

20 October 2022

Productivity Commission
4 National Circuit
Barton ACT 2600
Australia



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Dear Sir/Madam,

Submission on the Productivity Commission's 5-year Productivity Inquiry: Innovation for the 98%

CPA Australia represents the diverse interests of more than 170,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

The Productivity Commission's Interim Report (Report) provides valuable insights and recommendations on how to improve innovation. However, it underplays the central role trusted external advisers such as accountants have in assisting business, especially smaller businesses to innovate and adopt best practice.

Research by [CPA Australia](#) and the [ATO](#) shows that external advisers are small business' most important influencer. Given their relationship with and knowledge of their client, they are best placed to help individual businesses with assessing and implementing improvements and innovations. We recommend that the final report better reflects the central role business advisers play in assisting businesses of all sizes adopt innovations.

We also recommend that the final report include:

- suggestions on how to encourage more small businesses to seek external advice. This could include financial incentives to access business advice from a professional advisers of their choice, similar to the [Victorian Small Business Specialist Advice Pathways Program](#)
- discussions on the importance of professional advisers:
 - as a channel for diffusing information on innovation and best practice
 - to support small business that don't have the time to build their own capability
- a focus on attracting skilled migrants through permanent migration rather than the narrow, temporary and less popular employer-nominated migration scheme.

Our response to the Interim Report is included in the Attachment.

If you have any questions about this submission, please do not hesitate to contact Gavan Ord, Senior Manager - Business and Investment Policy at gavan.ord@cpaaustralia.com.au.

Yours faithfully

Dr Gary Pflugrath FCPA
Executive General Manager, Policy and Advocacy
Encl.

Attachment

Making greater use of external advisers to diffuse and apply best practice and innovation

The Report states that ‘there remain big unsolved problems about better ways of diffusing best practice’ for business. We agree. Our annual [Asia-Pacific Small Business Survey](#) consistently shows that Australia’s small businesses significantly lag their Asia-Pacific peers and larger businesses on virtually all measures of innovation, technology uptake and best practice.

To address this ‘problem’, the final report should have a greater focus on the role professional advisers such as accountants play in lifting the capability and performance of smaller businesses.

Recommendation 1:

The final report better reflects the central role external advisers play in lifting the capability and performance of small business.

In our opinion, one of those ‘big unsolved problems’ is how to increase the number of small businesses seeking advice. We suggest that the Commission considers this problem in more detail in its final report.

While the data in figures 1 and 2 below show that many small businesses seek advice from professional advisers, many do not. Our small business survey shows such businesses are more likely to underperform. This point is discussed in further detail in the section below titled ‘Incentivising small business to seek advice from their external adviser’.

Recommendation 2:

The final report discusses how best to increase the number of small businesses seeking external advice.

External advisers are by far the most popular source of advice for Australian small businesses (see figures 1 and 2 below). Accountants are also highly trusted sources for business information and provide a range of services including compliance and business advisory services. They are therefore key to improving the diffusion and adoption of best practice and innovation in business of all sizes.

Recommendation 3:

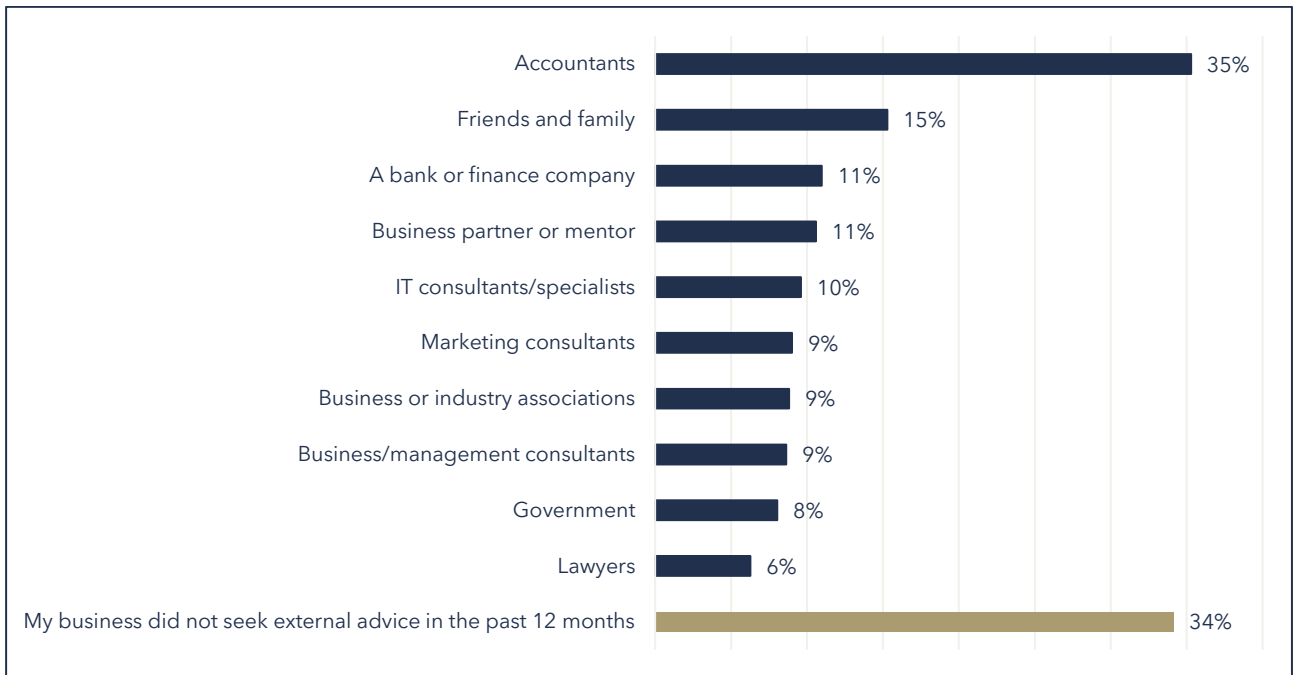
The final report discusses the importance of professional advisers as a channel for the diffusion of information and innovation.

Professional advisers are critical to lifting the capabilities of smaller, resource-constrained businesses. They bring skills and knowledge into small business that have very limited capacity to develop themselves. They also have the absorptive capacity to understand new developments that many of their small business clients don’t. They understand the capabilities and capacities of their clients. Their expertise is therefore essential to assisting small business to evaluate and improve.

We disagree with the statement in the Report that smaller firms ‘are more likely to rely on their own research using open knowledge sources (websites, journals, research papers or publications) than large firms.’ The ATO data in figure 2 shows a different result.

