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Committee Secretary
Standing Committee on Industry, Innovation, Science and Resources
Parliament of Australia - House of Representatives
Canberra

Dear Sir/Madam

Inquiry: Impact of Global Internet Competition on Small and Medium Sized Enterprises

The Australian Industry Group (Ai Group) welcomes the opportunity to make a submission to the Inquiry being undertaken by the House of Representatives Standing Committee on Industry, Innovation, Science and Resources regarding the impact on local businesses in Australia from global internet-based competition. We represent thousands of Australian businesses of all sizes, across sectors including manufacturing, construction, defence, energy, technology, labour hire, waste, transport and more. This submission focusses in particular on the needs and context of small and medium sized enterprises (SMEs) who provide globally tradable products and services to other businesses and wider supply chains, rather than on retailers or other principally consumer-facing businesses.

Introduction

Small and medium sized enterprises (SMEs) face challenges from the broader economic environment in Australia as well as their specific difficulties competing in global markets and entering international supply chains. Fuller and more strategic use of digital technologies can transform these businesses and set them – and Australia – up for stronger growth.

According to the Australian Government's 2015 Intergenerational Report, Australia faces major long-term challenges from slowing economic growth, an ageing population and lower productivity growth.¹ Australia has been in the current phase of economic transition since the end of the resources boom. Lifting gross domestic product (GDP) growth will likely require increased diversification of business investment across different industries.

It is in this context that the digital economy (or "digitally enabled economy") is a crucial driver of growth. The digitally enabled economy is "[the] global network of economic and social activities that are enabled by information and communications technologies, such as the internet, mobile and sensor networks".² The industry-wide adoption and utilisation of modern information technology and the development of associated skills will help determine the competitiveness and growth of Australian industry. While a digitally enabled economy presents significant opportunities for Australia, failure to seize these also risks damage to our global competitiveness.

The modern catch cry for incumbent businesses is to disrupt or be disrupted. This is a particular concern for many Australian business leaders, with 89% in a 2016 GE survey fearing that their businesses will become obsolete from digital disruption.³ Some businesses have embraced digital disruption through digital transformation, which involves pursuing opportunity not just through investment in and use of

¹ Australian Government, "2015 Intergenerational Report Australia in 2055" (Report, March 2015), p. xi.

² Australian Government, "Australia's Digital Economy: Future Directions" (Final Report, July 2009), p. 2.

³ GE, "2016 Global Innovation Barometer: Detailed findings Australia" (Report, January 2016), p. 24.



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digital technologies, but also making deep changes within the organisation itself.⁴

The World Economic Forum's (WEF) Global Information Technology Report 2016 provides an assessment of the ability of businesses and the wider community to utilise information and communications technology (ICT) in support of growth, competitiveness and development. It then ranks their ability across 143 countries for 2016. The Report is based on research conducted by the WEF and its network of Partner Institutes. Ai Group is the WEF's Partner Institute in Australia. The 2016 Report highlights that, despite a number of existing measures and the (until recently) accelerating rollout of the National Broadband Network, there is an urgent need for Australia to do more to improve its digital competitiveness. In particular, more Australian businesses must embrace ICT and improve their ICT capabilities, in order to innovate and compete effectively, both in the domestic and international markets.

There is a global trend towards 'Industry 4.0' and the industrial 'internet of things' (IoT) across supply chains and in the provision of goods and services. Global manufacturing is evolving towards smaller batches, customised products, rapid prototyping and increasing servitization – the process of adding services to a product or replacing the product into a service. In this context, Australian manufacturers must develop appropriate business models and prepare themselves for increasingly innovative and competitive offerings in terms of price and flexibility in domestic and international markets. The formation of 'virtual enterprises' and 'virtual supply chains', supported by shared networks and knowledge, would enable Australian small and medium sized enterprises (SMEs) to link up with global supply chains and benefit from best practice in innovation and manufacturing.

