

Speech

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Big and Small: The Yin and Yang of Business: Speech to the NAB National Small Business Summit

Introduction

Thank you Robert.

My sincere thanks also to Peter Strong and all the team at COSBOA for inviting me to be part of this year's summit.

I'd like to acknowledge the sponsors, the National Australia Bank, and also my fellow speaker this morning, Steven Münchenberg from the Australian Bankers' Association.

Most of all, I want to acknowledge all the small business people in the room today.

I admire what you do. You are the backbone of enterprise and entrepreneurship and so often you represent the very fabric of our local communities.

I know from personal experience how tough it is. And how rewarding it can be when you get it right.

And I've been very much looking forward to being here among you, and taking up Peter's offer to brief you on the economic action plan the Business Council of Australia will be releasing for discussion in a few days' time.

I want to cover three things today that go to the overarching theme Steven and I have been given for this session:

The theme is: 'Big and Small: The Yin and Yang of Business'.

First, I want to say something about our joint role in the Australian economy and the deep dependencies between us.

Second, I want to explore how our sectors are having to adapt and change in the context of massive change in our economy and around the globe.

And finally, I want to look at what it all means for Australia's national prosperity in the future. And to give you a sense of the business environment we're looking to promote through our economic action plan.

The kind of environment that would help your members and our members make the most of opportunities on our doorstep. And help us cope with the challenges unfolding before our eyes.

Not out of self interest. But because it's businesses and enterprise that drive economic growth and wealth creation.

And because Australians, including business, have become complacent about the importance of economic growth to living standards and broad community prosperity.

If we want to get politicians back on the right policy track, we need the Australian public to understand that continued economic growth is the only way to achieve our shared aspirations for the country.

But this growth needs to be better managed, with all Australians reaping the benefits, particularly those people who keep missing out.

We need to work harder at giving the community a greater sense of vision and purpose about what Australia can be in the future. A greater sense of the reward and recognition for effort, for risk taking, for initiative and for collaboration.

Our yin–yang relationship

So first to the yin and yang relationship between small and big business.

I don't know who came up with the title but it's clever. And it's apt.

The black and white symbol that depicts the idea of yin and yang is all about the interaction of two energies that causes things to happen. Two energies that cannot exist without each other.

Yes, there are differences and tensions that arise between businesses of different sizes – it's a feature of competition. And there's no point in us pretending that doesn't happen.

But to be successful, all businesses need to generate wealth, and staying competitive is simply vital to that.

The best way to manage the tensions that arise between us is to remind ourselves that we are one business community with many dimensions.

We can't afford to have people creating artificial divisions between us.

Because whether we are small, medium or large, we share a common purpose and our mutual success underpins Australia's economic strength and community prosperity.

Together we directly employ around 10½ million Australians.

We pay more than \$470 billion dollars a year in wages and salaries.

And our annual contribution in company tax and royalties amounts to more than \$70 billion – close to the entire national education spend.

We should never forget that the large companies I represent through the BCA are not an expression of their boards of directors.

They're an expression of the millions of people who work in them. The thousands of people who invest in them directly and through their superannuation. Many of those are small business people.

The most recent survey of Australian share ownership by the Australian Securities Exchange found that 38 per cent of Australia's adult population invests in the Australian share market, either directly or indirectly. And the survey doesn't pick up all the people who invest in our companies through their superannuation funds.

Over the last decade, the business community as a whole has contributed to Australia's GDP wealth by growing side by side in almost parallel trajectories.

This isn't surprising because such a significant proportion of the income generated by small and large businesses comes from our interactions with each other.

As suppliers and customers, we generate around \$550 billion of income each year through the transactions that take place between us.

These interactions are so ingrained in the Australian economy, they are often overlooked.

But our relationship through supply chain – that is every organisation involved in moving a good or service from supplier to customer – and the value chain – that is the chain that links every step a business goes through in delivering a good or service to the market – is far more sophisticated than the dollars we exchange.

In brutal terms, it means that when Ford announced the closure of its plant in Geelong, the direct loss of 1,200 jobs was only the tip of the iceberg.

Thousands of other jobs – many of them in small businesses – are affected.

The Ford example also provides stark evidence of how much is changing in the global and domestic economies in which Australia operates.

It is an uncomfortable reminder of what happens when we are too slow to fix our competitiveness problems, too slow to make our industries globally and regionally relevant and too slow to foster an environment that fosters innovation.

It's easy to describe our interdependence in economic language and figures, and that's important for us to be able to do to demonstrate our joint importance to policymakers.