It should be noted that most small businesses already access external advisers for assistance with their compliance requirements. According to a [recent speech](#) by the ATOs Deputy Commissioner, Small Business, Deborah Jenkins, 88 per cent of small businesses have their income tax returns lodged by a tax practitioner, while around 65 per cent have their activity statements lodged by a practitioner. We acknowledge that a challenge for some of our members is how to shift their focus from compliance to advisory work. In response, we are offering these members [a range of tools and training](#) to help increase their capacity and capability to offer advisory work.

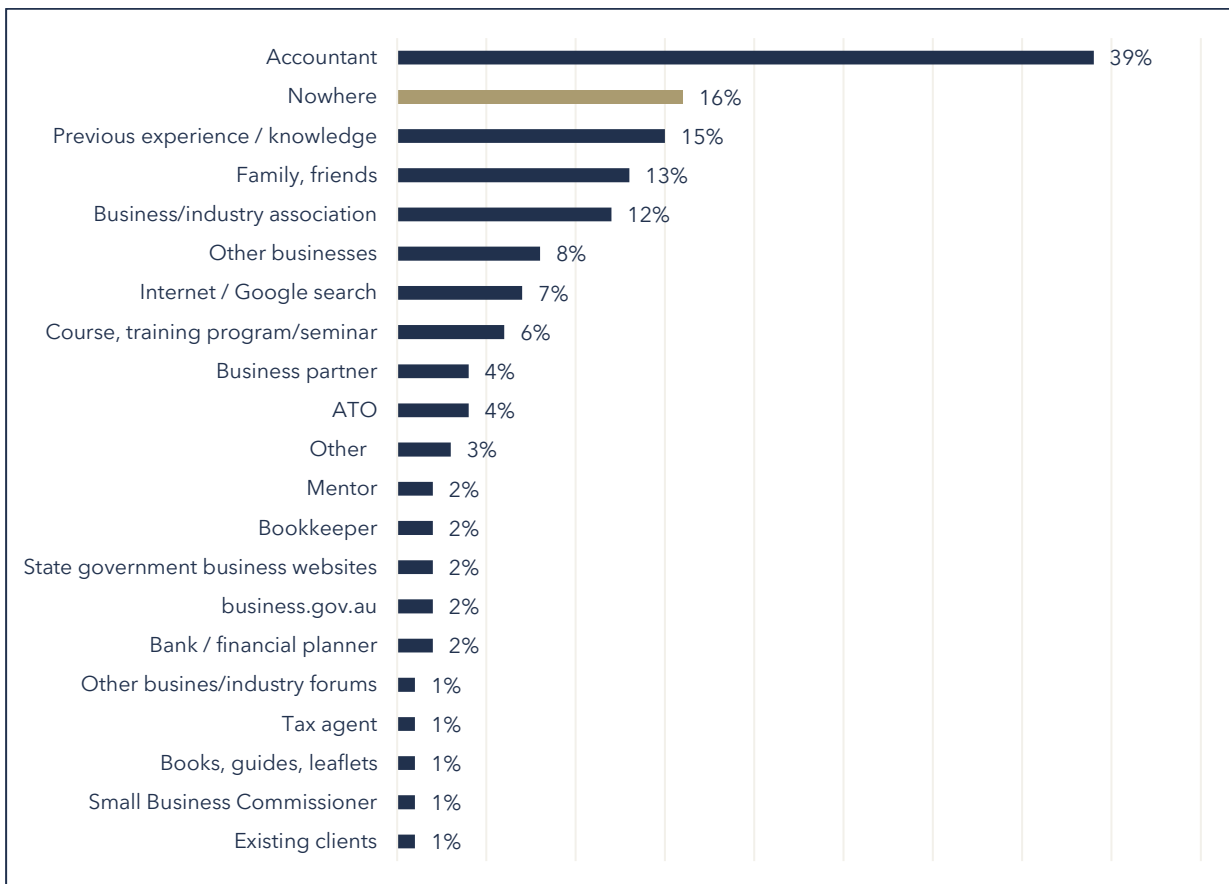
Figure 1 Where Australian small businesses sought external advice in 2021



Source – CPA Australia Asia Pacific Small Business Survey 2021-22

The [ATO's small business engagement research in 2017](#) found similar results. Accountants were by far the most popular source of business administrations systems advice when commencing a business.

Figure 2 Source of advice when commencing a business in 2017

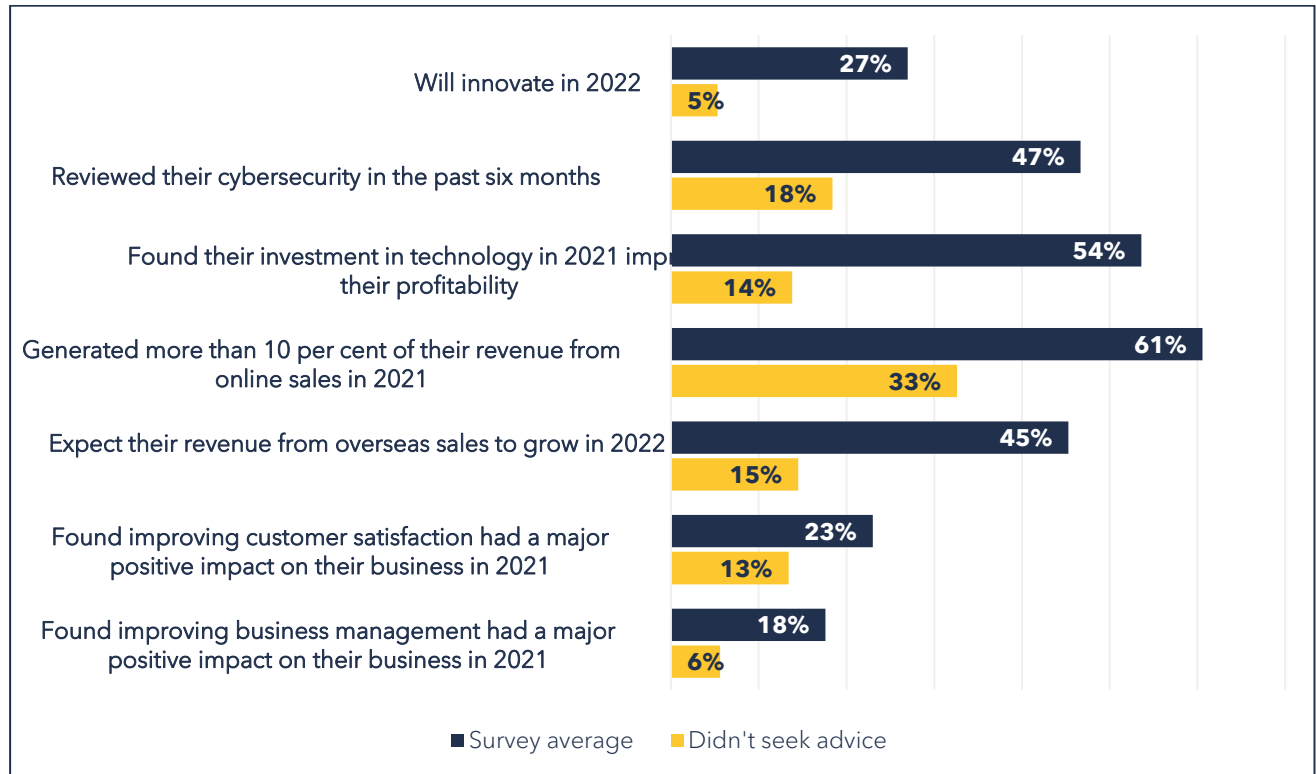


Source – ATO Small Business Engagement Research 2017

Impact of not seeking advice

Our Asia Pacific small business survey results show that small businesses that didn't seek advice in 2021 were more likely to shrink or not grow (23.2 per cent) than grow strongly (3.9 per cent). The results also showed that older small business owners were far less likely to seek advice. Those with zero to four employees were also much less likely to seek advice.

