

POLICY BRIEF #3

Australian SME Innovation



Over the past decade, the Australian Government has articulated its strong commitment to developing an internationally competitive and productive environment for SMEs. Data from ABS (2015) show that small businesses account for nearly half of the employment in the private non-financial sector and over one-third of production. Between 2016 and 2017, SMEs comprised most of Australian business counts (97.5%) (ABS, 2018). On 21 May 2008, the Australian Government launched a \$250 million 'Enterprise Connect' (EC) network with the aim of providing advisory services tailored to the needs of Australian SMEs. It was instigated as a network of 10 centres located throughout Australia with over 100 advisors designed to assist businesses succeed and help create high wage, high skilled jobs for Australian SMEs. The principal objective of the EC program is to render Australian SMEs

more innovative by providing them with better and more effective access to new ideas, knowledge and technologies to increase their efficiency and productivity across the Australian industry (Department of Industry, Innovation and Science, 2019).

SMEs play a vital role on Australia's economy (Soriano et al. 2018, p.40). Not only do they underpin growth and innovation but more importantly, they provide jobs for millions of Australians. Innovation in SMEs is central to inclusive growth strategies (Acs & Audretsch, 1990). It plays an essential role in improving business, social and environmental outcomes. Innovation is the process of devising better products, services, processes and business models and then subsequently, commercialising those ideas by building new businesses around

them (Palangkaraya, 2013). Enterprises that focus on measuring their level of productivity and instigating process-based innovation, are more likely to export offshore; this, for example, has been the case for the South Australian wine exporter cluster (Ibid, 2013).

If SMEs have a greater innovative capacity, this counterbalances their vulnerability associated with their small size and young age within an increasingly knowledge-based globalised business environment (Hoffman et al., 1998). Likewise, when provided with the 'know-how' and resources to innovate, SMEs become more productive, they offer improved working conditions for their workers, which subsequently, reduces inequalities (OECD, 2017). The ability of SMEs to develop new products and innovate are at the core of value creation and therefore, innovation remains essential to the expansion and international competitiveness of Australia's economy (Hurmelinna-Laukkanen et al. 2008).

Innovation statistics in selected growth sectors in Australia show that solely 32.7 per cent of all businesses in food and agribusiness were involved in an innovative activity between 2013 and 2014, of which 28.2 per cent successfully introduced and implemented innovation (ABS, 2015). Moreover, the innovation rate for SMEs in Australia who employ 5-19 people was 59.9 per cent during this time (Ibid, 2015). Recent transformations in markets and technologies

have offered new opportunities for SMEs to innovate and grow (OECD, 2017).

The Australian Government has an important role to play in fostering innovation in established SMEs by providing a business environment that is conducive to growth and supporting the development and implementation of strategic assets and resources at the firm level. The following developments have been identified as pertinent to the promotion of innovative SMEs:

- Upgrade workforce skills in SMEs;
- Assist SMEs in effectively adopting appropriate ICT and adopting themselves to the digital revolution, including cloud computing and data analytics;
- Guarantee that the Research and Development (R & D) policy is inclusive of SMEs;
- Fostering Intellectual Property (IP) use among SMEs;
- Devising an operative and inclusive national innovative system (OECD, 2018).

Despite the potential of innovative SMEs in the international markets, the Australian Treasury's recent financial inquiry found that 'new' SMEs are struggling to access bank loans as banks' business models and expertise are better adapted to providing debt finance to established firms, with venture capital being more suited to start-up firms in emerging industries (Alinejab et al., 2015). Much of the time, the business concepts and technologies of innovative start-ups, which

are not yet generating revenue, are perceived by financial institutions as unviable investments (Ibid, 2015). Moreover, most young Australian SMEs do not seek external finance and instead, draw on personal savings, personal cards, family and friends and personally secured bank loans. It is important to note that large firms are twice as likely to be seeking external finance than SMEs (Ibid, p.8). In 2012-13, approximately 152,000 large firms and 1,300 SMEs sought external finance (Ibid, p.9).

