP. A mid-sized enterprise institute could produce the statistics required to push the agenda at the G20 and beyond.

One medium firm, which operates in 62 countries and employs 80 engineers, noted its failure to find a leadership services company willing to work at a reasonable rate. A distinguished MBA school in Melbourne also rejected the firm's attempt to secure an affordable course for its managers.

Overbearing regulation has been a common theme in GAP discussions over two decades. While some progress on risk-based regulation was made a decade ago, with the EPA in Victoria and NSW moderating their demands, this has petered out and special development zones are now required in Queensland to get new facilities constructed. Over the last decade, the Australian media has come to view every event as a crisis. Each isolated incidence of food poisoning or environmental contamination is presented as a national disaster, and the government is expected to mitigate every element of risk. There should be a renewed drive for more flexible regulation, and the government must admit that it cannot shelter the public from every risk.

Another speaker repeated the importance of management skills and leadership. While the accelerator model may not be appropriate for medium-sized firms, bite-sized leadership courses could help CEOs develop and network. Expensive MBA schools are geared for a different type of customer, and other ways to promote management excellence in medium-sized firms must be found.

The next contributor challenged large corporates to help mid-sized businesses grow. Lifelong learning is required, as people move between different jobs which demand new skills. Qantas is creating a business development ecosystem for medium-sized firms based on mutual learning, but many smaller firms are reluctant to trust large corporates who they fear offer nothing more than a sales pitch.

The widespread acceptance of the need for leadership skills is a strong Summit outcome, and more discussion of the types of training needed, from quick bite-sized seminars to longer courses, is required. Ways to reduce suspicion of corporate motives when offering support to smaller firms would also be welcome. Having survived difficult times itself in recent years, Qantas believes in the need to support smaller Australian businesses.

A firm with 95 employees in 24 cities around the world who help other firms expand into international markets finds that Australian firms lack the support they need to 'go global'. While entrepreneurs will make things happen regardless of circumstance, greater collaboration can yield better results. The firm is working with Austrade to expand its 'landing pads' in foreign cities and believes that mid-sized firms would benefit from the insights generated by start-up accelerators and incubators to expand internationally.

The challenges posed by national culture were raised by the next contributor. Australia's beliefs and values shape its economic activity and explain the nation's lack of innovation and low appetite for risk. Other countries exhibit different attitudes towards success. Israel and New Zealand have a sense of urgency and take action as a result. The mid-sized business debate should explore how to create similar impetus here. While there should be no artificial sense of crisis, Australia's culture and behaviour must be challenged for the economy to progress.

Discussions with large and medium-sized firms at one university highlight similarities between the risks and challenges they face. Brainstorming sessions with medium-sized firms can uncover opportunities for mutually beneficial collaboration. Macquarie University's incubator challenges students and researchers to find ways to help businesses grow. The culture of competition must be replaced by a willingness to collaborate on innovative ventures.

An investor was optimistic about the future, citing greater investment today than in the last twenty five years. The cost of starting firms in Australia and across the world has declined significantly, and the innovation picture is brighter than often portrayed.

A data scientist warned attendees on the future of work and the likely impact of automation on employment. Around half of today's jobs may be automated over the next 15 years, including 40% of positions in financial services. Jobs are already being lost in many sectors, but this depressing scenario should be alleviated by the creation of new jobs, not least by SMEs creating new products, businesses and industries. Major corporates may control current revenue streams, but they struggle to innovate themselves. One major supermarket chain in Australia looked to create an innovation hub and corporate venture capital fund, for example, but such companies follow, rather than lead. Major firms monitor innovations around the world, then copy or buy up the successful ones, rather than developing solutions themselves. This approach leaves Australian firms vulnerable to more advanced foreign competitors entering the domestic market and will force them to cut costs to compete. Woolworths, for example, is one of the largest employers in Australia, with 190,000 mainly low paid employees. Many of these jobs could be eliminated by installing more self-check outs in the firm's 950 supermarkets and automating warehouses and logistics to a greater extent. Much of this technology already exists and could well be implemented over the next few years.

A business owner employing around 100 staff expressed his frustration with the Australian debate and said he had invited a British institute to Australia to kick-start interest in the sector. He implored commentators to abandon the term 'SME', as it originally meant 'small and micro' rather than 'small and medium-sized'. Medium-sized firms more closely resemble large firms, although they lack their resources, rather than start-ups or smaller companies. Many people offering advice in forums or the media have never worked in a mid-sized firm, and successful exemplars would be more useful. The political focus on small businesses in Britain and Australia is to win votes, rather than increase output. Ninety per cent of businesses are small, and 70% of them employ only one person. These one-man bands have no intention or capacity to grow, while the mid-sized sector could expand and employ more people. Businesses do not need reminding about the threat posed by Amazon and other international leviathans, but they do require practical, bipartisan measures to help them. Small, medium and large firms each contribute around a third of GDP, but the middle sector is starved of political attention.

Mr Ruddock thanked attendees for their vigorous contributions, stressed the need for government action to improve the business environment and brought the session to a close.

INTRODUCTION

Catherine Fritz-Kalish introduced Dr Ian Watt AC, the former head of the Australian Public Service, to chair the second session. Dr Watt introduced the Hon. Christopher Pyne MP, Minister for Defence Industry, who is responsible for delivering the current government's investments in defence procurement and encouraging prime contractors to use Australian sub-contractors. Dr Watt encouraged Australian mid-sized firms to maximise these opportunities.

KEYNOTE ADDRESS

"Australian Defence Industry - Our National Endeavour"

The Hon. Christopher Pyne MP
Minister for Defence Industry
Leader of the House

Minister Pyne argued that national defence is a cornerstone of economic prosperity and that one cannot be had without the other. Entrepreneurial mid-size businesses will help maintain Australian security and prosperity in the future.

Australia faces a challenging strategic environment. North Korea's nuclear provocations underline that Australia cannot isolate itself from strife in the heavily militarised Indo-Pacific. The region contains seven of the world's ten largest standing militaries and five of the world's declared nuclear powers, and the Australian Navy must ensure free and uninterrupted passage through strategic sea-lanes to protect the nation's trade.

The Turnbull government's unprecedented investment of $200 billion over the next decade will strengthen the ADF to ensure it can protect Australian borders and a rules-based global order.

"Midsize businesses are the core of Australia's defence industry and are some of our most internationally competitive and innovative companies. They are becoming vital links in the supply chains for global primes, as well as growing in scale themselves."

- The Hon. Christopher Pyne MP -

The new sovereign defence sector this creates will also drive the innovation and smart manufacturing industries vital for economic success in the 21st century. Strong, smart and resilient small to medium enterprises will be vital partners in this task and help give Australian workers rewarding, long-term, highly skilled careers.

Australia will continue to acquire many major systems from the US and other international allies and welcomes foreign prime contractors to these shores. The expertise and investment they bring will help improve defence capability and create opportunities for domestic sub-contractors and suppliers. The presence of primes in Australia will give mid-sized firms access to international best practice, advanced technologies and state-of-the-art manufacturing methodologies they can apply in other contexts.

The 2016 Defence Industry Policy Statement looked to maximise opportunities for Australian industry. Capital projects worth more than $20 million require foreign primes to look for Australian partners to help build enduring industrial capability to meet broader defence needs. Clear strategies for technology transfer will help smaller Australian firms join international supply chains and foster innovation. Minister Pyne urged more Australian firms to follow the example of Thales Australia and Austal in competing in international markets.

Australia's defence industry includes over 3,000 SMEs which employ over 25,000 people. These numbers are growing as investment increases, and some of these firms are already developing and commercialising their own technology, sub-contracting to other SMEs and engaging with primes. Ferra Engineering in Brisbane transitioned from the automotive sector to aerospace in 2002 and is now a trusted supplier to Boeing, Lockheed Martin and Northrop Grumman, with sales to other firms in the US, India and Great Britain. It contributes to world-class platforms like the F-35 Joint Strike Fighter, the Triton Unmanned Aerial System and MH60 Romeo helicopter, and its local supply chain includes 30 other Australian companies.

The inclusion of defence industry in cabinet discussions underlines the government's commitment to creating a world-class, highly innovative sovereign defence sector to strengthen the ADF, revitalise Australian industry and provide valuable employment. The Minister urged the public to share his pride in this 'great national enterprise' and stressed the government's resolve to plan for the future as well as boost capacity today. The government has strengthened the Australian Industry Capability Program, established a Centre for Defence Industry Capability and fine-tuned training and export programmes as a prelude to their expansion.

The Centre for Defence Industry Capability helps SMEs with advice and support services, and its Global Supply Chain programme champions Australian industry overseas. Domestic SMEs have already secured contracts worth more than $900 million. Brisbane's Heat Treatment Australia works with BAE and Lockheed Martin, for example, while Quickstep, formed in 2011, now employs more than 200 people to build parts for the wings for the Joint Strike Fighter and the Hercules cargo plane. Supashock is working with Rheinmetall to develop vehicle suspension for the German Army and Birdon, a shipyard in Port Macquarie, won a $400 million contract to build boats for the US Army. Similar success will flow from the Defence Export Strategy, the Defence Innovation Hub and the Naval Shipbuilding College.