Figure 3 Impact of not seeking advice on key business activities



Source CPA Australia Asia Pacific Small Business Survey 2021-22

Incentivising small business to seek advice from their external adviser

The interim report requests information on how governments can best support industry associations to share information on innovation with members (Information request 2.4). We suggest the more relevant request should be how can governments best support external advisers. Below is our response to this more important issue.

The central role of external advisers for small business is one of the key reasons why the [Tasmanian](#) and [Victorian](#) governments recently provided incentives to small businesses to seek advice from them.

Demonstrating the strong demand for such support, applications for the Victorian Government's Small Business Specialist Advice Pathways Program (a \$2000 grant to employing small businesses to access professional advice) closed within 72 hours of opening, due to overwhelming demand.

Our members have informed us that due to the current challenging environment, many of their small business clients don't have the capacity to pay for advice or have given it a low priority. They find that this reluctance to seek advice grows when small businesses get into difficulty. Members tell us that businesses in distress increasingly avoid communicating with others, including their trusted adviser. They attribute this to concerns over the cost of advice and a fear of appearing to be a failure.

As our small business survey results show (see figure 3 above), this lack of advice can impact business performance, innovation and growth. This may lead to such businesses falling behind their best practice competitors. It may also mean otherwise viable businesses needlessly struggle. In worst-case scenarios, decisions on the future of a business may be made by creditors, not the business owner.

Expanding the business advisory services provided by governments or their contractors is not the solution. Such services only reach a small proportion of businesses. Further, as shown above, small businesses are overwhelmingly more likely to seek advice from a private provider, especially accountants.

Government looking to improve small business performance and innovation should focus on support programs that leverage the existing relationships small business have with professional advisers. This is likely to reach far greater numbers of small businesses in need of advice.

CPA Australia recommends that the government consider providing small businesses, especially those in difficulty, a financial incentive to access professional advice. This incentive could be in the form of a voucher or grant (we suggest around \$2000). The small business would use it to pay for the advice they need from an approved professional adviser of their choice (for example, their existing professional accountant, lawyer or technology consultant).

Recommendation 4:

The government provide small businesses, especially those in difficulty, a financial incentive to access professional advice from their adviser of choice.

Role of industry associations

We don't agree with the statement in Box 2.4 of the report that local business networks and industry associations 'are more accessible than consultants to smaller, resource-constrained firms'. The data in figures 1 and 2 above don't support such a claim. We ask that consideration be given to not including this statement in the final report.

Industry associations, such as CPA Australia, play an important role in collecting and sharing relevant innovations and best practices with their members. Unlike what is suggested in Box 2.4, they don't typically provide consulting service. That is, industry associations, like governments are a much less popular source of advice for small business than external advisers. The focus of the final report should better reflect this point.

Our engagement with small businesses and our members indicates that one key challenge is how to apply innovations and best practices to individual businesses. This is where the business' professional adviser is critical. They often have a long-standing relationship with the business and therefore have the insights and knowledge necessary to assist the owner/management implement an idea or improvement. It's potentially risky for third parties without such intimate knowledge of a business to make recommendations for improvement to such a business.

The same can be said on benchmarking. While private providers, industry associations and governments are best placed to develop and share benchmarking data, professional advisers have the skills and insights to advise their clients on how they are performing against benchmarks, and how to respond to areas of under-performance.

Benchmark data can be difficult for many small businesses to comprehend – they therefore need professionals to help them understand that data, determine which benchmarks are most relevant and extract data from their business to allow like-for-like comparisons.

Recommendation 5:

The Commission remove the statement that local business networks and industry associations 'are more accessible than consultants to smaller, resource-constrained firms' from the final report.

Role of government

Figures 1 and 2 above show that the reach and scope of government advice programs listed in Box 2.5 is significantly less than private advice providers, even though such services are often provided at no charge. It's our view that governments should mainly focus on being a trusted source of information, not advice, to individual businesses.

Given many businesses engage our members to limit their interaction with government, we suggest governments work more closely with advisers and industry associations on sharing information with the business community. We note that our members are often asked to act as an information filter between governments and their clients. They want our members to only share information that's relevant.

In terms of how governments should share information, our members tell us that they want summaries of the information and social media 'assets'. This allows advisers to easily incorporate such information into client newsletters and social media posts and to target such information 'tasters' to relevant clients. Clients are often time poor and prefer to consume information in 'bite sized' pieces. If that 'taster' is of interest, they will seek more information from their adviser.

Box 2.5 doesn't include all of the most relevant government programs that may help build the skills businesses need for innovation. We recommend that, in the final report, the Commission includes government programs that incentivise small business to access professional advice. This includes the [Victorian Small Business Specialist Advice Pathways Program](#) and the [Tasmanian Small Business Advice and Financial Guidance Program](#). The Commission should also consider including programs that incentivise small business to invest in technology such as the Victorian [Small Business Digital Adaptation Program](#).