The Australian SME sector is currently grappling with the fact that it is small and remote, on an international scale, thus making it difficult to participate in global supply chains as contracted suppliers. Further, it has a relatively narrow economic base through a focus on a small number of industries (foods, beverages, metal products, machinery and equipment), with a high cost base and low productivity growth. Digitisation, business model innovation and skills and leadership development can help Australian businesses in general and SMEs in particular, to participate more fully and competitively in international markets.

Australia needs to invest in research for the seamless integration of materials, process, production and business information, including the adoption and development of open data exchange standards. Furthermore, we need to develop support networks for SMEs that on the one hand assist them in upskilling their workforce, provide decision support, help upgrade IT requirements and make correct purchasing decisions. SMEs should be equipped with the technical and managerial capabilities to decide what data are important, what systems they should use, and whether they should procure or replace existing IT systems by cloud-based services.

To compete in the global internet economy Australian SMEs increasingly need workers who have the relevant specialist Science, Technology, Engineering and Mathematics (STEM) skills, foundational skills including digital literacy skills and, importantly, new boundary-crossing capabilities in creativity, problem solving, advanced reasoning, complex judgement, social interaction and emotional intelligence. Capable leadership and management will need to drive the effective utilisation of these skills along with significant organisational change.

⁴ Sometimes digital transformation is used interchangeably with other terms like digital disruption, digitisation and digitalisation.

What are the consequences for small businesses in terms of new competition and access to digital platforms?

The acceleration in the pace of information technology development creates special challenges for Australian SMEs. In many cases, they are smaller than their international competitors and lag both in adoption of internet technologies and access to the skills required to successfully exploit these technologies. The digital technologies that are reshaping the production and sale of goods and services in the global economy fall into several categories:

- *Materialisation technologies* support the transition from the design phase to the manufacturing phase.
- *Lifecycle Management technologies* cover all phases of a product life and focus on continually improving production and optimising the underlying technologies to make a business more sustainable.
- *Manufacturing Execution System technologies* support the capture of data from the physical environment and process execution for the management of resources and processes.
- *Enterprise Resource Planning technologies* support all type of business transitions and transactions and the management of the underlying data.

As global manufacturing becomes more advanced, the traditional delineation between manufacturing and services is becoming more blurred through servitisation (or servicification) of manufacturing.⁵ For global manufacturers, this means they are able to incorporate bundles of value add services both along and beyond the product line.⁶ The Productivity Commission observes this has been further accelerated by access to better information, made possible by digital technologies.⁷ According to a 2014 CEDA report, “about 32 per cent of manufacturing exports is services value added, particularly business, distribution, transport, telecommunications and financial services”.⁸

SMEs must face the challenge of the adoption of a range of new and often unfamiliar technologies: Industry 4.0 IoT wireless networking and machine-to-machine connection protocols; device and sensor connectivity platforms; and recently developed types of robots, 3D printers and smart building systems. The utilisation of these technologies also requires an understanding of their costs and benefits. To compete globally, SMEs also need to have the right skills and tools to do business, adapt to the future, link into global networks, market their products, shape their factories, and train their staff and leaders. More specifically SMEs must:

- Develop appropriate business models that maximise the potential that these new technologies provide;
- Encourage and develop materialisation technologies that more rapidly turn digital and customised data into tailored physical outputs;
- Improve supply chain interoperability and material flow efficiencies;

⁵ Productivity Commission, “Digital Disruption: What do governments need to do?” (Research Paper, June 2016), p. 37.

⁶ *Ibid*, p. 162.

⁷ *Ibid*, pp. 37-38.

⁸ CEDA, “Advanced Manufacturing: Beyond the production line” (Report, April 2014), p. 19.

- Move manufacturing industries increasingly into the service spaces – the servitisation of manufacturing;
- Develop collaborations and networks at local and global scales that are not only engaged at the human communications level but also share data, resources, and processes;
- Develop workers with not only eSkills (general computer/internet abilities) but also iSkills (understanding data, connectedness, the Internet of Things).