But it's also important to recognise and appreciate it from a commonsense perspective.

There's the myriad of direct relationships ...

I'm sure Steven can describe the supply chain whereby a bank like Westpac, for example, works with some 10,000 suppliers – some large, but many of them are small, locally operated businesses.

Another of our members, BHP Billiton, used local suppliers to the tune of some \$14 billion dollars last year alone.

And alongside those direct economic relationships, there's the intangible relationships that are the flow-through effects of our mutual growth and success.

The coffee shops and dry cleaners that set up in corporate offices.

The newsagents and pharmacies that move in alongside larger businesses in all the new business parks.

The simple reality is we cannot thrive without each other.

Conversely, when we fail, you fail. When you fail, we fail.

If we get the settings right, we should all thrive together.

And that's why it's so important for us to work together to understand and respond to changing circumstances that connect our destinies.

How our sectors are changing

Once upon a time, our common focus was the supply base and producers. Today, we're focused squarely on the customer base and consumers.

This change and what it means for our sectors generates tensions but we have to work through it together because all of us who sit along the new, evolving value chain need to respond in ways that lift our own, and Australia's, productivity and competitiveness.

We need to work together to reach a common goal – giving consumers what they want and, where possible, lowering costs and environmental impacts along the way.

Once upon a time the value chain was quite linear: from wheat, to flour, to biscuit.

In today's economy, value adding – where a company takes a product and changes it so its value increases – happens much earlier.

Although the data doesn't yet quantify it, there's little doubt that the innovation is happening more energetically among small and medium-sized businesses, with big business often reaping the benefits.

Technology and digitisation are breaking down the barriers to entry. I can sit at home in my PJs with a laptop and create a business.

Smaller businesses are not hamstrung by bureaucracy in the way many large corporations are. You're more nimble and more personally invested in getting a result.

You should be better able to negotiate the Asian interface, and not necessarily off the back of a large corporation, because you can shift your operational focus more readily.

Once upon a time most big companies were formed out of government conglomerates or small businesses that grew.

Now, it seems to me that we're seeing something else emerge that could end up very different from today's corporate structures.

Whilst we share many of the same opportunities, we share many common challenges.

Our problems in the large corporate sector of regulation and red tape are on steroids for small business. Let me point to some obvious examples.

The idea that I have to get full merit-based planning permission to put a shop in a commercial area or a small factory in an industrial zone is just time wasting and inefficient.

The complexity of our tax system, which is a huge cost impost to big business, is utterly crippling for you. And I know, and you know, that you don't have the resources big businesses do to hire the best accounting firms to manage your tax problems.

The complexities of different workers' compensation, insurance and licensing arrangements can be a real deterrent to people setting up a small business.

Again, a real deterrent for small businesses thinking of expanding and hiring more people. And a real obstacle in helping you to meet the needs of your customers.

We often refer to ourselves as the canary in the coalmine in experiencing what happens when consumer and business confidence declines.

But in our world generally, it means our profits go down. In your world, it means businesses shutting up shop, with the enormous human cost and disappointment that goes with that.

A family's vision and dream turned to dust.

What's certainly the case is that economic change is going to seal the bond between businesses of all sizes.

It requires us to talk as we are today, and as COSBOA and the BCA are doing on an ever more regular basis, about:

- our complementary roles and strengths in a changing economy
- the environment we all need to compete and prosper
- how we add to the modern value chain, as best we can, without hurting each other.

By never losing sight of our shared responsibility in protecting the fabric of the communities in which we operate.

That recognition is what builds trust, loyalty, respect for history and a vision of what's possible for the future.

Ultimately, what we have to nurture are the relationships between people.

At the end of the day, they are what binds us, and allow us to find and follow a mutually agreeable pathway forward.

And that brings me to the Business Council of Australia's economic action plan and what we're trying to do in the interests of all businesses.

Economic action plan

Overview

Firstly, let me say among friends that the plan we'll be releasing in discussion paper format next week comes unashamedly from a business perspective.

We recognise and respect there are different perspectives from ours.

But we are businesspeople and our plan is grounded in pretty orthodox economics.

Fundamentally, it's a plan for creating the right environment to drive investment and growth in a small economy like ours, trying to succeed in a vastly more competitive world.

Trying to lock in prosperity in the form of good jobs, good wages, good services and a decent social safety net.

We need to align sound economic policy with sound social policy. These two streams are not mutually exclusive. They are mutually dependent if we are to secure meaningful prosperity that benefits the nation and all Australians.