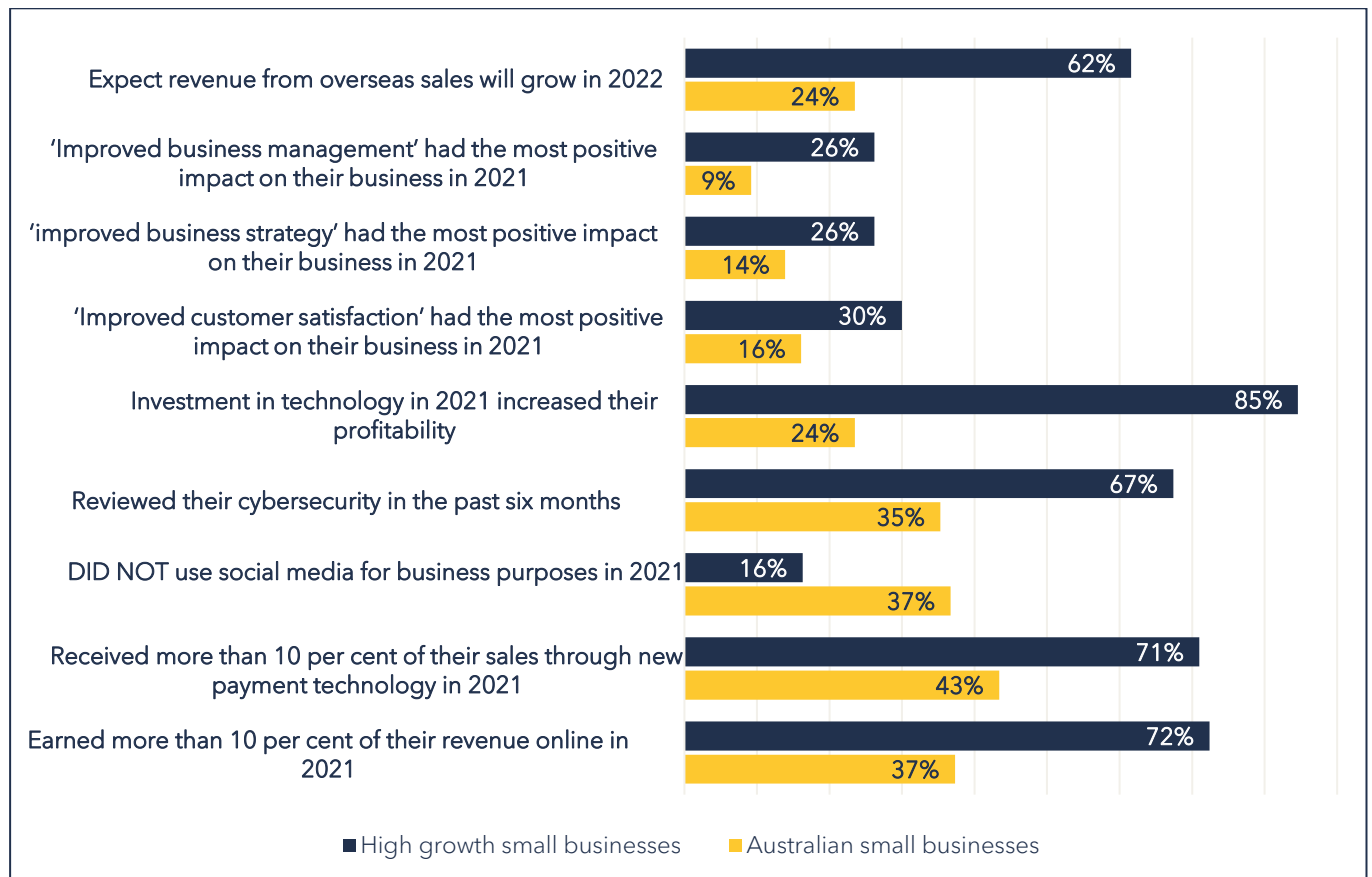
Recommendation 6:

The final report includes references to state government programs that incentivise small business to seek professional advice from their adviser of choice.

CPA Australia data on small business management practices

The observation in the interim report that “there is a large group of Australian businesses whose management practices, uptake of technology and productivity are below their best practice peers” is consistent with our own research. The below data from our small business survey shows how far behind best practice the average Australian small business is (we take ‘high growth business’ as a proxy for best practice).

Figure 4 Business practices of Australian small business compared with best practice



Source CPA Australia Asia Pacific Small Business Survey 2021-22

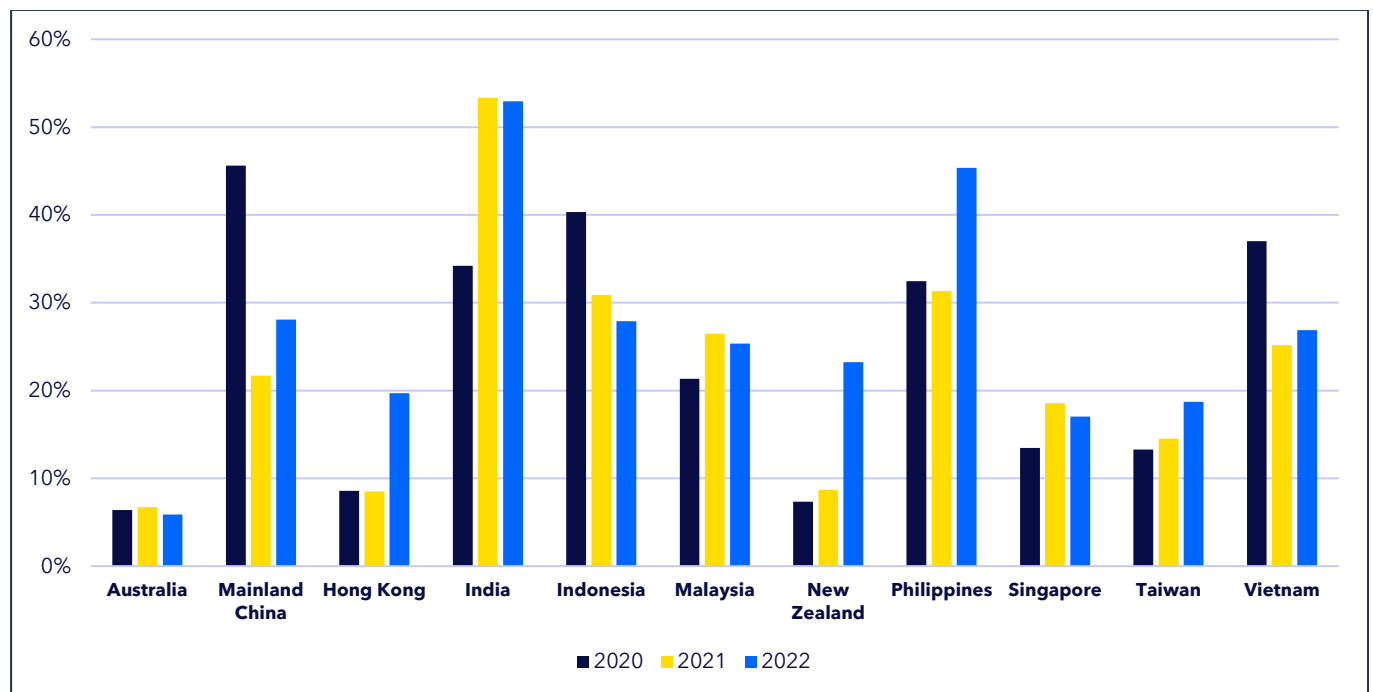
An important reason why many Australian businesses undertake little or no assessment of their performance is that the overwhelming majority of Australian businesses are micro. Such businesses tell us that they don't have the time, skills or resources to assess and improve their performance or consider innovations. They also don't have the time or inclination to build their own capability for such activity through training. The best way to help such businesses is to encourage them to seek advice from their existing advisers.