The Defence Export Strategy, due for release in late 2017, will plot a detailed path for industry to achieve export success, support the ADF and promote national strategic interests. Defence exports will sustain the industry across troughs of domestic demand, promote international engagement, build capacity, improve interoperability and position Australia on the global stage.

The Defence Innovation Hub was launched in December 2016 to ensure value for money, encourage innovation and improve industry capacities. Contracts worth $13 million have already been announced, and the forthcoming Defence Industrial Capability Plan will identify domestic capabilities requiring support and enhancement.

Education and training are required to equip the workforce, and the Naval Shipbuilding College will open at the start of 2018 to support the $90 billion shipbuilding programme. The college will produce 1,600 skilled workers a year to strengthen industrial capability for decades to come. A Defence Industry Skilling Strategy will be released in mid-2018 to ensure the nation trains the workers required. It will build on the current National Defence Engineering Internship Programme, the F1 in Schools and Subs in Schools schemes, and the Skilling Australia's Defence Industry Programme. These schemes increase student interest in STEM and defence industry careers, broadening Australia's engineering foundation.

The government will spend more than $1 billion on modern shipyard infrastructure and over $25 million on workforce expansion and training. Naval procurement will eschew the boom and bust cycle of the past, and the $730 million Next Generation Technologies Fund will help defence build bridges with innovative SMEs, universities and researchers to develop game-changing military capabilities over the next decade.

Despite the vast sums involved, SMEs and mid-sized firms are crucial to the success of these programmes. Midsize businesses are the core of Australia's current defence industry and are some of Australia's most internationally competitive and innovative companies. They are becoming vital links in the supply chains for global primes, as well as growing in scale themselves, and the Minister urged attendees to 'seize the day' and move ahead.

QUESTION & ANSWER

Dr Watt thanked Minister Pyne and opened the floor to questions.

Asked to substantiate his claims of success, the Minister revealed that June's quarterly national accounts show that defence industry investment has grown by 23.6%. The Next Generation Technologies Fund is already operational, and the Defence Science and Technology Group has announced its first grand challenge on countering improvised explosive devices. The first Defence Cooperative Research Centre is investing $50 million in trusted autonomous systems, and the $1 billion Osbourne shipyard has just begun construction. Work on the Pacific Patrol vessels began in Henderson in April

2017, and the winner of the tender for offshore patrol vessels will be announced in November.

The Minister was asked to provide an online directory of possible defence customers for Australian service providers to contact but he told attendees the Centre for Defence Industry Capability offers the required interface with Australian industry. The Department of Defence will run a media campaign in November to encourage young people to study STEM and trade skills and consider a career in the sector. Businesses will also be prompted to avail themselves of easier opportunities to contribute to defence programmes. All available tenders will be presented on a single internet page, for example, and prime contractors will be asked to use the portal for job advertising.

Responsibility for the Centre for Defence Industry Capability is shared between the Departments of Industry and Defence Procurement. The Centre was asked to double its number of full time equivalent employees from around 30 to 60 to provide more support, and the head of the Centre indicated his willingness to discuss expanding the service. It might also offer the email addresses of 10–20 contacts, which medium-sized firms might use as an initial step to enter the sector.

Minister Pyne emphasised the government's prioritisation of defence capability over domestic industrial production. The point of increased defence spending is to improve Australia's security, although economic spin-offs are a welcome supplementary benefit. ADF personnel must have the best equipment when put in harm's way to minimise casualties and ensure mission success. Second-rate technology cannot be selected on the basis of origin, rather than capability. To retain the confidence of the Defence Department and the Chief of the Defence Forces, Australian businesses cannot expect preferential treatment for substandard products and services. They must prove their worth against international competition, but have the advantage of the support and advice of government agencies and major international firms.

The scale of government investment should encourage SME engagement. Five billion dollars will be spent on 225 new combat reconnaissance vehicles, with a similar sum allocated for offshore patrol vessels. On an even greater scale, the Future Frigates will cost $35 billion, and the Navy's new submarines $50 billion. Winning a contract will be a lucrative prospect, but Australian mid-sized firms must decide to invest in the capacity required to win tenders on merit. Contractual requirements to encourage Australian content are forcing foreign prime contractors to engage with Australian businesses they had hitherto ignored, and these major firms have been pleasantly surprised by the number of Australian firms able to join their supply chain. Australian industry content has increased from 5% in some projects in the past to over 50% today..

One attendee had opened an office to promote the Victorian defence industry in Washington DC and was heartened by the success of Australian firms with humble origins. Several Australian suppliers contributed to the Super Hornet programme, and Deakin University has developed technology used by the US Marines. Such firms had no problem getting a hearing in the USA, but their experience in Australia was less welcoming. Medium-sized firms found it almost impossible to navigate Australia's Department of Defence in the past, even if they had won contracts in the USA. The Minister was urged to highlight success stories to inspire other firms and appoint a champion of mid-sized firms which have proved their capabilities.

The Minister accepted the need to reform departmental culture and maintained that progress was being made. The Department of Defence is more amenable to Australian firms than in the past, and mid-sized firms are being actively invited to contribute. While change can take years to achieve, senior figures understand the need for improvement, and the recent First Principles Review of Defence Management made a worthwhile contribution. The long-standing 'cultural cringe' hampering domestic defence suppliers will take more time to turn around entirely, but the situation will improve, as exports are promoted at trade shows abroad. Conversely, foreign buyers are less likely to purchase Australian defence goods if they are not used by the ADF, and so domestic sales are vital to export success. Public servants want to work for an exciting Department, and enthusiasm from the top will energise the sector as a whole. About 120,000 people work in the Department of Defence, in and out of uniform, and they all should be as excited as the Minister himself.

Dr Watt thanked the Hon. Christopher Pyne MP for his energetic efforts on behalf of Australia's defence industry, before introducing the next session.

SESSION TWO

'Changing Gear': Export Opportunities for Midsize Business

Session Chair Dr Watt introduced the session's two speakers, Professor Elisabetta Magnani of Macquarie University and Martin Hosking, co-founder and CEO of Redbubble.

"Opportunities and Risks for Australian Midsize Companies in Context"

Prof Elisabetta Magnani
Head, Department of Economics
Macquarie University

Prof Magnani acknowledged that mid-sized companies face risks as well as opportunities. While economists once saw nations developing in defined stages towards mass consumption, modern concepts of 'compressed development' accept that different levels of development co-exist within the same society. Complex, high technology companies operate in some countries next to ghettos where people struggle for water and electricity. The pace of development is accelerating around the world, compressing stages of change.

People, companies and countries depend on each other on a macro scale, and individual firms have pursued disintegration through outsourcing and off-shoring of non-core activities to focus on their main business. Mid-sized companies should therefore try to integrate themselves into global production networks, supplying parts or services for products which many countries may contribute to.

There is a clear national correlation between economic success and global network integration. The three most successful post-war economies – the US, Germany and Japan – also led the

"Mid-sized firms can prosper through a combination of global production network integration and local development. Manufacturing is one of the lowest-value parts of the supply chain, while R&D, services, marketing and design are far more profitable." - Prof Elisabetta Magnani -

development of global production chains. However, countries such as China, Mexico, Malaysia, Thailand, India, Brazil, Turkey, Indonesia and the Philippines rank higher than Australia in terms of global integration. Indeed, Australia may be bracketed with nations such as Saudi Arabia and South Africa in terms of worldwide supply chains. Australia has been accused of relying too heavily on a small number of large business and multinational corporations, leading to a lack of domestic investment in R&D and low rates of innovation. Greater global integration could address this issue.

While mid-sized firms should embrace the opportunity to join global supply chains, different links add varying amounts of value. Companies should therefore look for high-value sectors to operate in, rather than low value activities. Manufacturing is actually one of the lowest-value parts of the chain, while research and development, services, marketing and design are far more profitable. Australian mid-sized firms should therefore focus on these ancillary activities to make profits and create jobs in the future.

The nature of entrepreneurship is often misconstrued. It is not a synonym for innovation or creating new markets. Instead, it should be seen as the process of entering existing global production networks or moving from low-value to high-value work.

Mid-sized firms can prosper through a combination of global production network integration and local development. There are around 51,000 mid-sized companies in Australia, many of which will not be able to join global production chains and will not benefit from the limited domestic 'spillover' from those firms which do. Companies at the technological frontiers of their sectors are more likely to integrate into global supply chains, but will not necessarily drive wider local or regional development.

Federal and state efforts should therefore be made to ensure that economic returns from global integration are matched by social benefits, including jobs for young people, wage growth and investment to ease social issues. Mid-sized companies face skill shortages when recruiting staff, and the demand for appropriately equipped candidates will only increase when firms pursue global integration.

While government spending to ameliorate social deprivation enjoyed some success through a 'top down' approach in the 1960s and 1970s, today's economic realities mean that alternative economic policies must be adopted. The context of different sectors, such as health or agriculture, must be understood by public decision makers and their policies should be tailored accordingly. Profitable sectors tend to cling to traditional approaches and eschew innovation, and so the greatest potential may be found elsewhere.

