

## Can We Create the Next Generation of Large Businesses in Australia?

*"In addition to access to finance - a traditional concern of small firms - the statistics show that a key obstacle is lack of suitably qualified personnel, both scientific and managerial. Whilst government policies have long grappled with the finance issue, and some effective approaches are emerging, the need to upgrade skills in SMEs and to furnish potential entrepreneurs with skills for successfully setting up ventures is only now becoming clear." (OECD, 2010)*

A recent OECD report on SMEs, Entrepreneurship and Innovation<sup>1</sup> ranked Australia close to the bottom of the OECD with regard to the distribution of companies by size<sup>2</sup>. Australia was ranked with Greece, Mexico, Italy and Turkey and nowhere near other OECD countries, such as UK, USA, Canada, Japan and Germany, with whom we feel we should be being compared.

There are three key implications that come from this study:

1. Australia has too many micro businesses, and not enough small and medium-sized businesses when compared to our large companies;
2. Businesses are not able to grow from micro to small, small to medium and medium to large at the rate that should occur for long-term economic benefit; and
3. Without the mining boom, and the agriculture boom that preceded it, Australia could well be in the same situation in which Greece, Italy and Portugal find themselves today.

A key policy finding from the report, showed that people skills and capabilities, were far more of a root-cause of problems for innovative businesses than the long-time perceived difficulties of investment and funding. It shows that the so-called "funding gap" is most likely to be a symptom of the underlying capabilities issues, rather than an issue in its own right.

As an entrepreneur who turned to venture capital investing in the 1990s, I can attest to the issues of capabilities. In reviewing over 2,000 business plans during an eight year period, not one of those plans was considered investable. Of the opportunities that we saw, we rewrote the business plans for the sixteen investments that we made.

But the underlying issue with these business plans lay in the poor business capabilities of the technologists and their inability to convert an innovative idea into a sound business model.

Furthermore, those business plans, where people with extensive corporate experience had also been

Blame always seems to be applied to the technologists who don't have good business skills, but this dual problem of technologists with poor business skills and business people with poor small business and high growth skills is not well understood. Both issues need simultaneous attention.

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<sup>1</sup> SMEs, Entrepreneurship and Innovation, OECD, 2010

<sup>2</sup> See charts at the end of this document

involved, lacked an understanding of the special steps needed for early-stage high growth companies.

Today, over a decade later, we still see exactly the same issues:

- A. Scientists and technologists do not have the business skills to develop good strategies to convert new ideas to market successes;
  - But high value growth will only come from innovations in science and technology;
- B. People with corporate experience, generally do not understand enough about early stage and/or high growth technology-based businesses to be helpful either during the planning or the execution stages of such an enterprise.
- C. Government and large business do not purchase innovative new products from early stage companies so their initial Australian market is too small;
- D. The banking and investment community finds it difficult to invest in early stage and high-growth businesses, citing poor management skills and the banks' lack of understanding of the risk profile as reasons for not providing necessary capital; and
- E. Many Australian businesses with the potential for high growth are forced to move overseas at a very early stage of their growth cycle.

There are only a very few examples of initiatives, albeit small, (e.g. ATP-Innovations) where some of these issues are being beneficially addressed.

The portfolio of around 50 companies that obtain focussed and high quality strategic help from ATP-Innovations have no problems<sup>3</sup> in raising capital, obtaining customers and achieving successful outcomes. ATP-Innovations coaches and mentors the founders, helps ensure that they find the right executives at each stage of their growth and plays a very big role in helping them plan tactically and strategically for the growth path that is ahead of them.

Returns on investment to both Government and private investors in early stage commercialisation and venture creation in Australia over the past 25 years have been extremely poor. From my perspective as an entrepreneur, investor and mentor over 35 years, nothing has fundamentally changed in the Australian business landscape that gives me any confidence that Australia will remain a strong economy once the current mining boom has passed.

Imagine what the Australian business landscape might look like if:

- Our scientists and technologists learned business capabilities from Year 10 and throughout their undergraduate training;

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<sup>3</sup> In 5 years the ATP-Innovations portfolio of companies have raised over \$80million, achieved an average of \$48million in annual revenue, have a success rate in seeking Government grants of >95% and a success rate in seeking external investment of >90%. ATP-Innovations' achievements were recently acknowledged with the international award for "World's Best Incubator, 2014"

- Our larger company executives were able to be trained in the skills required to become an executive in a high growth enterprise;
- Government and large corporations had policies in place, and people to execute them, that encouraged purchasing from small and medium companies that had the capabilities to grow to become key components of their supply chains;
- We could properly identify the very small percentage (but significant number) of micro, small and medium businesses that have the potential for successful high growth;
- Retail banks could identify those companies within their customer base that could become much larger customers, so that these banks could develop banking and investment products suitable to their needs and actual risk profile;
- Returns on investment from these high growth enterprises were able to attract significant investment from Australia's Superannuation industry;
- We were able to understand what works in Australia for Australian high growth enterprises by both immediate and longitudinal research programs aimed at assessing what works, what doesn't work - and why;
- Young Australian entrepreneurs did not have the need to move overseas too early in their growth cycle and could see Australia and its near neighbours as a significant, high-demand market, creating high value employment and GDP contribution within Australia; and
- There was ongoing committed research activities focussed on all of these key points across all industries.