CPA Australia small business innovation data

In writing the final report, we suggest that the Productivity Commission considers drawing upon CPA Australia's innovation data from its [annual survey of small business conditions across the Asia-Pacific](#). Our research compares the level of innovation (determined by the expected adoption of products, services or processes that are new to the world or their market over the next 12 months) by Australian small businesses against 10 other markets in the Asia Pacific region. It also looks at innovation by the age of the business owner, business age and number of employees.

Australian small businesses are the least likely of the markets surveyed to say that they will innovate in 2022. This has been the case every year since this question was first asked in 2015.

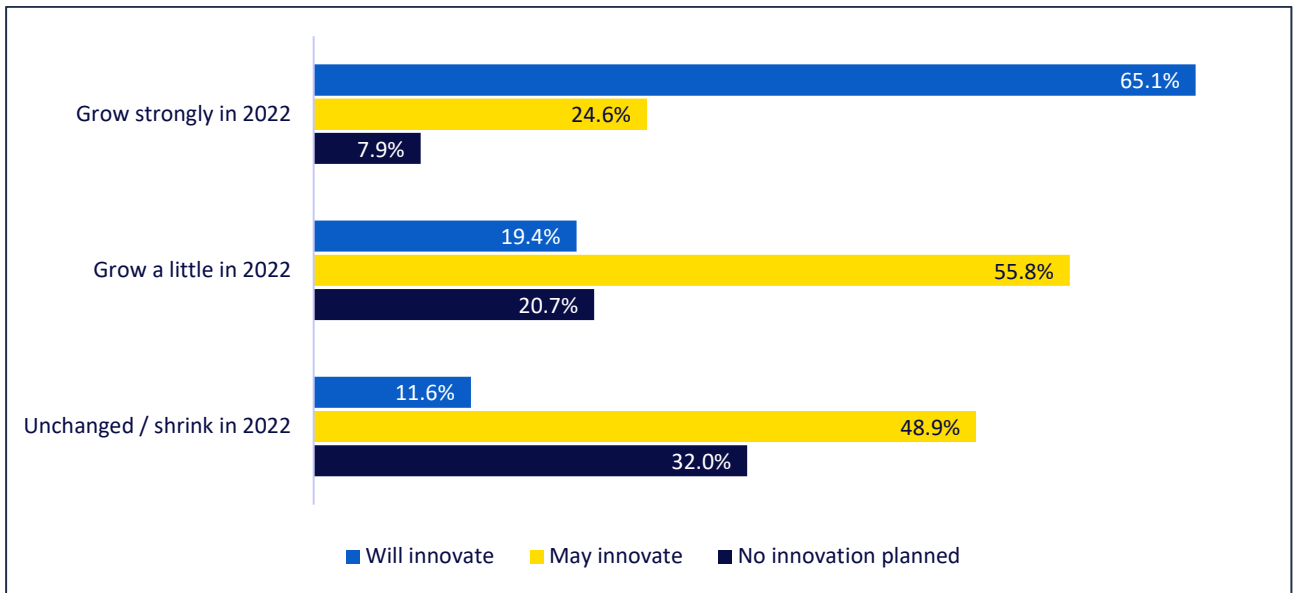
Figure 5 Small businesses that state they will innovate in the next 12 months – by market and year



Source – CPA Australia Asia Pacific Small Business Survey 2021-22

This result is likely to contribute towards the relatively low percentage of Australian small businesses that expect to grow in 2022 (53.1 per cent against the survey average of 61.9 per cent). Our data shows that high growth small businesses are far more likely to innovate.

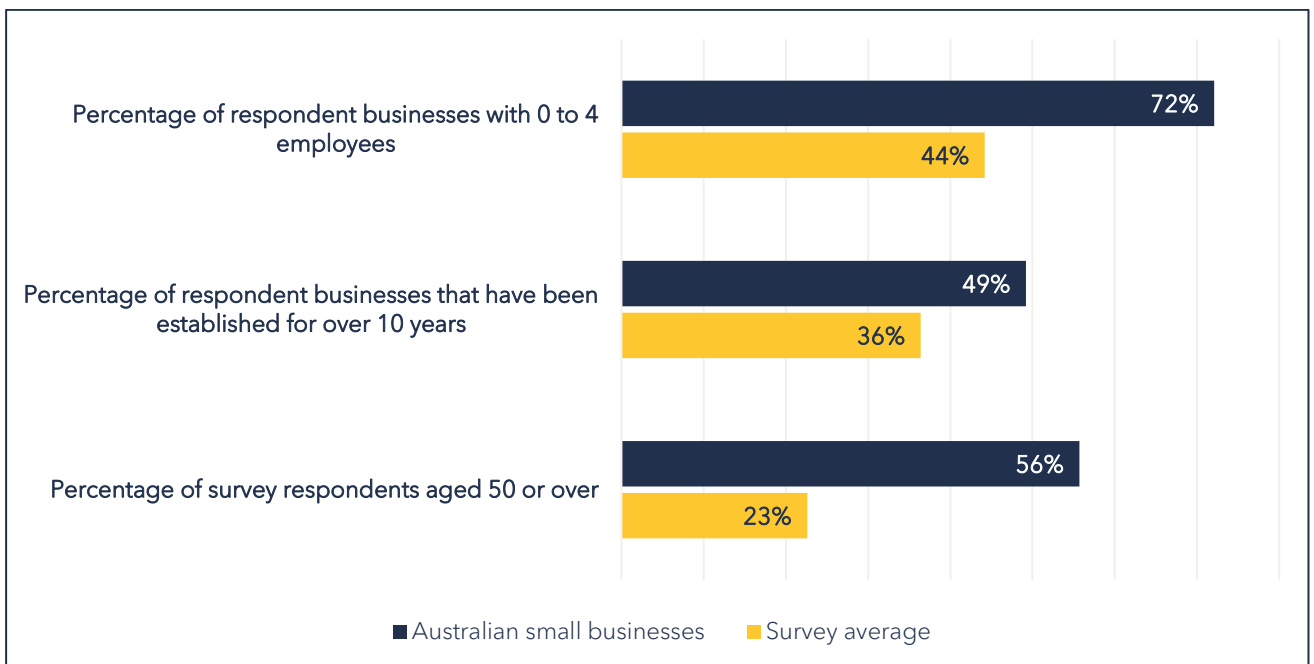
Figure 6 Small businesses that state they will innovate in 2022 – by business growth expectations for 2022