"Innovation: Needs Real Commitment"

Martin Hosking
Chief Executive, Redbubble

Martin Hosking tackled the importance of innovation to exports from a practical point of view. Australia sits a long way from the rest of the world, and its exporters must work hard to distinguish themselves from their competitors. Mid-sized firms must therefore innovate to secure export success. He outlined his experience with several companies including LookSmart, the first Australian company listed on NASDAQ, and Redbubble, which offers a domestic and global marketplace for bespoke works of art. It has reached $200 million in yearly sales, 94% of which are offshore, employs 200 staff and is growing at 30% a year. In accordance with Professor Magnani's theory, it succeeds as a design and marketing company, partnering with local manufacturers to produce t-shirts and other goods and outsourcing work to willing artists, rather than manufacturing products itself.

Australia tends to underinvest in research and development, spending 2.1% of GDP on R&D, slightly below the OECD average. South Korea tops the spending table, dedicating 4.3%, and it is no coincidence that it is a major exporter of smart phones, rather than mineral ores. Only one of the world's top six companies, Microsoft, was in the technology sector a decade ago, but five of the top six are tech firms today. Three of those companies – Google, Facebook and Amazon – were created less than 20 years ago and have a combined market value of $2 trillion – dwarfing the $1.6 trillion of the entire ASX 200. More value has been created by those three companies in the last two decades than by the whole of Australia's corporate industry over two centuries. Australia cannot afford complacency when innovation is viewed in a global perspective.

Unless we ask why Australia has failed to produce its own tech giant, we will never create one. Innovation is difficult for everyone, and the failure rate is very high. If gamblers knew which number the roulette ball would settle on, they would all be millionaires, but no-one knows what innovation will produce until they try. Israeli analysis of 10,000 start-ups, funded between 1999 and 2014, found only 5% had reached 100 employees or achieved $100 million in sales. Forty two percent had failed altogether, while 53% were still operating more modestly. Australians find it hard to embrace something they know will fail 95% of the time. The press would hammer the government over such a small success ratio; but failure is the price of innovation and must be embraced, if success is to be achieved.

Some uniquely Australian factors reduce our tolerance for failure. Australia has enjoyed 26 years of uninterrupted growth, and so businesses have found it easy to make money without innovating or taking risks. Australia's most innovative era followed Paul Keating's warning that we risked becoming a 'banana republic'. This stark warning scared the business community into action in the face of Asian expansion. The government and nation embraced innovation, passing major regulatory and corporate reforms and investing in research and development. This laid the foundations for a quarter century of success, which has sapped the will of their successors to pursue innovation today.

Australia is a great country, but its instinctive *'she'll be right, mate'* attitude is a red flag of inaction, from the farm to the boardroom. *'She won't be right unless we do something'* should be the approach to serious issues. Australia's admirable belief in fairness means it shies from extolling excellence or rewarding greatness, but they need not be opposed. Australia can have a fair society which values everyone, while encouraging individual success to the benefit of all its citizens.

"More value has been created by Google, Facebook and Amazon in the last two decades than by the whole of Australia's corporate industry over two centuries. Australia cannot afford complacency when innovation is viewed in a global perspective."

- Martin Hosking -

Innovation can involve long development cycles of little appeal to impatient Australians. Stakeholders like to believe that investment in research can reap rewards within two years, but a decade is a more realistic time frame, stretching to 15 in the medical field. Redbubble was only an overnight success after eleven long years of toil. Even global giants such as Google, Facebook and Amazon endured difficult times at their inception. Google was launched in 1996 and took five years to make its mark. Innovation incurs immediate costs which must be paid before any possible payoff. These costs are transparent and can be modelled easily, while profits may come many years into the future, if at all. Investment is therefore easy to criticise, and corporate or infrastructure spending is castigated in the papers every day. It is easy to count inconvenience, loss or disadvantage and difficult to envision future benefits.

To overcome these hindrances, companies must select the right targets, pursue a logical strategy to achieve their goals and hire people who embrace a learning methodology. Changes in the investment landscape could also help companies. Franking credits reduce reinvestment in successful, publicly quoted enterprises under intense pressure to pay dividends to their shareholders. This increases the risk profile of companies who now pay out more in dividends than they have in cash flow. A firm like Redbubble should be reinvesting its profits to grow, rather than handing them out in dividends.

The regulatory environment can also be improved. It was easier for Redbubble to give stock options to its US employees than its Australian ones, and the Tasmanian Government once sued the company, which at the time employed eight people, for offering terms of employment which Queensland had accepted. The Federal government can appear beholden to an 'ossified cartel economy' of big banks, telcos and other vested interests which lobby to restrict new competition. They naturally use their considerable clout to preserve their own position, and the government bows because elections are won by preserving the jobs of today, rather than seeding the jobs of tomorrow. If it is serious about the future, the government should invest in education, as Australian standards are below the OECD average and falling still further. A failure to address this issue will serve the country ill.

Australians tend to extremes. Occasionally, they take extreme risks, but more usually they eschew risk entirely. This is particularly true in their investments, and so people have flocked to property, although this will become risky in itself, as risk is maximised when everyone avoids it. Government support for negative gearing and franking credits have encouraged these timid behaviours, reinforcing the public's perception of living in a low-risk environment, which actually increases risk to the country overall.

Australia should learn to celebrate genuine success in business. The founders of BHP and Cochlear should not be less famous than Christopher Skase or Alan Bond. Australian entrepreneurs must also be more ambitious, working to build billion-dollar companies from their initial success, rather than moving to Byron Bay to go surfing as soon as they can, but this reflects a more general cultural attitude we must all work hard to change.

DISCUSSION

Session Chair Dr Watt opened the floor to questions.

The first speaker asked whether partnerships between medium-sized businesses and universities would boost innovation, as the tertiary sector has a new-found appetite to help business solve problems in fresh ways.

Redbubble has Hugh Williams, a senior academic from RMIT on its board, and the company facilitated a productive, week-long customised course for 20 of its executives at the institution. While this cost $160,000, it appeared a sound investment. Redbubble works with RMIT and Monash on machine learning projects, although similar attempts with Melbourne University and CSIRO failed. When universities want to engage and can tailor specific provisions for businesses, the relationship usually works, and, for its part, Redbubble welcomes university interns.

While universities such as Deakin and RMIT harbour 'seeds of novelty', the need for greater corporate activism has not permeated the sector as a whole. Universities should prioritise the solving of major social problems, rather than individual career advancement, to motivate their staff and maximise their effect on the nation.

Funding for university research was revised by the Coalition government in 2016 in the face of opposition from vice chancellors. However, it was required to raise Australia from second last place in the OECD for academic/industry collaboration, and executive education could offer another step forward. The London Business School and Oxford University are the major providers of executive education in the UK, while the Australian Institute for Company Directors and the Australian Institute of Management hold that position in this country, rather than a university. CEOs of large Australian firms travel to Oxford or Harvard, rather than Melbourne or Sydney, to attend courses and build a useful network of contacts. Australian universities should accept the challenge, but while Oxford professors must teach on the executive programme, their Australian peers still concentrate on racking up citations.

Greater incentives for collaboration are effective, as universities will always 'follow the money'. Vice chancellors are beginning to realise where their long-term interests lay, but cultural change tends to be slow.

A younger questioner asked if the *'she'll be right, mate'* attitude really undermined Australian attempts to create global companies. While it is based on admirable optimism and faith in the future, it can be a hindrance, if used as an excuse for complacency. People should work harder, rather than rest content, during days of plenty, as well as show resilience in times of hardship. The sunny side of the Australian way hides pitfalls people must be aware of.

Dr Watt thanked the panellists and briefed attendees on the creation of the International Centre for Democratic Partnerships (ICDP), a project GAP has worked on over two years to strengthen Australia's relationships in the Pacific. Earlier that day, Prime Minister Turnbull announced the $2.2 million *Pacific Connect* pilot programme, and improving links with emerging leaders will benefit both Australia and the Pacific Island nations.

LUNCH SESSION

'The Future of Australia's Midsize Business': Priorities and Practical Recommendations for the Sector

Simon Hanson manages CSIRO's SME Connect Team which links Australian universities and researchers with companies with turnovers under $100 million. It facilitated over 170 projects in 2016, involving 25 universities, 11 research organisations and over 1,000 SMEs. Mr Hanson introduced Senator the Hon. Arthur Sinodinos AO, Federal Minister for Industry, Innovation and Science, to discuss the future of Australian mid-sized business.

Senator the Hon. Arthur Sinodinos AO
Minister for Industry, Innovation & Science
Senator for NSW

Minister Sinodinos acknowledged his colleagues and praised the zeal of Minister Pyne. He thanked attendees for highlighting the barriers faced by mid-sized businesses and stressed the need for government, industry and the non-profit sector to combine to address them. Many mid-sized firms shrink, rather than grow, and while every business cannot be expected to expand in a linear fashion, Australia must have more medium-sized firms which can scale into larger companies.

Major corporates decide where jobs and economic activity are sited, prompting Australian governments to attract the regional headquarters of multinational firms, as this will influence their business decisions. Australian firms must compete offshore, but should keep their base in this country, and mining giants BHP and Rio are refocusing on Australia.