For many SMEs these concepts and technologies are still unfamiliar – or unintelligible. Further, SMEs are often currently unaware or not thinking about servitisation as an additional line of business. Ai Group's *Business Beyond Broadband* report built on a national CEO survey we conducted towards the end of 2015, which asked businesses about both the general business outlook, and their use of, investment in, and plans for digital technologies.⁹ We found that only 7% of Australian businesses made significant use of big data. 15% or less of businesses used any of the networked technologies such as sensor networks and machine-to-machine communications that we shorthand as 'the internet of things'. Despite their increasing dependence on internet-connected systems, only 22% of all businesses and just 11% of small businesses reported investing in cyber security.

Workforce restructuring

In order to cope with the changing global commercial landscape, Australian SMEs need to be able to access new workers with the right skills, whilst also continually developing the skills of existing workers. Their workforce needs to be able to work with emerging new technologies and systems and engage in more complex negotiations or customised service provision in environments that are constantly changing. Workers need higher level skills and the capacity to be transferred between functions and processes.

The needs in these sectors reflect the changing skill requirements of the wider economy. McKinsey has categorised jobs developing as a result of technology and global supply chains as Interaction jobs, Production jobs and Transaction jobs.¹⁰ The Interaction jobs, involving more complex interactions and judgement, are now the source of all employment growth. These growing jobs require critical thinking, high level thought and judgement. The concept of teamwork and social skills is becoming broader – not just within a workplace but across countries.¹¹

A 2015 CEDA report notes that the share of high-skill jobs is significantly increasing while the share of low-skilled jobs is decreasing.¹² Similarly the OECD has reported on the long-term movement away from low-skilled occupations to higher skilled occupations in the context of the expanding knowledge economy.¹³ The Foundation For Young Australian research has characterised this as a growth in 'high skill' and 'high touch' occupations and a decline in lower skill occupations.¹⁴

STEM skills

STEM skills will be key for SMEs to compete in the global internet economy. A number of reports have highlighted the importance of STEM skills to the economy and that these skills are needed for most of the

⁹ Ai Group, *Business Beyond Broadband*, May 2017 <https://www.aigroup.com.au/policy-and-research/mediacentre/reports/beyond-business-broadband-report-download/>.

¹⁰ McKinsey Australia, *Compete to Prosper: Improving Australia's global competitiveness*, 2014

¹¹ John Lydon, David Dyer, Chris Bradley, McKinseys, *Compete to Prosper: Improving Australia's Global Competitiveness*, 2014.

¹² Committee for Economic Development of Australia, *Australia's future work-force?*, 2015.

¹³ OECD Skills Outlook 2013.

¹⁴ *The New Basics: Big data reveals the skills young people need for the New Work Order*, Foundation For Young Australians, 2016.



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fastest growing occupations.¹⁵ ¹⁶ But STEM skills in Australia remain poor in comparison with other OECD economies.

Australian SMEs will benefit most if general STEM literacy exists within their workforces, complementing the deep expertise of STEM practitioners.¹⁷ These sectors will be supported by current national initiatives to develop coordinated approaches to STEM skills development in all education and training sectors. The STEM skills of existing workers also need to be refreshed.

Digital Literacy

Digital skills are becoming fundamental components for a workforce that increasingly needs to be digital-capable. The rapid change in computer software and hardware can make learned skills redundant, however there are likely to be enduring concepts of digital literacy that will be important for future workers to have mastered.¹⁸ All workers need generic ICT skills to use technologies in their daily work, and ICT specialists are needed to program, develop applications and manage networks.

A 2016 OECD report 'Skills Matter', focussed on the necessity for all adults to have a capacity to manage information and solve problems using computers as ICT applications permeate the workplace, education systems, the home and social interaction.¹⁹

The use of ICT is also changing the way work is carried out and raising demand for ICT-complementary skills, including the capability to process complex information, communicate with co-workers and clients, solve problems, plan in advance and adjust quickly.

Ai Group's *Business Beyond Broadband* report found that businesses are prepared to digitally upskill their workforce through training or recruitment. A minority will be outsourcing digital functions. Alarmingly, 17 per cent of businesses planned to do nothing to improve technology skills. Employee skills, costs, perceived lack of relevance and slow internet were major factors inhibiting businesses from investment in digital technologies.