Since 2013, the number of small business employees has increased by 197, 000 or 4.3%. On May 2017, the Australian Government announced a \$100 million Advanced Manufacturing Fund. The Fund had for objective to boost innovation, skills and employment in advancing manufacturing. The Innovation Labs assisted SMEs in South Australia and Victoria build their capabilities through access to a range of high quality advanced manufacturing services (Department of Industry, Science, Energy and Resources, 2018).

By the end of June 2017, approximately 4.8 million people worked for small businesses, which was an increase of 66,000 or 1.34% in comparison with the previous year (Parliament of Australia, 2019). However, the small business share of total employment in selected industries has fallen from 46% by the end of June 2009 to 44% at the end of June 2017. According to the Parliament of Australia (2019), this is

predominantly due to a stronger growth in the number of employees working for medium and large-sized businesses rather than small businesses.

By 2019, in response to the clear impediments faced by SMEs to innovate, the Australian Government redesigned its industrial policy and created six so-called 'Growth Centres' which correspond to the national areas of smart specialisation. The areas within the Growth Centres include: advancing manufacturing; cyber security; food and agribusinesses; medical technologies and pharmaceutical; mining equipment; technology and services; oil, gas and energy resources. At a national level, the Growth Centres aim to stimulate the SMEs within their respective sectors through cluster-like activities (European Cluster Collaboration Platform, 2019). Recently, the Australian Department of Industry Innovation and Science triggered the export policy of Australian SMEs by providing them with grants of up to \$150,000 to reach to new markets, including Europe (Ibid, 2019).

The Federal Parliament's Joint Committee on Foreign Affairs, Defence and Trade published a report following an inquiry into access to FTAs by SMEs. Some of the key recommendations noted in Parliament is that FTA need to be rendered more user-friendly for Australian SMEs, which could be done by establishing a so-called centralised 'single trade window' of resources. Moreover, the report urges the Australian

Government to continue including specific SME chapters in trade agreements as well as introducing a focus on e-commerce in future FTAs. It recommends strengthening support for a robust system of Certificates of Origin that are accepted globally (Parliament of Australia, 2019).

Recently, there has been a significant decline (approx. 20%) in the number of businesses reporting engaging in innovative activities. A lack of resources has been central in understanding the difficulty SMEs are having in adopting innovative measures. Large businesses generally have greater resources to spend on innovative processes such as research and development. 62.8% of large businesses are taking part in innovative activity in comparison with small businesses whereby 50% are involved in such activities. According to a document 'Small Business and Family Enterprise Ombudsman' (2019, p.28), there has been a significant decline in innovation in small firms from 62.8% in 2016 to 80% in 2014.

Despite the financial impediments Australian SMEs are currently facing, 95% of SMEs are currently internet connected, with 88% utilising broadband services. There is an increase in the number of SMEs connecting through the NBN as well, from 15% in 2017, to 36% in 2018. Unwillingness continues, however, for micro and small businesses to maximise the potential of the

digital economy (Australian Small Business and Family Enterprise Ombudsman 2019, p.36).

IMPLICATIONS AND RECOMMENDATIONS

The current Covid-19 pandemic has revived public discourse on the importance of SME innovation not only for the growth of businesses, but more importantly, for the benefits it provides them in terms of rendering enterprises relevant, profitable and responsive to the constantly evolving social and economic circumstances. The Australian Government has articulated its commitment to developing internationally competitive environments for SMEs that have been highlighted by several key initiatives, including the Enterprise Connect network and the 'Growth Centres'. However, some SMEs continue to struggle to internationalise and innovate their businesses.

The Covid-19 pandemic has reinforced the need for businesses to embrace an agile business model that focuses on business continuity while simultaneously, adopting an operational innovation approach to its operating systems so that SMEs are more resilient and responsive to an increasingly unpredictable global economic environment. If SMEs are to remain relevant and competitive in the international market, possessing digitally literacy is an essential quality, as it will significantly help them gain a competitive edge in the global environment.

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