Source – CPA Australia Asia Pacific Small Business Survey 2021-22

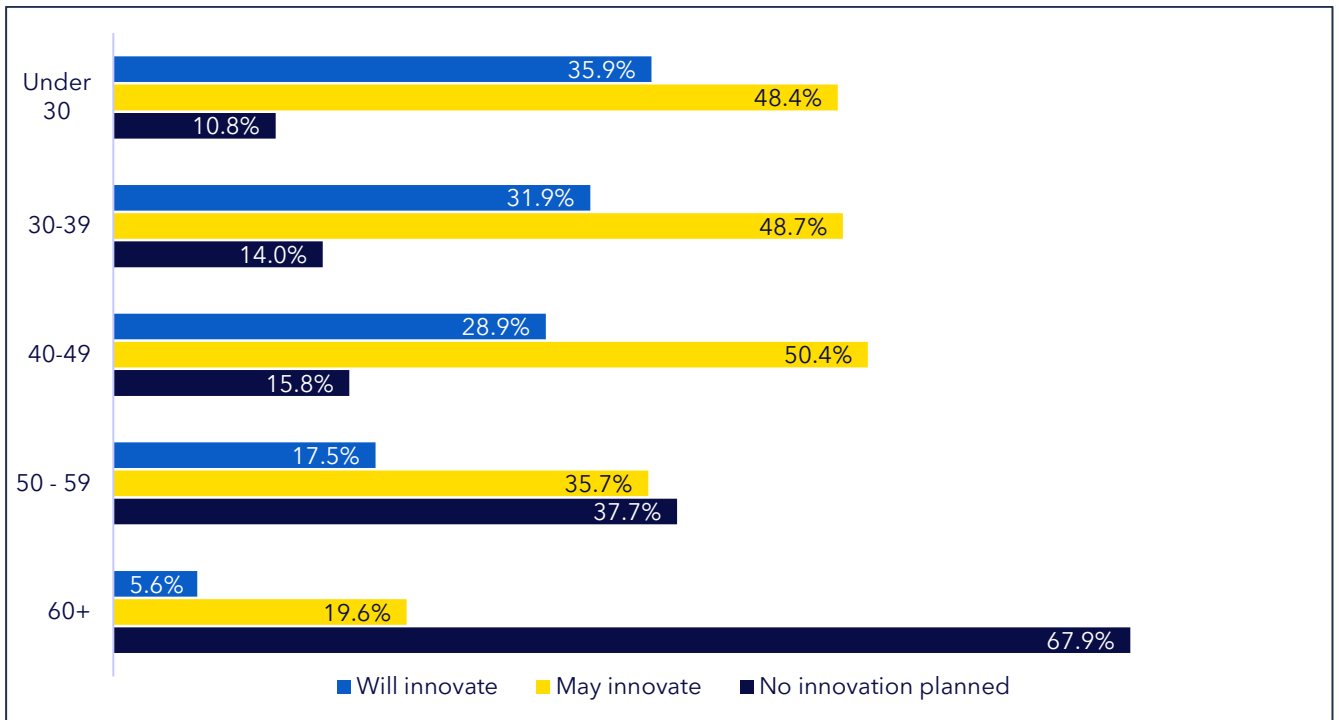
Our data also shows that younger small businesses, younger business owners and larger small businesses are far more likely to say they will innovate in 2022. This result is consistent with data from previous years. Australian small businesses are, however, typically run by older owners, have been established for longer and have the fewer employees.

Figure 7 Demographics of Australian small businesses compared with survey average



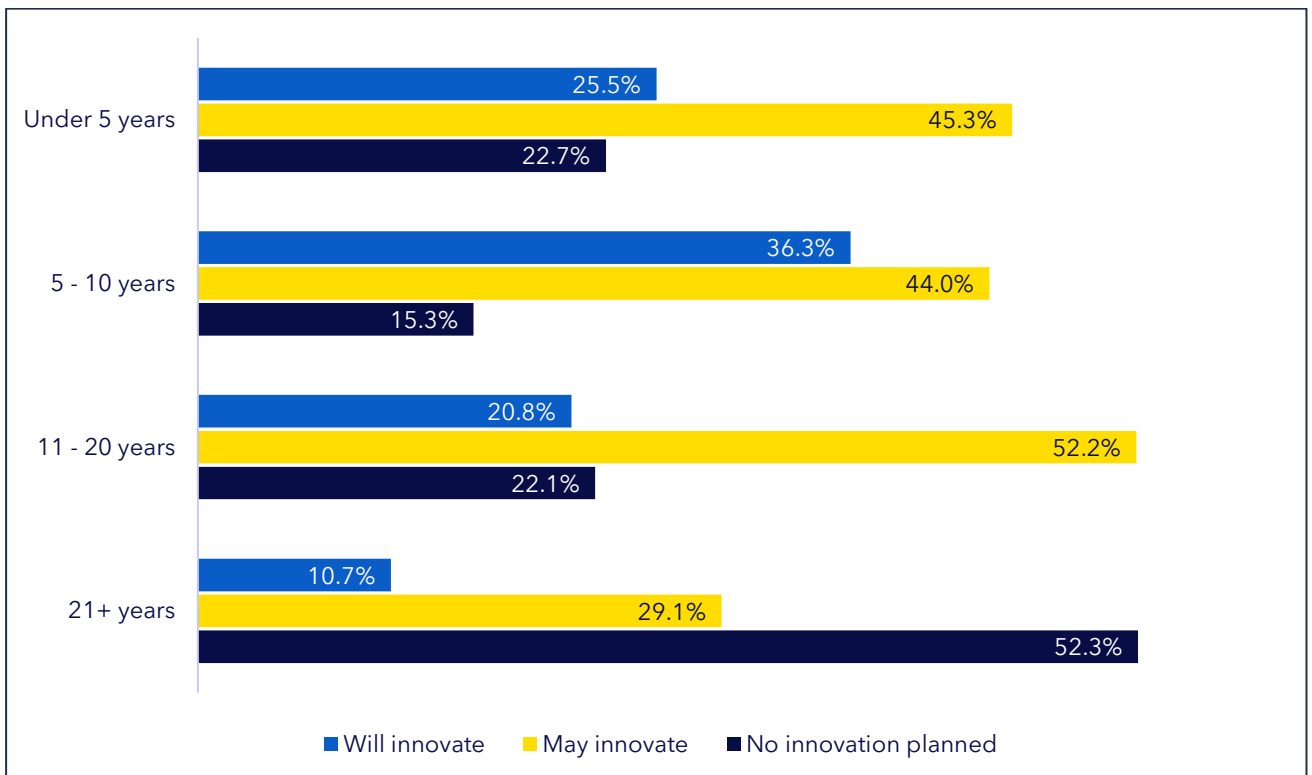
Source CPA Australia Asia Pacific Small Business Survey 2021-22

Figure 8 Small businesses that state they will innovate in 2022 – by age of respondent