Boundary-crossing skills

Workers within the retail and small business sectors must develop the boundary-crossing skills of communication, leadership, problem solving and design thinking. These are generic skills that can be coupled with high levels of technical capability to build a broader set of capabilities that can be rapidly applied to different environments.²⁰ The new environment for these sectors relies on a much more complex operational and organisational structure relating to decision making, coordination, control and support services. This means there are significantly higher demands placed on all members of the workforce in terms of managing complexity and higher levels of abstraction and problem solving.

¹⁵ See for example Strengthening School -Industry STEM Skills Partnerships, Australian Industry Group, June 2017; STEM Country Comparisons, Australian Council of Learned Academies, May 2013; The case for STEM Education, R. Byee, NSTA Press, 2013; and Science, Technology, Engineering and Mathematics: Australia's Future, Office of the Chief Scientist, September 2014.

¹⁶ Becker, K, and Park, K, Effects of integrative approaches among STEM subjects on students' learning, *Journal of STEM Education* 12, July – September 2011.

¹⁷ Science, Technology, Engineering and Mathematics in the National Interest: a strategic approach, Office of the Chief Scientist, July 2013

¹⁸ Hajkowicz, Reeson, Rudd, Btratanova, Hodgers, Mason and Boughen, *Tomorrow's Digitally Enabled Workforce*, 2016

¹⁹ Skills Matter: Further Results from the Survey of Adult Skills, OECD, 2016

²⁰ Position Paper on the New Skills Agenda for Europe, CEEMET, 2017

Employees will need to act more on their own initiative, have excellent communication skills and be able to organise their own work.²¹

How are small businesses responding to digital change and what is their uptake of new digital business services?

Ai Group's *Business Beyond Broadband* report found that businesses envisage that access to high-speed broadband will better support business applications like cloud computing, remote backups and videoconferencing. This will improve collaboration within their business and with suppliers and partners, and allow for far larger exchanges of data. However, SMEs are lagging large businesses in the use of these now-mainstream business applications. There is considerable scope for further SME technology adoption.

Our survey data shows that Australian business use of cloud computing is significant: 42% of all businesses, 58% of services businesses, 50% of small businesses and 35% of medium businesses.

Cloud usage is likely increasing because the growing services on offer enable businesses to acquire infrastructure and go to market quicker and more easily than with an internal platform. This may be particularly valuable to smaller businesses.

Our survey did not define "cyber security" and we can assume most businesses have access to basic cyber security protections such as off-the-shelf antivirus software or security features of standard operating systems. Noting this, only 22% of surveyed businesses reported using cyber security measures, with the highest users in services (28%), manufacturers (21%) and construction businesses (21%). Large businesses (26%) were more likely to implement cyber security measures, followed by medium sized businesses (22%), and a remarkably small proportion of small businesses (11%).

Most businesses surveyed (90%) invested in technologies of some sort in 2015. While there was little variation by sector, business size made a great difference. Large businesses were the most active technology investors (91%) while less than a third of small businesses did likewise (27%).

The main barriers to business investment in digital technologies in 2015 were lack of employee skills (33%), costs (31%), perceived lack of relevance (24%) and slow internet (23%). Beyond this trend across business sectors and sizes, investment costs inhibited more on services businesses (42%) and large businesses (36%), slow internet was a bigger factor for small businesses (26%) and medium businesses (27%), while perceived lack of relevance was higher for small businesses (36%) and manufacturing businesses (28%). The results suggest that business investment in digital technologies can be increased by lifting workplace technology skills, accelerating broadband access, and increasing awareness by smaller businesses of the potential benefits from technology investment.

We have also heard anecdotally from SMEs about possible reasons for the slow adoption of digital technologies. SMEs have indicated to us that they:

- do not have the time to assess everything to know what's relevant to them;
- do not know where to start;
- would like to know what others are doing to determine the benchmark.

²¹ Key Issues for Digital Transformation in the G20, OECD, 2017.

We have also heard from both end users and suppliers that while there may be interest from businesses in digital technologies, development and implementation of a real business case is the key challenge.