While the government wants to encourage mid-size firms to grow and offers a variety of support, its resources are inevitably limited. Within the reality of finite budgets, every Industry Minister must choose between concentrating their efforts on a select group of companies, or less intensive schemes offered to all. There are never enough funds to cater for every company, and a balance must be struck between targeted investment and building a business environment in which all enterprises can grow.

Education and training are vital for success, but Australia must train its workforce in several dimensions. Young people must have the 'soft skills' of interpersonal communication, as well as the STEM qualifications required for careers in the 21st century. Automation will see machines undertake routine activities, leaving humans to specialise in high-level conceptual tasks. Australia's education and training system provide the right balance of skills and encourage young people to be risk takers and entrepreneurs. People should not be afraid to take a calculated gamble, and our culture should forgive failure in pursuit of success.

Malcolm Turnbull notes that Israel's chief scientist is willing to fund start-ups which falter as long as they learn from their mistakes, redouble their efforts and do better next time. Australia's mid-sized firms will 'crack through' to success, if their owners 'have a go' and persist in the face of adversity. Determined firms will expand their operations, develop sustainable new markets and attract interest from larger foreign companies.

The Department of Industry does what it can to ease barriers regarding finance, skills and research. The Treasury nurtures a fertile macroeconomic environment, and the government will improve regulation to ensure that standards are maintained, but firms are not over-burdened by red tape. The government must not shy from the difficult argument that lower corporate tax rates for all companies will spur business activity, generate skilled jobs and increase exports. Income tax must also be internationally competitive to incentivise high achievers. The government will not increase spending above 25% of GDP and boost taxation to pay for it; instead, it will restore a budget surplus as soon as practical and seek further cuts in taxation.

Australia is competing against 'killer economies' in the Asia-Pacific and must learn from the ways in which Hong Kong and Singapore reinvent themselves and South Korea invests in education.

'Government as exemplar' forms one of the four pillars of the National Innovation and Science Agenda. Government procurement can shape innovation and science outcomes in defence, ICT and other areas. The Digital Transformation Agency is breaking up large ICT contracts to make it easier for SMEs to compete for government custom. The government is also ramping up infrastructure investment, which offers another major opportunity to encourage SMEs. This need not entail an increase in risk or a cost premium, and the Department of Industry is looking to increase SMEs' role in rail procurement and other areas.

While the days of traditional manufacturing in Australia are numbered, mid-sized firms can prosper through 'smart manufacturing', the Internet of Things and 3D printing to deliver bespoke, high-value goods for targeted customers. Australia punches above its weight in terms of knowledge creation. Its challenge is to improve collaboration between mid-sized firms and government, academia and publicly funded research organisations to become more competitive. The Department of Industry programmes now focus on transition, rather than support the status quo. They encourage companies to accept that change will occur, consider their future and offer tools to help them achieve it.

Minister Sinodinos looked forward to reviewing detailed proposals for a Growth Institute and how it might be used to complement government schemes. The Office of Chief Economist at DIIS is amassing comprehensive data on Australian industry, which will be analysed to identify growth dynamics and inhibitors. This will then allow the government to allocate its scarce resources in the most intelligent and effective way.

The Minister thanked GAP and taskforce participants for their work on policy questions and creating new institutions which sit between the public and private sector. He hoped a body helping mid-sized firms could prove equally successful.

QUESTION & ANSWER

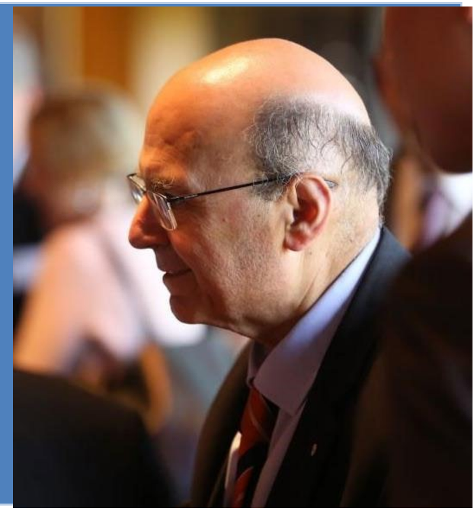
Taking questions from the floor, Minister Sinodinos explained why collaboration is 'the hardest piece of the puzzle'. On taking on the portfolio, he examined data from Innovation and Science Australia and realised that levels of collaboration hitherto judged acceptable were inadequate in global terms. This offers grounds for both pessimism and optimism, as a poor record in the past leaves greater scope for improvement in the future.

In Germany, for example, the Chief Scientist at BMW might also be tenured at a local university, allowing easy interchange between the academic and industrial spheres. Academics in German universities focus their research on the outside world, producing real-world outcomes and commercial opportunities.

Australian industry and academia have remained locked in separate silos, and the government is trying to break these divisions down.

"The government must not shy from the difficult argument that lower corporate tax rates for all companies will spur business activity, generate skilled jobs and increase exports. Income tax must also be internationally competitive to incentivise high achievers."

- Senator the Hon. Arthur Sinodinos AO -



The National Innovation and Science Agenda include incentives to encourage research institutions to consider the potential commercial outcomes of their work and collaborate with industry. Minister Sinodinos recalled visiting Macquarie University as a backbencher and seeing a natural interchange between academics and industry to cure hearing disabilities. Similar activities are underway on precincts across the country, and the Department's Precinct Strategy Group is encouraging their spread. The Australian Nuclear Science and Technology Organisation is creating an innovation campus at Lucas Heights, which will feature a technology park, a graduate institute for PhD students and the world's first nuclear science technology incubator for peaceful purposes. These developments offer hope for the future and exemplify ways in which the nation can succeed.

Minister Sinodinos hails from the former steel town of Newcastle which now sees its university as an anchor of growth and development. Innovation in health, medical research and energy flowed from the realisation that collaboration is the key to redevelopment. Some commentators argue that 'rust belts' are the new 'hot spots' for innovation, as they realise their traditional economy is not sustainable and change is urgently required. Geelong in Victoria reinvented itself through combined public and private sector activity. Minister Sinodinos recalled visiting the town when Ford closed its motor plant in 2013 and asking locals what help they wanted from the government. Instead of subsidies to keep the car plant open, as he had expected, many people asked for support for local SMEs to encourage their growth.

The data being gathered by the Commonwealth on Australian industry will inform deeper understanding and allow more effective allocation of government resources. Its precise use will be driven by the data itself, as this will highlight where the barriers to growth and collaboration lie. University precincts grow in organic ways and do not always need 'force feeding', but other barriers can be breached by targeted activity. The database is an exercise in evidence-based policy making, with the government investing in research and being guided by its results.

VOTE OF THANKS

In closing, **Peter Fritz AM**, Chairman of Global Access Partners and Group Managing Director of TCG, argued that Australia does not need to 'punch any harder'. The nation is the world's 'premier performer', but it is human nature to want to improve, and downplaying the current situation may encourage greater effort in the future.

While each delegate should take something personal from a GAP event, GAP concentrates on measurable economic outcomes. Over the last twenty years, GAP and its contributors have collaborated on some 'incredible achievements'. The mid-sized sector was chosen at the Summit's focus because it lacks public attention. When Mr Fritz chaired the Small Business Council of Australia, he led the development of a small business entity in the OECD, but politicians have often ignored the mid-sized sector in favour of more numerous smaller firms. The government gives tax breaks to micro-firms, but the sums they save are trivial and do little to encourage expansion or more jobs. The Howard government chose to give each taxpayer $900 in tax cuts, rather than create a sovereign wealth fund during the resources boom, and the size of Norway's oil fund highlights the folly of that decision. Restoring logic to political debate is difficult, but not impossible, and the government must use public resources to build for the future, rather than fritter them away today.

Mr Fritz expressed his willingness to invest in a Growth Institute and the nascent Australian space industry. Australian space proponents have lobbied for a federal space agency for three decades[26], but previous administrations have baulked at what may seem a self-serving request for public money. Stakeholders must provide their own resources for projects such as these, rather than expecting public subsidy. Once private backing has been secured, they may approach government to offer partnership with greater confidence of success.

The proposed Growth Institute could be formed in this fashion and work with mid-sized companies and government departments in the space and defence sector and beyond. Stakeholders want to offer value, rather than receive charity, and the nature of risk means that capitalism allows people to lose money as well as make it.

GAP will work to establish a Growth Institute, while the Medium Enterprise Advisory will develop a bipartisan strategy for the mid-sized sector to set and achieve optimum goals. A series of roundtables will be held for mid-sized company executives in regional NSW, and a forthcoming book will argue that innovation should happen alongside successful corporations, rather than within them, allowing for transition in due course. GAP will help develop a sustainable model of engagement for mid-sized businesses and expand the First5000 website to raise the standing of the sector.

GAP's 2018 Summit programme will tackle trade in its broadest sense of interpersonal engagement. Trade is a cultural phenomenon, as well as an economic transaction.