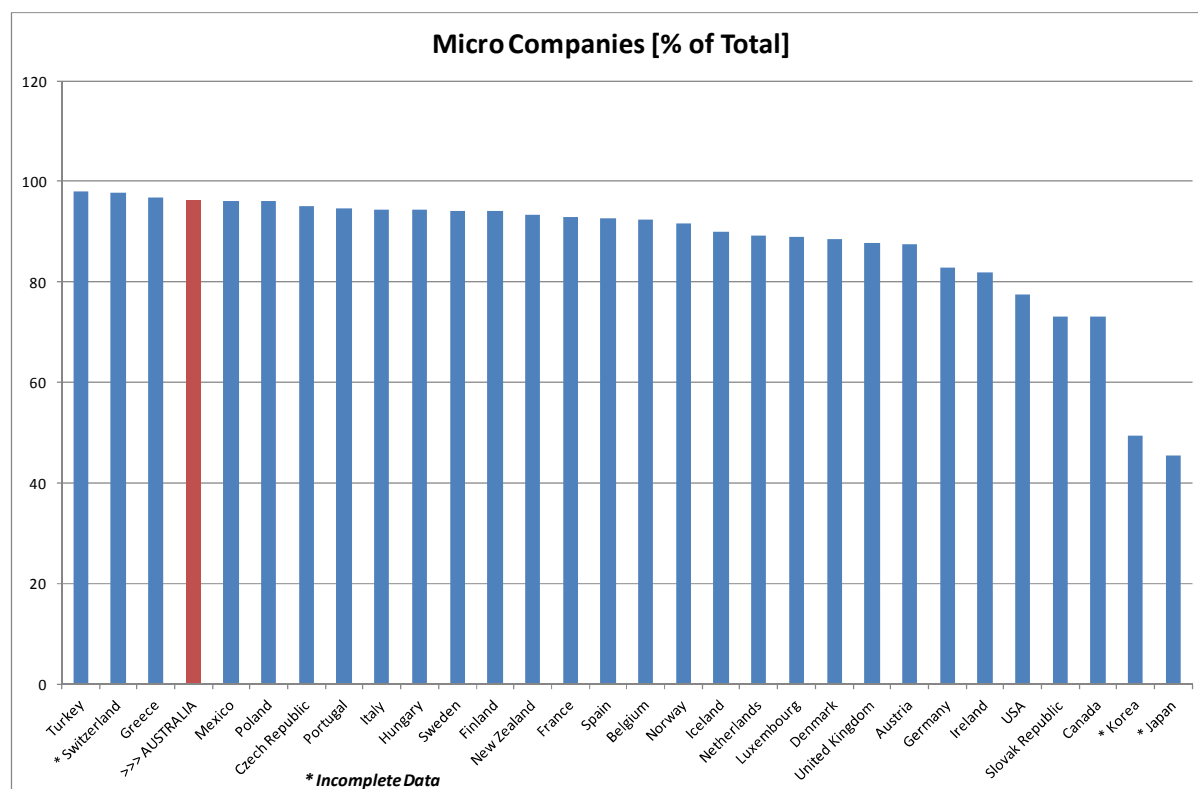
This should not continue to be a dream of a few. It should be a reality.

It only needs the will, the wherewithal and good visionary policy, and Australia can move to its rightful position among its OECD competitors and trading partners.