What impacts do the above have on employment, including employment levels and conditions?

The fast growing 'Gig' economy is a major part of the change digital technologies are making to employment.²² The retail and small business sectors will be affected by this important structural change. The increased demand for more flexible and autonomous work is leading many individuals to engage in freelancing. In the United States, for example, Intuit forecasts that such 'contingent' workers will exceed 40 per cent of the workforce by 2020.²³ In Australia over four million people, or 32 per cent of the workforce, had freelanced between 2014 and 2015.²⁴ The largest categories for this type of work are web, mobile and software development (44 per cent), design and creative (14 per cent), customer and administrative support (13 per cent), sales and marketing (10 per cent) and writing (8 per cent).

Established freelancers are in high demand and companies will need to attract and retain the best and brightest talent to optimise the benefits of temporary workers. Freelancers are relationship driven and have networks of professional and personal contacts, often providing useful referrals and introductions for companies.

Choosing to incorporate freelancers into the workforce should yield greater productivity, prompted by hyper specialisation and accountability.²⁵ Companies should develop increased capabilities to manage freelancers effectively.^{26 27} This talent should be viewed as a strategic investment and there must be a plan in place to engage and measure it to determine a path for future improvement.²⁸ Managing external talent is a new challenge for many companies and new techniques will be needed. A PwC report on the future of work states that efficient systems, processes and maximum operational flexibility will be key to integrating freelance workers into the workforce. Companies that do so effectively will take advantage of disruptive technology and stay ahead of new developments in these sectors.²⁹

Re-skilling and company training

The more rapid and constant changes due to digital disruption mean individuals will need regular upskilling throughout their working lives. Australian SMEs need to plan to up-skill existing workers, supervisors, managers and leaders, in order to take advantage of growth opportunities in the global digital economy. By assessing their own capability and training when necessary, companies will develop employees more capable of taking control of their roles, needing less supervision and being more engaged with the digital economy.

Management capabilities

Businesses will be more likely to succeed in the global networked-knowledge based economy if they prepare managers as leaders and decision-makers that are adept at dealing with uncertainty and

²² The Emergence of the Gig Economy, The Australian Industry Group, August 2016.

²³ Intuit 2020 Report: Twenty trends that will shape the next decade, Intuit, October 2010.

²⁴ Australia's freelance economy grows to 4.1 million workers, study finds, Frank Chung, 27 October 2015.

²⁵ Freelancers are the future of hyper-specialised teams, Xenios Thrasyvoulou, Wallblog, 12 Nov 2015.

²⁶ 4 Things Recruiters Need to Know about the Freelance Economy, REC, 17 February 2016.

²⁷ What Co-Working Can Really Do For You, Lawton Ursrey, Forbes, 25 February 2014.

²⁸ <http://www.forbes.com/sites/lawtonursrey/2014/02/25/what-coworking-can-really-do-for-you/#6e757bc33f3f>

²⁹ The open talent economy: People and work in a borderless workplace, Deloitte, 2013

²⁹ The future of work: A journey to 2022, PwC, 2014

constantly changing global landscapes.³⁰ The key workplace dynamics for skills utilisation to succeed are identified as good leadership and management, good HR practices, communication and consultation, and employee commitment and motivation.³¹

To prosper amid global waves of digitalisation and automation, business leaders need to identify how their own organisation will be transformed and then develop plans to migrate to new business processes enabled by digitalisation.³² That strategy needs to encompass digital skills capability and development of the company's workforce.

Leadership and management capability must enable companies within the retail and small business sectors to steer the interconnectivity between systems, machines and people – across companies, countries and value networks. Managers need to develop the digital strategies required, develop workforces with proficiency in problem solving in technology rich environments and ensure workers continue to utilise their information processing skills. Continued use of these skills is achieved through high performing workplace practices like team work, autonomy, task direction, mentoring, job rotation and applying new learning.