Mr Fritz acknowledged the support of Dr Watt and other GAP partners in creating the International Centre for Democratic Partnerships. The ICDP will deliver the Government's *Pacific Connect* pilot programme to strengthen Australia's relationships in the South Pacific. The ICDP proves the value of the GAP process, allowing individuals to embark on new ventures backed by government stability.

Catherine Fritz-Kalish praised the speakers and attendees for their contributions, thanked the event's steering committee and sponsors, and brought the event to a close.

APPENDICES

2017
GAP SUMMIT

'HIDDEN GIANTS': THE FUTURE OF AUSTRALIA'S MIDSIZE BUSINESS

A Vision for Australia

Global Access Partners 8th Annual Economic Summit

PROGRAMME

Day One – Thursday, 7 September 2017

Strangers Function Room
Parliament House of New South Wales
6 Macquarie St, Sydney

6:15pm	Pre-Dinner Drinks, Registration
7:00pm Opening Dinner	***'Hidden Giants of a Resilient Economy': A Global Perspective on Midsize Business***
Welcome & Introduction	Catherine Fritz-Kalish Co-founder & Managing Director Global Access Partners
	"Secret of Success for Midsize Business: Family Entrepreneurs" Albrecht von der Hagen Chairman of the Management Board Association of Family-Owned Businesses, Germany
8:30pm	Signing ceremony of the Memorandum of Understanding (MoU) between EnergyAustralia and Kiah Research
Closing Remarks	Catherine Fritz-Kalish
9:00pm	Close

Australian Government Department of Industry, Innovation and Science | Office of the Chief Economist

2017
GAP SUMMIT

'HIDDEN GIANTS': THE FUTURE OF AUSTRALIA'S MIDSIZE BUSINESS

A Vision for Australia
Global Access Partners 8th Annual Economic Summit

PROGRAMME

Day Two – Friday, 8 September 2017

Legislative Assembly Chamber
Parliament House of New South Wales

9:00am Welcome & Introduction	Catherine Fritz-Kalish
Keynote Address	***Think Digital or Become History*** The Hon. Ed Husic MP Shadow Minister for Employment Services, Workforce Participation and Future of Work, Shadow Minister for the Digital Economy
9:20am Session One	***'Stuck in the Middle': Midsize Businesses & Barriers to Growth*** Session Chair The Hon. Philip Ruddock Australia's Special Envoy for Human Rights
	Mark Cully Chief Economist, Department of Industry, Innovation and Science, Australian Government
	"Growing a Business – Snakes and Ladders of Government Policies" Tim Rose Chief Executive Officer, Southern Oil Refining
	"The Impact of Capital, Competitive Pressures and Networks for Support on the Sector" Su-Ming Wong Managing Director, Champ Ventures

2017
GAP SUMMIT

'HIDDEN GIANTS': THE FUTURE OF AUSTRALIA'S MIDSIZE BUSINESS

A Vision for Australia
Global Access Partners 8th Annual Economic Summit

PROGRAMME

Day Two – Friday, 8 September 2017

Legislative Assembly Chamber
Parliament House of New South Wales

9:50am	Discussion
11:00am	Morning Tea
1:30am Introduction	**Dr Ian Watt AC** Chair, International Centre for Democratic Partnerships
Keynote Address	***Australian Defence Industry – Our National Endeavour*** **The Hon. Christopher Pyne MP** Minister for Defence Industry, Leader of the House
11:50am Session Two	***'Changing Gear': Export Opportunities for Midsize Business*** Session Chair **Dr Ian Watt AC** *"Opportunities and Risks for Australian Midsize Companies in Context"* **Prof Elisabetta Magnani** Head of Department, Department of Economics Macquarie University *"Innovation: Needs Real Commitment"* **Martin Hosking** Chief Executive, Redbubble

2017 GAP SUMMIT

'HIDDEN GIANTS': THE FUTURE OF AUSTRALIA'S MIDSIZE BUSINESS

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Strangers Function Room
Parliament House of New South Wales

12:20pm	Discussion
12:55pm	Break
1:00pm Lunch	***'The Future of Australia's Midsize Business': Priorities and Practical Recommendations for the Sector***
Introduction	**Simon Hanson** Director, National SME Connect Team, CSIRO
Keynote Address	**Senator the Hon. Arthur Sinodinos AO** Minister for Industry, Innovation and Science
Summary of Outcomes	**Peter Fritz AM** Chairman, Global Access Partners Group Managing Director, TCG
2:30pm	Vote of Thanks & Close

SPEAKER PROFILES

Mark Cully

Chief Economist
Department of Industry, Innovation & Science, Australian Government

Mark Cully is Chief Economist for the Department of Industry, Innovation and Science. He has a first-class Honours degree in Economics from the University of Adelaide. From 1992-95 he was a British Council Commonwealth Scholar at the University of Warwick obtaining a Master of Arts in Industrial Relations, while working at the Warwick Business School. Mark has had a varied career in applied economic research at the intersection of government and academia. In 1995, he was appointed head of research on employment relations for the UK Government, where he ran what was the world's largest survey of working life. He returned to Australia in 1999 as Deputy Director of the National Institute of Labour Studies, and was then General Manager at the National Centre for Vocational Education Research for six years, running its statistical then research operations. In 2009 he was appointed inaugural Chief Economist at the Department of Immigration and Citizenship and in that role chaired the OECD's Working Party on Migration. He is a member of the CEDA Council on Economic Policy.

Peter Fritz AM

Chairman, Global Access Partners
Group Managing Director, TCG Group

Peter Fritz is Chairman of GAP, and Group Managing Director of TCG – a diverse group of companies which over the last forty six years has produced many breakthrough discoveries in computer and communication technologies. In 1993, some of the 65 companies in the Group were publicly floated on the Australian Stock Exchange as TechComm Group Limited (now called Utility Computer Services UXC), with great success. Another former TCG company floated on the New York Stock Exchange in November 1997 for US$600m (AU$1 billion), making it the largest technology company to be established in Australia until that time. Today the TCG companies, and entities with TCG roots, employ well over 6000 people with a turnover in excess of $1.3 billion annually. Peter's innovative management style and corporate structuring has led to the creation of a business model which is being copied by many successful entrepreneurs, and has become part of university undergraduate and masters programs in business management in Australia and around the world. Peter Fritz also chairs a number of influential government and private enterprise boards and is active in the international arena, including having represented Australia on the OECD Small and Medium Size Enterprise Committee. He is the holder of six degrees and professional qualifications, is a recipient of the Order of Australia, and has received many other honours.

Catherine Fritz-Kalish
Co-Founder & Managing Director
Global Access Partners

Catherine Fritz-Kalish is Co-Founder and Managing Director of Global Access Partners (GAP). Over the last 20 years, under Catherine's guidance, GAP has grown to be a proactive and influential network which initiates high-level discussions at the cutting edge of the most pressing commercial, social and global issues of today. Through forums, global congresses, annual summits and government advisory boards, GAP facilitates real and lasting change for its stakeholders, partners and delegates by sharing knowledge and creating input for government policy. Over the past few years, GAP has established a number of national consultative committees and taskforces which are working to shape the face of the Australian business and policy environment. Catherine's broader business experience includes coordination of a number of international initiatives as part of the annual programme for the small and medium-sized enterprise unit of the OECD, at headquarters in Paris; marketing and brand management within all seven divisions of the George Weston Foods Group; and just prior to establishing GAP, working within the TCG Group of companies, particularly in the area of start-up incubator establishment. Catherine holds a Bachelor of Science degree from the University of New South Wales and a Masters of Business in International Marketing from the University of Technology, Sydney. Catherine has three children and is passionate about helping those less fortunate. She sits on the board of social justice charity Stand Up; co-founded *Thread Together* which provides brand new clothing to disadvantaged communities across Australia; and is part of a significant giving circle which engages whole families in the act of giving to those in need.

Albrecht von der Hagen
Chairman,
Management Board, Association of Family-Owned Businesses, Germany

Albrecht von der Hagen has led *Die Familienunternehmer*, an association for German family-owned firms, since 2009. The association campaigns for favorable economic and tax policies for its 6,000 members and has grown strongly in recent years. Albrecht's experience at the interface between business and politics includes positions as the Head of Communications for the Federation of German Industries and an economic advisor to Eberhard Diepgen, the Mayor of Berlin, after German reunification. He began his career as a management consultant with Arthur Andersen in Hamburg after studying Economics, Constitutional Law and Modern History in Bonn, Berlin and London. He has also freelanced for German television network ZDF, an American news agency and various newspapers.

Simon Hanson
Director
National SME Connect Team
CSIRO

Simon is the director of CSIRO's national SME Connect team which has a presence in Adelaide, Melbourne, Canberra, Sydney, Newcastle and Brisbane. SME Connect provides a single point of contact for Australian SMEs to interact with CSIRO, universities and public research organisations. The team works with SMEs to identify opportunities for research to benefit their business, connects them with the best Australian researchers, and facilitates access to research project grants. The SME Connect team provides research facilitation services in the Innovation Connections element of the Department of Industry, Innovation and Science Entrepreneurs' Programme, and manages the STEM+ Business Fellowship Program on behalf of the Science and Industry Endowment Fund (SIEF). SIEF has provided $7.875 million in funding to support leading Australian SMEs in undertaking two to three year projects with early career researchers from Australian research organisations. Prior to his current position, Simon was the Business Development and Commercial Director of CSIRO's Environment Group. Simon has worked in a variety of other business and commercialisation roles in CSIRO, with a focus on the manufacturing sector.