Some of what we're proposing with the plan is pretty basic stuff. But the fact is that it's not being done.

The Business Council took up this challenge for three reasons:

Firstly, our CEO members want a coherent narrative that brings together all facets of our policy agenda.

Secondly, we feel we've taken our eye off the ball as a nation on the next wave of structural reform and have taken the wrong direction in too many areas.

The third reason we're doing this goes to responsibility and leadership.

Our members feel (as do many people in the community), that we need some leadership on the next wave of reform.

But because it's much more difficult – much more heavily contested – we hear precious little about the 'how'.

This is critical if we want to get things done and it's what we are taking on with our action plan.

We hope to make it more difficult for political parties and others to get away with talking to the community about challenges, opportunities and even their national visions, without coming clean about the choices Australia needs to make.

I don't have time to give you the detail of the plan today but I certainly hope you'll all take an interest when we release the discussion paper on 31 July.

I can tell you that it aligns with 'The BIG 4 You Can't Ignore' issues for small business identified by the Australian Chamber of Commerce and Industry on Friday, backed by 45,000 small business signatures:

- cutting red tape
- simplifying the tax system
- making it easier to employ people
- building better infrastructure.

So let me take a few more minutes to give you a sense of what we're proposing.

Vision and goals

Our overarching vision is enduring prosperity for all Australians.

We see that encompassing three, interconnected sets of goals that recognise the fundamental link between economic growth, social policy and resource efficiency.

The broad goals are:

- a strong economy and full employment
- a strong society and improving living standards
- growing sustainably.

Under each of them, the plan identifies specific aspirations and measures. Things like:

- Australia being ranked in the top five countries in the world for real GDP per capita – in 2011, we were ranked 13th
- being in the top five countries for the ease of doing business, as measured by the World Bank's Ease of Doing Business Index – currently we are ranked 10th.

Nine things

It doesn't take long for us to get to the action part of our action plan.

The all-important 'what' and 'how' of structural reform.

To chart the course, to take account of the external environment, to accept that we are a small economy and need to do things differently, we say that Australia needs to get its act together across nine interrelated areas.

These areas form the blueprint for our action plan and they cover:

- tax and fiscal policy, and the federation
- planning for population and cities
- providing infrastructure
- realising the potential of people and workplaces
- rethinking regulation
- embracing global engagement
- a strong, stable and competitive financial system
- a coherent approach to energy policy
- getting the right environment to maximise innovation.

And because it's unrealistic to think you do everything at once, we've come up with three phases for action:

Phase One, over the first 1 to 3 years, is all about building trust and confidence.

Phase Two, over 3 to 6 years, is geared to consolidating and growing the economy.

And Phase Three, over 6 to 10 years, will see Australia realising its full economic potential and reaping the benefits.

The things we are saying Australia needs to get on with immediately in Phase One set the benchmark for what we're expecting of both the main political parties:

Actions that:

- repair our budget position
- start to make our tax system more efficient and competitive
- remove the worst regulation
- address the most problematic parts of the Fair Work Act.

Conclusion

We don't pretend that what we're proposing in our plan is easy. But it's easier than challenges Australia has faced in the past.

Nor do we imagine that everyone is going to agree with everything we suggest – particularly when we get to the specifics of the 'how'.

But what we've been finding over the last few months as we've canvassed our ideas with all sorts of people across different sectors of the community is that generally people welcome the fact that we're having a crack at something difficult and important.

When it comes to our small business colleagues, I believe there will be common ground on the vast majority of what we're suggesting.

My call to action today is for us to agree to work together on these things.

Let's push for rolling Productivity Commission audits of the cumulative burden of regulation on key sectors of the economy and make sure small business is included in this.

Let's ask Commonwealth and state governments to tailor their measurement of the impact of regulation to specifically analyse the impact on small business and the full effect on the business community.

Let's work together to advocate for a workplace relations system that promotes competition and productivity in the small business community.

Most importantly, I'd like us to come back to our main theme this morning.

We are not three business communities.

Our identity isn't defined by which business organisation we belong to.

We are part of a wider business community that is utterly central to the wellbeing and prosperity of every single Australian. So let's speak with one voice.

If the BCA achieves one thing with our action plan, my hope is that it will be to promote a greater appreciation of the essential role that business plays in creating jobs, in creating communities, and in creating the wealth that underpins a decent society.

Thank you.

For further information contact:

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The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole.

Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.