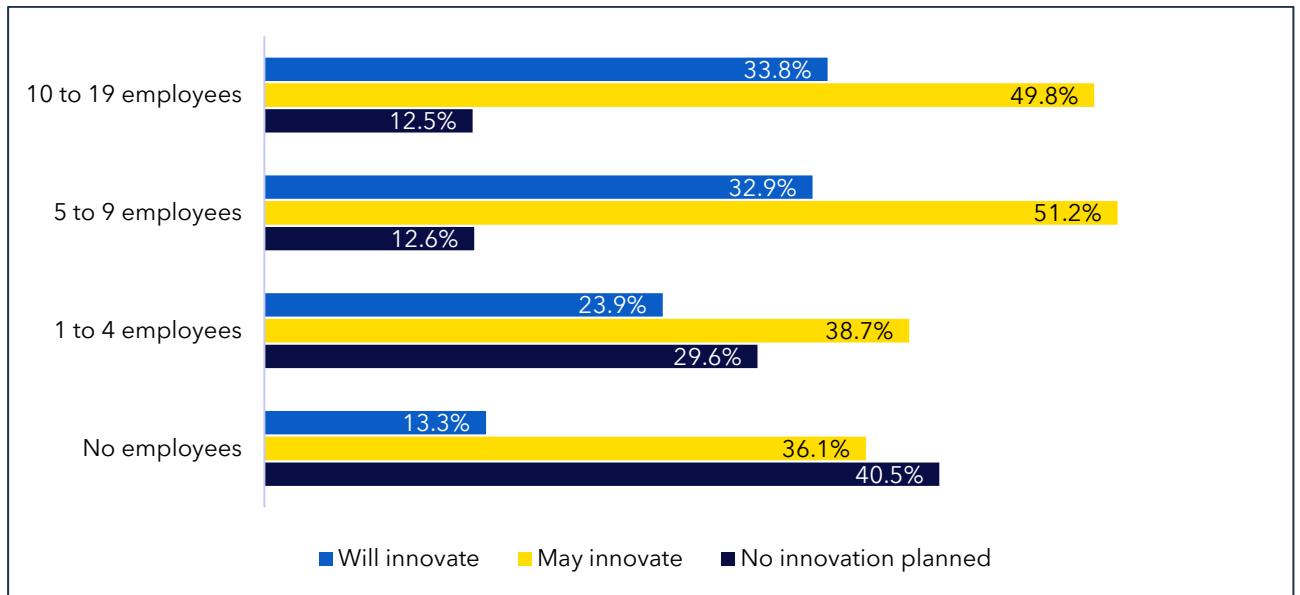
Source – CPA Australia Asia Pacific Small Business Survey 2021-22

Figure 9 Small businesses that state they will innovate in 2022 – by age of business



Source – CPA Australia Asia Pacific Small Business Survey 2021-22

Figure 10 Small businesses that state they will innovate in 2022 – by size of business



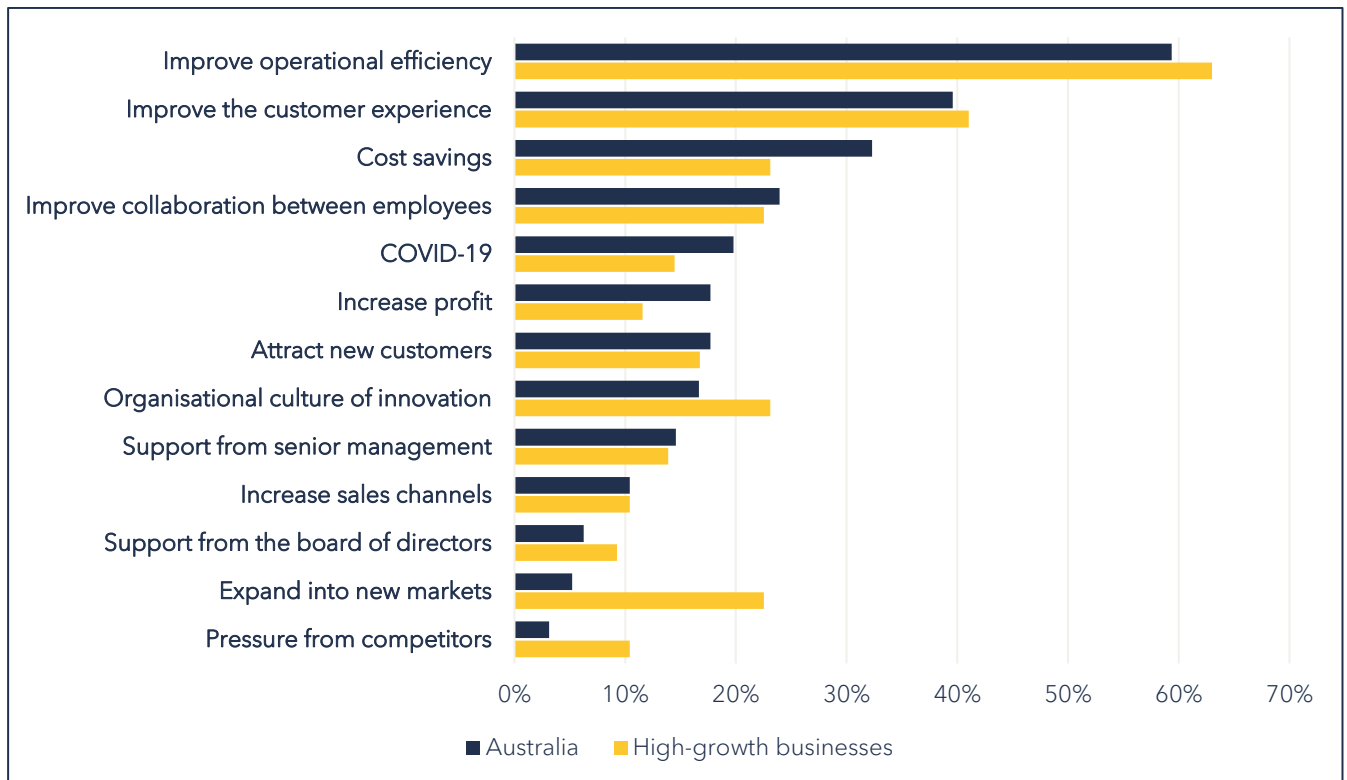
Source – CPA Australia Asia Pacific Small Business Survey 2021-22