The greater challenges for leaders are the workforce and organisational changes that will have to be put in place as automation upends entire business processes, as well as the culture of organisations. The global digital economy requires a cultural change in the way work is done and managed. In the past, much of the role of a senior manager was tied up in expertise and knowledge. Now that is becoming less important and instead it is the ability to locate knowledge, assess how valid it is and then put it to use in collaboration with other people.

Being aware of the activities that are most likely to change from a technical perspective allows managers to rethink how workers engage with their jobs and how digital platforms can better connect workplaces. This will also assist managers to understand how many of their own activities could be more efficiently undertaken by machines, to enable them to focus on the core competencies that new technology is yet to master.

Another new management challenge in a world where knowledge is dispersed across firms, industries and countries is the globalisation of innovation. The increasing geographic dispersion of knowledge, research and development also requires new forms of collaboration and levels of coordination.³³

A flexible workplace relations system is needed

Ai Group maintains that more flexible workplace relations arrangements are fundamental to the improved productivity that is so important to our national competitiveness and our capacity to further improve Australian living standards. A flexible workplace relations framework is needed to both adapt to the growth of online and digital businesses and to ensure that SMEs remain competitive. Further, many online businesses are local SMEs who drive innovation and employment in the Australian community.

The reality is that Australia needs a workplace relations system that is consistent with the needs of 21st century workplaces. Many of the trends that will reshape the workplace of the future are already apparent, including the following:

- The 'sharing economy' is a new way of organising production, consumption and the use of assets, enabled by cheap computing and ubiquitous communications. Services like Uber and Airbnb create

³⁰ The Future of Manufacturing Education Initiative, Final Report, Australian Business Deans Council, 2014.

³¹ Ibid

³² Chui, Maniyika and Meremadi, Where machines could replace humans – and where they can't (yet), McKinsey Quarterly, 2016

³³ Australian Business Deans Council, op. cit.

huge efficiencies and new possibilities. They also create working arrangements that do not necessarily fit into old categories of employment. The workplace relations framework needs to catch up and meet the needs of service providers and customers.

- Automation is moving well beyond the factory floor to shake up an ever wider set of activities, including many personal and professional services. Some kinds of jobs will disappear, but many more will transform as workers shift focus to managing machines and programs to augment and increase their total productivity. The workplace relations framework must support constant evolution in the nature of jobs and the reskilling and redeployment of workers necessitated by automation.
- The ageing of our population will put a premium on workplace flexibility. An increase in the ratio of dependents to workers will require increased productivity to maintain prosperity; retaining older Australians in the workforce for longer, with arrangements that suit their changing capabilities and needs, will be essential.

In short, we need an agile workplace relations system that can rapidly respond to changes in markets, the economy, technology and demographics.

Recent findings of the Productivity Commission's Inquiry into Australia's Workplace Relations System highlighted that Australia's workplace relations framework, while not broken, needs improvement.³⁴

Recent developments in workplace relations relevant to online and local business

There have been many recent developments in Australia's workplace relations system relevant to online and local businesses:

Recently the Full Bench of the Fair Work Commission (FWC) rejected an ACTU claim that would have imposed unworkable rigidity on the engagement of casual and part-time employees covered by modern awards, including a right to convert from casual to permanent employment without an employer right of refusal, 4 hour minimum engagement periods for casuals and part timers, and more. The Full Bench decided that there would be no change to current casual conversion clauses and proposed to insert a new 'model casual conversion clause' in 85 awards that do not contain such provisions.

It is vital that no further restrictions are introduced on the engagement of casual and part-time employees given the important role these forms of employment play in supporting Australian businesses in remaining agile and competitive.

The role of enterprise agreements in regulating employment also requires attention. It is important that those businesses who wish to use enterprise agreements can secure needed flexibility and productivity. Ai Group has filed a detailed submission in the FWC's Loaded Rates in Agreements Case proposing a set of principles for a more practical enterprise agreement approval process than the overly theoretical approach often adopted by the FWC.

The apparent decline in employers making enterprise agreements may be related to the current approach to approvals. Data from the Department of Employment in respect of enterprise bargaining³⁵ show that since 2009, the biggest decline in enterprise agreement-making has been in the retail industry, followed by the hospitality industry. And since 2014, the biggest decline in enterprise agreement-making has been in the retail industry, followed by the construction industry.