Martin Hosking
Chief Executive
Redbubble

Martin Hosking is a co-founder of Redbubble (RBL.AX) and became the CEO in July 2010. Redbubble, the world's leading marketplace for independent artists, listed on the ASX in May 2016. Previously, Martin was the Chair of Aconex, a SaaS provider to construction firms, and Southern Innovation, a digital pulse processing solution. He was instrumental in the development and subsequent listing on NASDAQ of search company, LookSmart. Martin started his career as a diplomat with the Australian Department of Foreign Affairs and Trade, before joining McKinsey & Company, serving clients focusing on emerging technologies. He has a BA (Hons) from Melbourne University and an MBA (with Distinction) from Melbourne Business School, where he has also lectured. He is a Graduate of the Australian Institute of Company Directors.

The Hon. Ed Husic MP

Shadow Minister for Employment Services, Workplace Participation and Future of Work
Shadow Minister for the Digital Economy
Federal Member for Chifley

Ed Husic has a well-established interest in digital innovation and the growth of Australia's digital economy. Elected to Federal Parliament in 2010, the Western Sydney-based MP has advocated for policies designed to promote early stage and digital innovation – because of its ability to generate the firms and jobs of the future. He also argued for the need to sharpen the national focus on preparing for the impact of automation and technology on current and future jobs. Leading into the 2016 federal election, Ed was heavily involved in the development of Opposition policy designed to encourage the growth of startups and digital entrepreneurship. He also championed policies to help accelerate the creation of startup communities beyond Australia's capital cities. After the 2016 election Ed was promoted to the front bench as Shadow Minister for the Digital Economy, as well as Shadow Minister for Employment Services, Workforce Participation and the Future of Work. He previously held the positions of Parliamentary Secretary to Prime Minister and Parliamentary Secretary for Broadband.

Prof Elisabetta Magnani

Head of Department of Economics
Macquarie University

Lisa is Professor of Economics and Head of the Department of Economics at Macquarie University. She holds a PhD in Political Economy from the University of Bologna (Italy) and a PhD in Economics from Yale University. Her research and publications have focused on labour economics, ecological economics and the relationship between economics and other social science and humanity disciplines. Lisa's intellectual effort aims to establish and nurture a trans-disciplinary dialogue on contemporary issues of societal relevance so that we can develop a more complex understanding of contemporary challenges.

The Hon. Christopher Pyne MP

Minister for Defence Industry
Leader of the House
Australian Government

Christopher Pyne was elected to the House of Representatives for the seat of Sturt in 1993. Christopher is the Minister for Defence Industry, and Leader of the House of Representatives, responsible for delivering the $200 billion build up of Australia's military capability, the largest in our peacetime history. In his time as a Minister, he has delivered the National Innovation and Science Agenda, reformed the National Curriculum, introduced compulsory literacy and numeracy testing for Australian teaching graduates and expanded phonics teaching in remote schools in northern Australia. In 2006, he founded "headspace: the Youth Mental Health Initiative". Christopher is the author of "A Letter to my Children", published in 2015. Before entering Parliament, Christopher practised as a solicitor. Christopher is married to Carolyn and is the father of Eleanor, Barnaby, Felix and Aurelia.

Tim Rose

Managing Director
Southern Oil Refinery

Tim Rose is the Managing Director of Southern Oil Refining and a chemical engineer with degrees in both Environmental Science and Business. He has more than 25 years of industrial operations experience and 10 years in re-refining. Tim is responsible for overall group performance and management of the Southern Oil and Northern Oil refineries, Australia's leading manufacturing plants of re-refined lube oil. Under Tim's stewardship, Southern Oil Refining has grown to be at the forefront of developing the Australian renewable diesel industry and is today recognised as a leader of world-class research and development in the renewable sector. Tim started his career as a consulting engineer in the late 1980s before he joined the NSW public service - first for the Public Works Department and then later for Sydney Water, where he embraced new thinking and technologies to resolve sewerage issues around the Sydney and Illawarra area. He moved to Ingham in Queensland in the early 1990s to work as a Process Superintendent for CSR Limited – a challenging role that required careful management of plant processes and personnel to achieve targeted quantity, quality, cost and safety objectives. A change management opportunity at Kimberly Clark Corporation's Tantanoola Pulp Mill saw Tim relocate to South Australia where he delivered improvements that culminated in the mill rising from twelfth to second on international cost and customer satisfaction benchmarks. His later positions included Margin Improvement Manager for WMC Resources, and General Manager – Paper, Western Australia, and General Manager – Fairfield Group for Amcor Limited. Tim joined Southern Oil Refining as General Manager in July 2007 where he set about introducing new maintenance and operational standards. These changes, along with his astute capital investment, saw the re-refinery's production increase by more than 50 per cent. Tim orchestrated a management buy-out of SOR when the parent company (Babcock and Brown) went into administration and has continued as Managing Director of SOR since March 2009.

The Hon. Philip Ruddock
Australia's Special Envoy for Human Rights

Philip Maxwell Ruddock is an Australian politician who was a Liberal Member of the House of Representatives from 1973 to 2016. First elected in a 1973 by-election, by the time of his retirement he was the last parliamentary survivor of the Whitlam and Fraser Governments. He was both the Father of the House and the Father of the Parliament from 1998 until his retirement. He is the second longest serving parliamentarian in the history of the Australian Parliament. Mr Ruddock served continuously in federal ministry and cabinet during the Howard Government, as Minister for Immigration and Multicultural Affairs from 1996 to 2003, and then Attorney-General from 2003 to 2007. He also served as Minister for Indigenous Affairs and Minister Assisting the Prime Minister for Reconciliation. In February 2016, Mr Ruddock announced his retirement from politics and was appointed Australia's Special Envoy for Human Rights. He has wide committee experience, having served on the Joint Standing Committee on Foreign Affairs, Defence and Trade; the Joint Standing Committee on Intelligence and Security; Coalition Foreign Policy and Defence Committee; and Coalition Legal and Immigration Committee. Mr Ruddock served as Chair of the Human Rights subcommittee of the Joint Standing Committee of Foreign Affairs Defence and Trade, and the Joint Standing Committee on Human Rights. He was also a Member of the Joint Committee on Corporations and Financial Services. With degrees in Arts and Law from Sydney University, Mr Ruddock practised law prior to entering parliament. He lives in Pennant Hills with his wife, Heather.

Senator the Hon. Arthur Sinodinos AO
Minister for Industry, Innovation & Science
Senator for New South Wales

Arthur Sinodinos was sworn in as Minister for Industry, Innovation and Science in the Turnbull Government on 24 January 2017. The Minister comes to the portfolio with the goal of developing an innovation ecosystem that drives productivity and creates the jobs of the future. One of the Minister's key focuses in this space is to encourage a culture of collaboration – between industry, researchers and academia – in order to develop brilliant Australian ideas into commercial realities. From September 2015 to January 2017, Minister Sinodinos served as Cabinet Secretary in the Turnbull Government. In his role, Minister Sinodinos was a Cabinet-level minister assisting the Prime Minister in ensuring the proper process and functioning of the Government. He first entered the Australian Senate in October 2011 and was appointed Shadow Parliamentary Secretary to the Leader of the Opposition in September 2012, a position he held until the election of the Abbott Government. He served as Assistant Treasurer from September 2013 to December 2014 He is an expert on financial markets, economics and public policy, reflecting his experience gained through previous roles as an economist with the Commonwealth Treasury and Department of Finance, and Chief of Staff to Prime Minister John Howard for nine years.

Dr Ian Watt AC

Chair, International Centre for Democratic Partnerships (ICDP)
Director, O'Connell Street Associates

Dr Ian J Watt AC has had a long career as one of Australia's most distinguished public servants, with nearly 20 years at the highest levels of the public service. His most recent and most senior appointment was as Secretary of the Department of the Prime Minister and Cabinet and head of the Australian Public Service, a position he held from 2011 until the end of 2014. Prior to that, he was Secretary of the Departments of Defence; Finance; and Communications, Information Technology and the Arts between 2001 and 2011. Before that, he was Deputy Secretary of the Department of the Prime Minister and Cabinet. Dr Watt is Chairman of BAE Systems Australia. He also serves on the Boards of Citigroup Pty Ltd, Smartgroup Corporation, the Grattan Institute (University of Melbourne), O'Connell Street Associates Pty Ltd and CEDA, and is a Member of the Male Champions of Change. He is also Chair of the National Innovation and Science Agenda Implementation Committee, Chair of the International Centre for Democratic Partnerships (ICDP), Chair of the Advisory Council of the SMART Infrastructure Facility at the University of Wollongong, and Chair of Prader-Willi Research Foundation Australia. Dr Watt is also a Member of the Melbourne School of Government Advisory Board at the University of Melbourne, a Fellow of ANZSOG, and Senior Adviser to Flagstaff Partners.