Technology adoption

Drivers and barriers to technology adoption

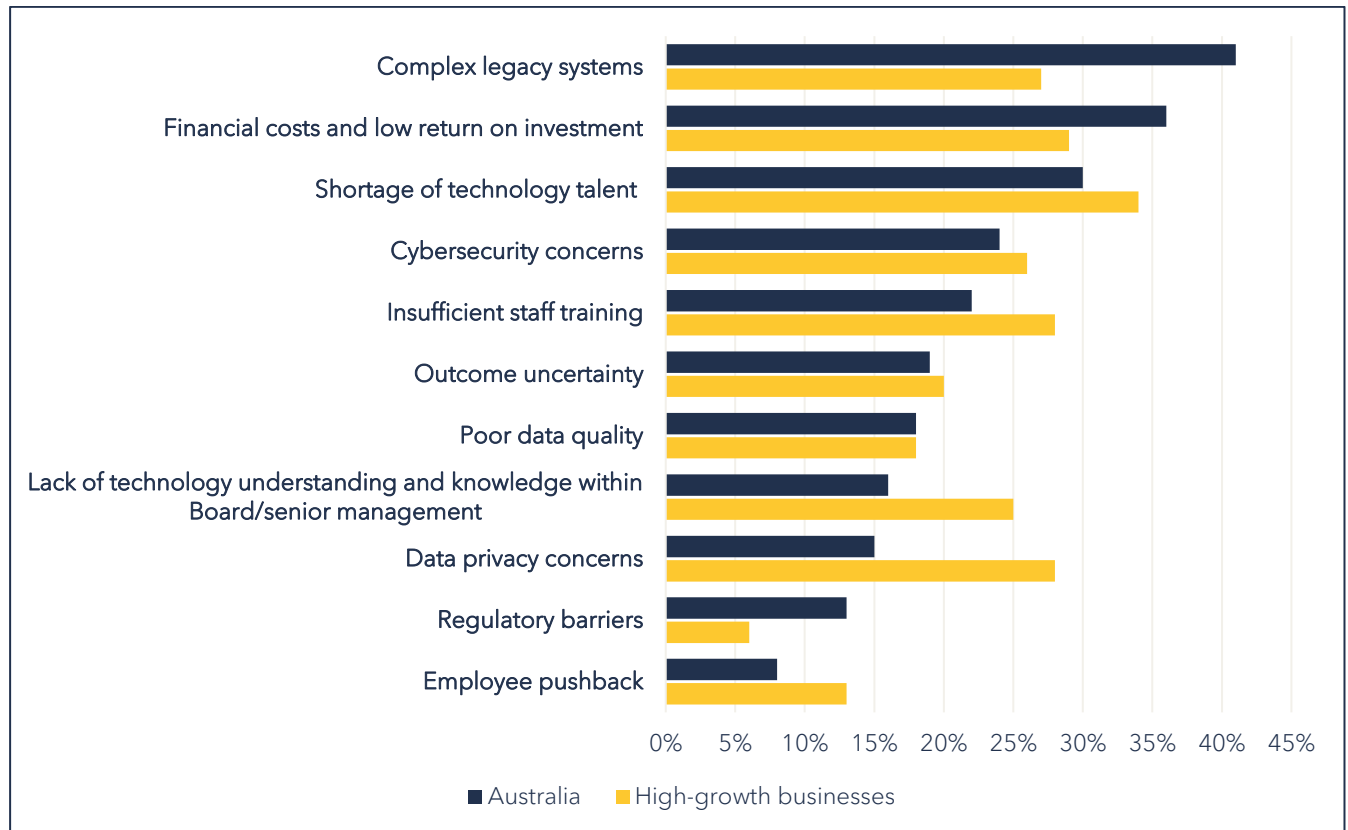
CPA Australia conducts annual research on business technology adoption across the region. The key drivers and inhibitors of technology adoption by business in 2022 are shown in Figures 11 and 12.

Figure 11 Drivers of technology adoption in 2022 – Australia compared with high growth businesses



Source CPA Australia Business Technology Report 2022

Figure 12 Barriers to technology adoption in 2022 – Australia compared with high growth businesses



Source CPA Australia Business Technology Report 2022

Larger businesses are much more likely to nominate “complex legacy systems” as a challenge to technology adoption (39 per cent compared with 19 per cent of smaller businesses). Respondents from smaller business were more inclined to choose “financial costs and low return on investment” (40 per cent) as a barrier to technology adoption than respondents from larger companies (29 per cent).

Increasing the exposure of Australian small businesses to ideas and technologies from overseas

We agree with the Commission that many ideas and technologies will come to Australia from overseas. The question is whether further policy support is required to increase this exchange of ideas. Most Australian small businesses are not exposed to international markets as they don’t export. They are locally owned and many would not be in a position to recruit a skilled migrant. For such businesses, they are most likely to be exposed to new ideas through travel, trade shows, reading, their industry body and their adviser.

If they do pick up new ideas or technologies, they may struggle to apply it in their business. In such situations, they need professional advice to assist them assess the business case for such an investment, and if the business case is strong, determine how best to apply that idea or technology.

Encouraging younger Australians to start or purchase a business

As newer and younger businesses tend to be more innovative and likely to adopt new technologies, a key policy question is how to encourage more younger Australians to start their own business or purchase an existing one (and to encourage the disposal of existing businesses). From our engagement with small business, the motivations for a younger person to start a small business and the barriers to entering the sector are wide.

Difficulty accessing finance is often cited as an impediment to younger people acquiring or starting their own business. On the other hand, our members and older small business operators have told us that they have observed an increasing reluctance by younger people to acquire existing businesses and start their own business. Many ascribe this to the risks and work involved in running a small business, which were clearly evident during the pandemic. We are

also aware that the level of digital uptake by an existing business can influence the value and level of interest in buying such a business.

We expect business exits to increase with the end of COVID support. The financial support federal and state governments provided businesses encouraged some to remain open that would have otherwise closed. Another factor that might contribute to more business exits is the large, deferred liabilities many carry. Part of the COVID business support package included the ability for businesses to defer rent, taxes and loan repayments.

It's difficult to identify a single policy that would, on its own, have a significant impact on increasing business entries and exits, and encourage younger people to invest in their own business. The end of the market interventions necessitated by COVID-19 may precipitate a market correction that could open new opportunities.

Overall policy settings should focus on supporting the efficient operation of the market and avoid unnecessary regulation and compliance. Reducing the compliance burden will require governments to make greater use of technology that uses natural business systems, implement reporting only once to government (across all levels) and reduce risk aversion in the public sector.

Building workforce skills

While we agree with Recommendation direction 2.2 that government support for building workforce skills should have a focus on digital and management skills, it doesn't acknowledge the very limited ability (or interest) many small businesses have in developing such skills. A more nuanced recommendation would consider the role of external advisers, especially for micro businesses.

Skilled migration as a means to diffuse technologies and skills

We agree with the Report that one of the benefits of skilled migration is that it can expose business to new ideas and technology. We are however concerned with Recommendation direction 2.1. We think that expanding and adapting the employer-nominated migration scheme alone is an overly narrow, short-term approach. It places a reliance on temporary migration pathways to fill skills shortages rather than promoting permanent pathways. We find that easily accessible pathways to permanent migration are fundamental to attracting skilled migrants to Australia in a very competitive global environment.