³⁴ Productivity Commission, Australia's Workplace Relations System, Final Report, 30 November 2015

³⁵ Department of Employment, Report on Enterprise Bargaining, 27 February 2017



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Employers are currently experiencing significant challenges in the agreement-making process due to the FWC's interpretations of the FW Act regarding procedural requirements and the Better Off Overall Test. The Fair Work Act (FW Act) needs to be amended in both of these areas to address the problems and to restore a workable bargaining system.

Further, it is important to preserve the FWC Full Bench decision that the previous Sunday penalty rates in the fast food, retail and hospitality industries were no longer fair or relevant, and needed to be adjusted. The adjustments, which still result in employees receiving penalty rates on Saturdays and Sundays, are being phased in over the next few years. This decision has so far been upheld by the Federal Court.

Further workplace relations reform is needed for modern workplaces.

For SMEs to remain competitive with the growth of digital and online businesses, it is imperative that restrictions in the FW Act relating to transfer of business and the General Protections be alleviated.

Specifically, the transfer of business laws need to be more workable for businesses that need to quickly change in response to digital disruption and changing consumer behaviour.

The transfer of business laws are based on the concept of "work performed" rather than the former "character of the business" test which operated under the *Workplace Relations Act 1996*. The FW Act gives no weight to whether a business which transfers employees to another business (as defined in s. 311) has the same character as the business to which employees are transferred. The loss of the 'character of the business' test has resulted in the imposition of unworkable, impracticable and unfair arrangements on both employers and employees.

This is an issue for businesses who wish to create new business entities with existing employees in response to changing market and consumer demand. The transfer of business laws expose companies involved in outsourcing or other business 'connections' (as defined in s.311) to transferable instruments becoming binding upon their operations for both transferring employees and non-transferring employees. Imposing multiple and inconsistent employment conditions on employers results in higher costs, more red tape and reduced productivity, efficiency and staff morale.

Ai Group seeks that the current transfer of business provisions in the FW Act replace the "similarity of work" test with the former "character of the business" test.

The FW Act's General Protections provisions should also be tightened. The provisions are extremely broad and impose large constraints and legal risks over SME decisions to restructure in changing markets. Ai Group seeks that the General Protections provisions be amended to:

- Include a list of exemptions aligned with the exemptions contained in the FW Act's unfair dismissal provisions.
- Remove the reverse onus of proof in general protections matters.
- Introduce a compensation cap for general protections matters involving dismissal.



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What roles can the Commonwealth Government and Parliament play in fostering innovation for Australian businesses to respond to these challenges?

Innovation & Collaboration

Many people now share Ai Group's view of the opportunities open to Australia in the shifting global landscape, and the imperative to innovate better. Innovation has never been so important for Australian businesses, as they confront fierce global competition and rapidly changing markets and consumer preferences. It is difficult for single organisations, particularly SMEs, to acquire the knowledge, skills and resources needed to maintain or improve their competitive position. While some organisations may retain a monolithic capability to 'do it all', most businesses, particularly SMEs, are unable to develop competitive productivity advantages or innovation capabilities.

Business performance is much more closely linked to collaboration on innovation than to spending on innovation. The benefits of collaboration on innovation include increased comfort with risk taking; exposure to new approaches; potential for specialisation; reduction in costs and time to market; and increased persistence of innovation. Highly networked innovation systems enable businesses to share resources, risk and ideas for innovation. International business-to-business collaboration on innovation provides a mechanism for sourcing the widest possible range of ideas and resources to build a firm's competitiveness. Businesses that pursue a culture of both innovation and collaboration experience compounding benefits across a range of business performance measures.