Su-Ming Wong

Chairman and CEO
Champ Ventures

Su-Ming Wong is an investment professional with over 35 years' of direct investment, international corporate advisory and merchant banking experience. He co-founded CHAMP Ventures in 2001. CHAMP Ventures is a leading Australian mid-market private equity funds manager with over $750 million funds under management. He is currently a director of Macpac, Scentia and Lorna Jane. He has been chairman/director of over 20 other CHAMP Ventures portfolio companies. CHAMP Ventures' investment thesis is to partner entrepreneurial Australasian companies to maximize their growth potential. Su-Ming is passionate about strengthening the cooperation between Australia and Asia. In the past 35 years, he has developed meaningful business relationships with a wide group of Asian companies including sovereign investment companies, private equity funds managers and industrial conglomerates. These relationships are useful for co-investment programmes with CHAMP Ventures. The Group has successfully co-invested with Government of Singapore Investment Corporation, Prudential Asset Management Asia Ltd, Transpac Capital Ltd and JAFCO Ltd. Mr Wong is a director of Asia Society Australia and Sydney Writers' Festival, Member of UNSW Business School Advisory Council, Council Member of American Chamber of Commerce and VisAsia at the NSW Art Gallery. He was a member of the Council of University of Technology, Sydney (2010-2014). He was a founding director of National ICT Australia, a center of excellence in ICT research, a member of the Industry Research and Development Board and a director of Unisearch. He was also a council member of the Australian Venture Capital Association and a member of the South Australian Government's Venture Capital Board. He holds a Master of Engineering from the University of Canterbury, New Zealand and a Master of Business Administration from the Australian Graduate School of Management, UNSW.

SPONSOR PROFILES

Australian Government
Department of Industry, Innovation and Science

Office of the Chief Economist

The Department of Industry, Innovation and Science facilitates the growth and productivity of globally competitive industries. We are a diverse organisation of people engaged in a diverse range of functions. At our core, we seek to support science and commercialisation; grow business investment/improve business capability; and simplify the act of doing business. Our suite of programmes and close working relationships with industry, businesses, the science community, and all levels of government ensure that we achieve these goals.

The Office of the Chief Economist (OCE) within the Department of Industry, Innovation and Science provides information, advice and analysis to support our department and Ministers. We analyse the global, national and regional context in which Australian businesses and industries operate, and identify the underlying drivers of change, emerging trends, and opportunities and challenges.

The OCE supports and influences public debate by publishing flagship reports, evaluation reports and research papers. The findings of these pieces of work are presented to stakeholders and at conferences. Dedicated teams analyse the economy, sectoral and regional issues, the resources sector, industry and firm dynamics, and the role of innovation in enabling growth. The OCE also supports the department to evaluate its programmes, and to manage the department's administrative data to then use for analytical purposes. The OCE is also a key pillar of the recently announced cross-agency Data Integration Partnership for Australia. Our approach to this partnership involves assessing the impact of government support for firms and to seek to better understand firm-level productivity.

https://industry.gov.au/Office-of-the-Chief-Economist

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand is a professional body comprised of over 115,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international capital markets.

We are a member of the International Federation of Accountants and are connected globally through the 1,000,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

www.charteredaccountantsanz.com

At CSIRO, we do the extraordinary every day. We innovate for tomorrow and help improve today – for our customers, all Australians and the world.

Our value to the Australian economy is massive. Annually, six CSIRO technologies alone contribute $5 billion to the economy in areas as diverse as automated mining, advanced materials and aquaculture.

With more than 1,800 patents we are Australia's largest patent holder.

This ever-increasing wealth of intellectual property is a vast source of commercial opportunity and has already resulted in more than 150 spin-off companies, with many more to come.

For around a century we have been pushing the boundaries of what is possible in science and technology. Our world-renowned successes include WiFi, the Hendra vaccine and polymer banknotes. But its tomorrow's innovations that excite us – wearable technology that alerts a doctor when you are sick, diets based on your DNA and so much more.

With more than 5,000 experts based in 55 centres, extensive local and international networks, and a burning desire to get things done, we are Australia's catalyst for innovation and a global force in transforming imagination into reality.

We collaborate with 3,000 customers each year, including Australian federal, state and local government bodies; small, medium and large businesses; the majority of Research Development Corporations, Cooperative Research Centres and Australian universities, and more than 150 international partners.

The quality of our research underpins our ability to innovate. Our research is trusted; our discoveries are published in world-leading journals and globally, we are in the top one per cent in 15 of 22 research fields.

Everything we do is focused on creating measurable economic, environmental and social benefits that better our world and Australia's place in it.

CSIRO. We imagine. We collaborate. We innovate.

www.csiro.au

DXC.technology

DXC Technology is the world's leading independent, end-to-end next generation IT services company, uniquely positioned to help our clients harness the power of innovation to thrive on change.

Our mission is to lead digital transformation for our clients and deliver new beneficial outcomes for their organisation. We have the resources, global reach and scale to help clients apply the power of technology and confidently guide them toward the future.

DXC Technology's independence, global talent, expertise, and extensive partner network combine to provide greater benefit to you. Our strength comes from:

- Our **technology independence and extensive partner network**, including key strategic partnerships such as Amazon Web Services, AT&T, Dell EMC, HCL, Hitachi, HPE, HP, IBM, Lenovo, Micro Focus, Microsoft, Oracle, PwC, SAP, ServiceNow, and VMWare. Our industry-leading partner relationships work together to deliver the right solution and the right team to address complex, critical client business challenges

- **A differentiated operating model** – encompassing the building, selling and delivery of technology solutions – that enable seamless interaction with you.

- A **clear and confident vision**, forged over 60 years of delivering results for thousands of clients across all industries.

www.dxc.technology

gap
A Vision for Australia

Global Access Partners (GAP) is an independent not-for-profit institute for active policy that initiates strategic debate on the most pressing social, economic and structural issues facing Australia and the world today. It acts as a catalyst for policy implementation and new economic opportunities.

GAP promotes collaborative, multidisciplinary approaches to solving complex issues through the 'Second Track' process. In contrast to other think tanks, it focuses on practical outcomes and the *'how'* and *'who'* of project delivery.

Our biggest asset is our network of over 3,500 Australian and international members. More than 700 people are engaged on various GAP projects at any one time. As of August 2017, 118 partners have supported GAP's activities since its inception. These include federal and state governments, major corporates, peak industry and community bodies, universities and research institutes.

GAP runs national and international conferences, multidisciplinary taskforces and executive roundtables, coordinates community and stakeholder research projects and feasibility studies, and oversees pilot projects to trial new business ideas. GAP's blogging site, Open Forum, is a well-established platform with an extensive community network, uniquely positioned to attract and engage target audience and informed contributions.

A Vision for Australia is GAP's Annual Economic Summit series designed to lead the national debate on productivity, infrastructure, innovation, employment, education and growth. Its parliamentary format encourages open and constructive dialogue and offers unique networking opportunities for its speakers, delegates and international guests. Each Summit's theme is informed by the taskforces and stakeholder consultations run by GAP during the year. Previous Summits focused on Innovation (2010), Population (2011), Productivity (2012), Agriculture (2013), Education (2014), the Future of Jobs (2015), and Spaces of Australian Innovation (2016).

Established in 1997, GAP is a member of TCG Group — a diverse and growing network of Australian-owned companies founded over 46 years ago.

www.globalaccesspartners.org

NSW GOVERNMENT

The Department of Premier and Cabinet (DPC) leads the NSW public sector to deliver on the Government's commitments and priorities.

In fulfilling this role, DPC supports the Premier and Cabinet to identify, design and implement a coordinated policy, project and reform agenda that boosts the efficiency, productivity and effectiveness of NSW.

DPC partners with agencies, as well as the private, not-for-profit and academic sectors, to optimise public sector performance and ensure that services are delivered on time, within budget and to the community's expectations. The Department also supports the delivery of major projects to enhance the economic and social wellbeing of NSW.

The Department comprises the Economic Policy Group, Social Policy Group, Cabinet and Legal, Government, Corporate and Regional Coordination Group, Premier's Implementation Unit and Regional NSW.

The Regional NSW Group seeks to deliver better outcomes for the people of regional NSW through promoting a whole-of-government approach to providing quality services and infrastructure in regional NSW, aligning effort to support growing regional centres, and identifying and activating economic potential.

The majority of our Regional NSW staff are long-term residents of the regional communities across NSW that our Group supports and therefore bring a unique localised perspective on what will work best for those communities in terms of community and development need.

www.dpc.nsw.gov.au

VICTORIA State Government

The Victorian Government Department of Economic Development, Jobs, Transport and Resources brings together many of the key levers and functions that drive economic development and job creation across Victoria: transport and ports, investment attraction and facilitation, trade, innovation, regional development and small business, together with key services to sectors such as agriculture, the creative industries, resources and tourism.

Our mission is to lift the living standards and wellbeing of all Victorians by sustainably growing Victoria's economy and employment, and by working with the private and public sectors to foster innovation, creativity, productivity, investment and trade.