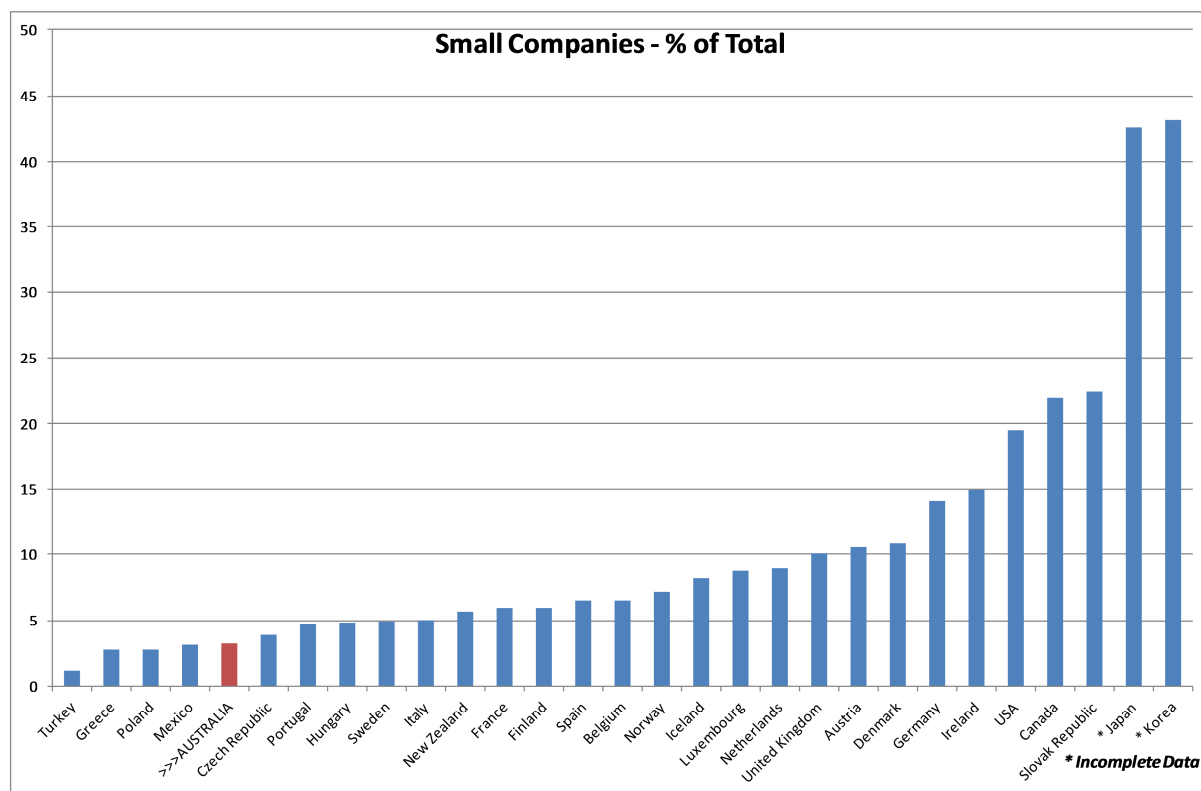
Dr Barry Westlake  
Advance Australia Award, 1985

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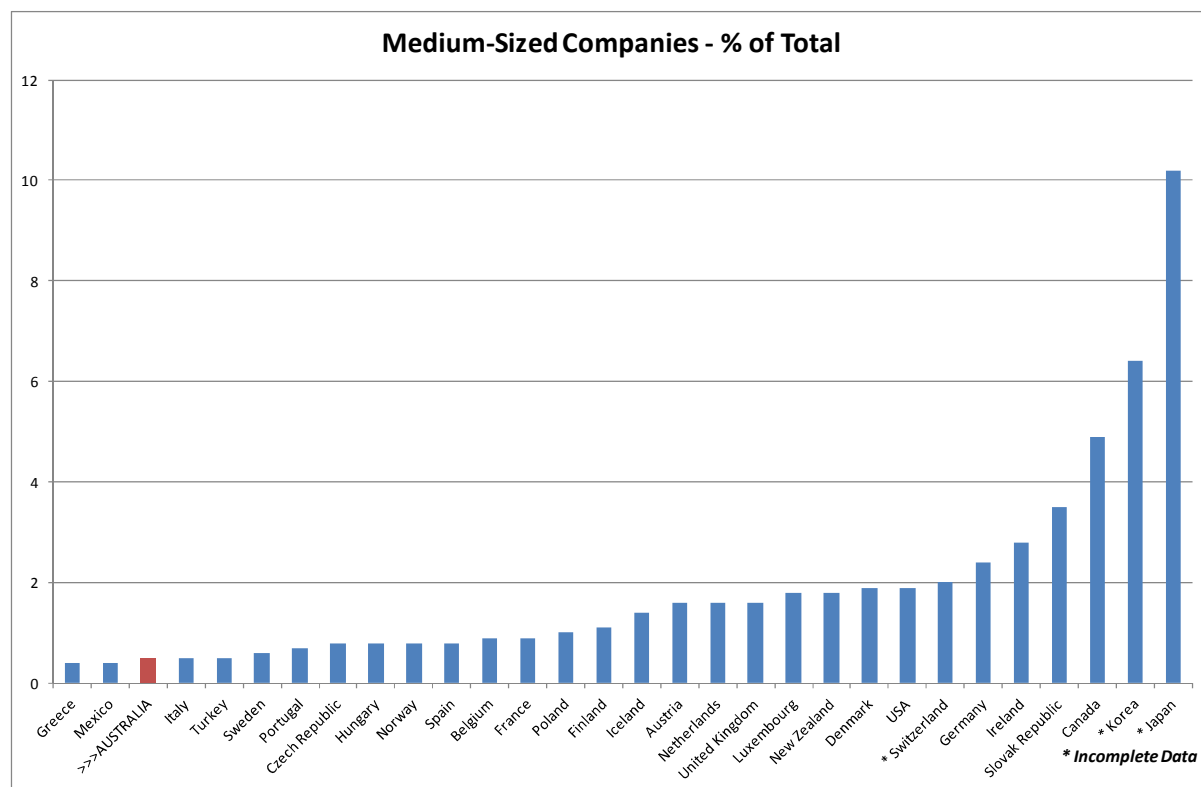
*The charts on the following pages, derived from the previously cited OECD report, highlight a fundamental weakness in the Australian business infrastructure that needs to be understood and corrected.*



Source of data: SMEs, Entrepreneurship and Innovation, OECD, 2010



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