Despite this, there is an absence of practical and easily-accessible information on collaboration's benefits, how businesses should go about building partnerships with others, or how to manage these relationships to achieve greater commercial success from their investments in innovation. Ai Group's *Joining Forces: Innovation Success Through Partnerships* report combined survey data with in depth insights from some of Australia's leading innovative businesses.³⁶

The *Joining Forces* report demonstrated that leadership is needed at every level to turn Australia's innovation collaboration situation around. Business leaders can boost their organisations' partnership potential by building collaboration into their strategic plans; taking smart steps to identify and attract partners; and building a business culture of openness, cross-fertilisation and readiness for risk, based on their observations of their peers, most collaborative innovation in Australia is conducted on an ad-hoc basis as opportunities and connections present themselves. Collaboration within existing supply chains is relatively common. But it is much rarer for businesses to make a strategic decision to engage in collaborative arrangements and search widely both domestically and internationally for the best partners.

There are many positive initiatives to spread and share better practices. One in which we are closely involved is the Innovative Manufacturing Cooperative Research Centre (IMCRC). This government-backed collaboration between industry and the research community has high ambitions. Comparably to other CRCs, it is pursuing a range of advanced industrial research projects in additive manufacturing, automation and robotics, advanced materials, sensors and data analytics, and augmented and virtual reality. But the IMCRC is also looking beyond projects between defined partners, to foster a transformation in the innovation capability of the entire manufacturing sector. Detailed and repeated assessment will track the readiness of hundreds of participating SMEs for Industry 4.0, Business Model Innovation and Leadership development. They will be connected to best practices through a national network of demonstrators and offered extensive capability development. And they will keep iterating assessment and improvement over time.³⁷

³⁶ Ai Group, *Joining Forces: Innovation Success Through Partnerships*, September 2016.

[http://cdn.aigroup.com.au/Reports/2016/JoiningForces Innovation success through partnerships Sept 2016.pdf](http://cdn.aigroup.com.au/Reports/2016/JoiningForces%20Innovation%20success%20through%20partnerships%20Sept%202016.pdf).

³⁷ See <http://imcrc.org/>.



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Taxation Reform

Taxation reform offers substantial national benefits and for several years Ai Group has argued that this should be a national reform priority. A more digitised economy presents additional challenges to Australia's tax system. Our overall tax priorities support growth and efficiency across the digital and traditional sectors of the economy. These include the importance of reducing the company tax rate, as to encourage investment, decreasing Australia's heavy reliance on income taxation, removing inefficient taxes – particularly those levied by state and territory governments, and reducing tax-related compliance costs on businesses. In addition, Ai Group has a long-standing record of support for the R&D Tax Incentive.

Improvements to Australia's tax system have the potential to boost the national economy, lift business investment and the pace of job creation while at the same time ensuring governments are able to fund the desired range of public-sector services and achieve overall redistribution objectives.

At present our tax system is well short of optimal with its disproportionate reliance on income taxation; a consumption tax base that is underutilised and selectively applied; an approach to the taxation of wealth that is poorly designed; and a pattern of taxation between the different levels of government that neither aligns with responsibilities for expenditure nor supports accountability of government across the Australian federation.

Australia has a comparatively high reliance on the taxation of capital income. This is particularly the case in relation to inbound direct investment which is, by definition, internationally mobile and therefore more sensitive to variations between national taxation regimes. At a time when company tax rates around the world continue to be lowered and with the need for higher rates of productivity improvement, there is strong scope to lift aggregate investment and total economic activity in Australia by lowering the company tax rate. This will raise the stock of capital per employee leading to higher productivity and wages. While local companies enjoy the benefits of dividend imputation which would offset the company tax rate cut – at least in respect of distributed profits, domestically-owned companies would also benefit from a lower company tax rate through the greater opportunities and greater incentives to reinvest profits in their businesses and from the general lift in economic activity generated by the tax cut.

The taxation of domestic consumption is a key alternative source of revenue and would impose lower economic costs than taxes on much more mobile capital investment. It should be noted that some of the additional revenue would be required to compensate lower and middle-income households for the price impact of an increase in consumption taxation.

Should the Inquiry be interested in discussing our submission further, please contact our adviser Ali Rahman (02 9466 5443, Ali.Rahman@aigroup.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Innes Willox', written over a horizontal line.

Innes Willox
Chief Executive