Victoria has one of the strongest economies and most enviable lifestyles in the developed world. Melbourne has been named the World's Most Liveable City for an incredible seven years in a row. Melbourne also has Australia's most highly skilled and innovative workforce, world-class infrastructure and extensive government support services.

If you are considering setting up a business or headquarters in Australia or in the Asia Pacific, consider Melbourne for its competitive and dynamic business environment.

economicdevelopment.vic.gov.au
www.invest.vic.gov.au
www.business.vic.gov.au

200 years proudly supporting Australia

Westpac

Westpac is Australia's first bank and first company, with a proud 200-year history – helping to advance Australian businesses. While the way we serve customers has changed over time, supporting and helping customers' remains in our DNA. Today we help ~1M businesses to prosper and grow. In a time of rapid change across many sectors, Westpac is committed to ensuring that the digital revolution benefits all Australian businesses – be it faster access to decisions, easier ways to open accounts or technology that gives business owners time back in their day, our focus is being there every step of the way.

St.George

St.George Bank has a long history of helping people, families, and businesses build better futures. Our beginnings trace back to 1937, to the Sydney suburb of Hurstville, where St.George Co-operative Building Society was formed. In 1945, the St.George Building Society merged with the Cronulla & District Co-operative Building Society, and expanded rapidly in the era to the post-war housing boom, with 38 branches established by 1955. In the 67 years since then, St.George expanded across NSW, the ACT, QLD and WA, and changed with the times – always true to its heartland and devoted to its customers.

https://www.westpac.com.au
https://www.stgeorge.com.au

Open Forum (*www.openforum.com.au)* is an independent, interactive online community focused on the issues which matter to Australia's public policy debate.

The forum was initiated by Global Access Partners in July 2007.

Our bloggers and readers include people of all ages, from all over Australia and from all political spheres. Open Forum's network features senior business executives, government policy makers, academics, thought leaders and community advocates, as well as interested private citizens.

Open Forum is staunchly non-partisan. We believe this independence is fundamental to the success of any policy development forum. Our user-generated content allows us to explore areas which are of relevance to the regulatory process, track citizen sentiment around particular issues and use these as the basis for briefing notes and recommendations to government agencies.

www.openforum.com.au

DELEGATES

Irini Agollari
Project Manager
Food Innovation Australia

Alina Bain
Chief Executive Officer
Australian Service Roundtable

Sasan Bakhtiari
Senior Economist
Department of Industry, Innovation and Science
Australian Government

John Bathgate
Office of the Hon. Christopher Pyne MP,
Minister for Defence Industry

Alexander Benze von Fritz
Paralegal, Herbert Smith Freehills

Wiebke Benze von Fritz
Co-Founder, WiserLife

Keith Besgrove
Policy Adviser
Energy Consumers Australia

The Hon. Bruce Billson
Principal, Agile Advisory
Chair, Franchise Council of Australia

Robin Block
The Mitchellake Group

Olga Bodrova
COO, Director of Research
Global Access Partners

Elysia Brand
Intern, Global Access Partners

Angus Bristow
Director, Regional Data and Statistical Analysis
NSW Premier and Cabinet

Prof Attila Brungs
Vice-Chancellor and President
University of Technology Sydney

Prof Stephen Burdon
School of Systems, Management & Leadership
University of Technology, Sydney

Nicky Carp
Board Member
Chairs Financial & Risk Committee
UHG

Peter Carre
Principal, Biohub

Andrew Carriline
Non-Executive Director & Chairman
Westpac Bank - PNG
Westpac

Daryl Chambers
Owner, M2M Connectivity

Jason Clout
Senior Writer
Australian Financial Review

Michael Collins
Partner, Strategic Development Group

The Hon. Stephen Conroy
Executive Director
Responsible Wagering Australia

Rod Cowan
Strategic Advisor
Emirates ECU Centre Dubai (CASS)

Mark Cully
Chief Economist and Head of Division
Economic and Analytical Services
Department of Industry, Innovation and Science
Australian Government

Keith Drewery
Director, Drewery Consulting

Peter Dunne
Partner, Herbert Smith Freehills

Martin Duursma
Partner, Main Sequence Ventures

Dr Elizabeth Eastland
Director Entrepreneurship
University of NSW

Kane Fillingham
General Manager, CTO Group

Jasmine Flattery-Shirley
Associate, District Court of NSW

Wendy Foster
NSW State Manager
Family Businesses Australia

Peter Fritz AM
Group Managing Director, TCG Group
Chairman, Global Access Partners

Catherine Fritz-Kalish
Co-Founder & Managing Director
Global Access Partners

Terri-Helen Gaynor
Managing Director, Asia Pacific
Reputation Pty Ltd

Adi Gefen-Adler
Executive Director
United Israel Appeal NSW

Einat Gefen-Adler

Richard George
Chief Data Scientist
Faethm

Dr Michael Green
Executive Director
Sector Development Division
Department of Economic Development, Jobs,
Transport and Resources, Victorian Government

Chase Gunning
Manager of Business Programs
(SME/SMB Focus)
Qantas

Albrecht von der Hagen
Chairman of the Management Board
Association of Family-Owned Businesses
Germany

Anja-Katharina von der Hagen
Chief Editor, Kress Köpfe

Simon Hanson
Director, National SME Connect Team
CSIRO

Stephen Hayes MBE
Managing Director
Complexity Solutions, Think2Impact

Nicola Hazell
Head of Diversity & Impact Programs
BlueChilli

David Hazlehurst
Deputy Secretary
Department of Industry, Innovation and Science
Australian Government

Prof Michael Heimlich
Associate Dean
International & Corporate Engagement
Department of Engineering, Faculty of Science and Engineering, Macquarie University

Jane Hewitt
Founder, UniLodge

Terry Hooton
Chief Operations Officer, ACES

Martin Hosking
Chief Executive, Redbubble

Brad Howarth
Writer, Co-author of "*A Faster Future*" and "*Managing for Change*"

Helen Hull
Editor, First 5000

The Hon. Ed Husic MP
Shadow Minister for Employment Services, Workplace Participation and Future of Work
Shadow Minister for the Digital Economy
Federal Member for Chifley

Emma Johnson
Project Manager, GAP
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1 https://industry.gov.au/Pages/default.aspx

2 http://wearehuddle.com/

3 https://wiserlife.com.au/

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6 https://www.pm.gov.au/media/2017-09-08/48th-pacific-islands-forum-samoa

7 quisque faber suae fortunae - An aphorism first recorded in a defiant speech by Roman politician Appius Claudius Caecus rejecting the demand of Cineas, an emissary of Pyrrhus of Epirus, for Rome to surrender. Dating from 279 B.C. this is the oldest surviving political speech in Latin.

8 In Sum: 40 Tales from the Afterlives, David Eagleman notes that 'there are three deaths: the first is when the body ceases to function. The second is when the body is consigned to the grave. The third is that moment, sometime in the future, when your name is spoken for the last time.' The idea was earlier discussed in Irvin D. Yalom's Love's Executioner and Other Tales of Psychotherapy. Although this particular phrasing was recently popularised by British artist Banksy, the character Dr. Hiluluk in the Japanese manga One Piece and the rap song Glorious, the concept dates back to antiquity.

9 Mr Cully's address was prepared with the help of Bilal Rafi, Abrie Swanepoel and Sasan Bakhtiari and draws material from the following publications.

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10 See Lucas (1978), Luttmer (2007) and Gabaix (2016).

11 All business count statistics in this section are taken from Counts of Australian Businesses June 2012 to June 2016, ABS cat. no. 8165.0

12 The employment share of small businesses from ABS cat. no. 8155.0 includes non-employing businesses. Source: ABS cat. no. 8165.0, table 13, and ABS cat. no. 8155.0, table 05, June 2016

13 Analysis undertaken by the Office of the Chief Economist, with data sourced from the OECD SBDS Structural Business Statistics (ISIC Rev.4) Database and Penn World Tables — Business counts reported by the OECD are similar but not identical to those reported by the ABS due to differences in methodology and scope.

14 Source: OECD SBDS Structural Business Statistics (ISIC Rev.4) Database and Penn World Tables — 2014 or most recent year available.

15 These reports may be found at www.doingbusiness.org

16 'US businesses show us how to get it done', The Australian, 16 February 2017

17 Leigh and Triggs (2016)

18 Analysis undertaken by the Office of the Chief Economist using the Business Longitudinal Data Analysis Environment (BLADE). For background on BLADE, see industry.gov.au/Office-of-the-Chief-Economist/Data

19 OCE analysis, based on the ABS BLADE

20 Management and Organisational Capabilities of Australian Businesses 2015–16, ABS cat. no. 8172.0

21 Karpin (1995)

22 Data on barriers to growth is sourced from Selected Characteristics of Australian Businesses 2015–16, ABS cat. no. 8167.0

23 ABS Business Characteristics Survey, cat. no. 8167.0, table 01, 2015–16

24 Garicano, Lelarge and Van Reenen (2016)

25 *The G20 Agenda for Growth: Opportunities for SMEs Conference*, Final Report by Global Access Partners, 2014; http://www.globalaccesspartners.org/G20-SME-Conference.pdf

26 The Government announced their intention to create a Federal space agency on September 25th.