

Australia's Productivity Performance

Call for Submissions

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**AUSTRALIA'S PRODUCTIVITY PERFORMANCE - CALL FOR SUBMISSIONS
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1. INTRODUCTION

Business Excellence Australia (BEA) thanks the Productivity Commission (the Commission) for the opportunity to contribute to a review of Australia's Productivity Performance which is of vital importance to Australia's living standards, economic wellbeing, and national interest. BEA shares a strong focus on productivity improvement and what might drive success with the Government and the Commission.

This submission promotes that the key to increased productivity lies in the ability of organisations to operate efficiently leading to greater productivity. Organisations that integrate and align all aspects of their procedures and processes improve capability and increase productivity.

1.1 CONTEXT

As noted in the Commission's Call for Submissions document, Australia's productivity growth has fallen behind other comparable economies with the resultant impact on Australians' living standards for the reasons it outlines. In addition to the ways the Commission identifies how productivity benefits living standards, higher productivity can release capital and resources from inefficient activities to activities of either greater scale or of innovative and higher value.

The Commission rightly identifies several factors which likely point to this disparity between Australia's productivity performance and other comparable economies, namely:

- an openness and access to leading technologies, business innovation, and data use
- the skills, capability, and culture to take up new technology and data
- a workforce and businesses that explore innovate and adapt
- markets that facilitate resources (labour and capital) moving in a timely way to higher value uses; and
- institutions (public and private) and regulatory frameworks that support these features and are efficient and effective in their contribution to improving Australians' wellbeing.

BEA agrees with these factors and sees opportunities for productivity improvement in broadly two areas.

The first is in the purview of Government around public policy and support which can benefit all organisations and their activities. These would include, amongst others:

- investing in cost/benefit infrastructure
education and skills training
- fostering support for entrepreneurial risk-taking
- regulatory reform, red-tape reduction, and simplification
- taxation reform
- labour market reform
- promoting better business performance and excellence at the organisation level.

The second relates to assisting all organisations (large, medium, small (SME), for-profit, not-for-profit, public/government agencies, and departments) to achieve higher productivity by striving for excellence. This would cover such areas of organisational activity as production processes, people and culture, strategy, leadership and innovation to name a few.

BEA strongly believes that focusing on the public policy aspect without commensurate focus on the organisational excellence aspect would diminish and devalue Australia's efforts to boost productivity to its optimal level. *BEA can be the catalyst to support organisational change leading to excellence.*

1.2 ABOUT BEA

BEA is dedicated to promoting excellence and sustainable improvement. BEA is a not-for-profit organisation that focuses on the development and recognition of organisations and individuals in the pursuit of excellence. BEA supports all kinds of businesses, government, and the community services sector to embed proven international excellence concepts into their organisations. This strengthens business performance (see **Appendix**) through employee engagement, customer satisfaction, sustained continuous improvement, and productivity improvement increasing innovation, output, profits, and growth.

BEA was registered in September 2013. Our vision is to be recognised as making a substantial contribution to Australia's productivity improvement and competitiveness through the promotion and recognition of organisational excellence. To achieve this, we:

- manage the Australian Business Excellence Awards as the premier organisational Award program in Australia
- maintain the Australian Business Excellence Framework as one of the leading global Excellence Models as recognised by the Global Excellence Council (GEM)
- use the Australian Business Excellence Framework and other globally recognised Excellence Models and evaluation processes to determine Award winners
- promote knowledge-sharing and best practice to improve organisational productivity,
- provide a vehicle to bring together many of the like-thinking organisations and approaches to gain leverage for the common goal of accelerating Australia's rate of productivity growth
- provide a forum for continued research and development to ensure that organisational excellence, productivity, and associated concepts answer current and emerging economic challenges.

Currently run by a team of professionals who have experience in organisational excellence and is supported by industry contributions and membership. BEA is re-establishing the peak body status previously held by the Australian Quality Council from 1994-2002. Initial priorities are promoting and hosting the Australian Business Excellence Awards and enhancing education for organisational leaders through existing channels. The Australian Awards and Framework are recognised internationally through BEA's membership of the exclusive Global Excellence Model Council (GEM Council).

2. THIS SUBMISSION

Australia's productivity performance over the last few decades has been helped by both governmental macro and micro reforms. These include financial deregulation, consumer and competition reforms, labour market deregulation, taxation reforms, investments in productivity-enhancing infrastructure and trade, and anti-protection policy initiatives. However, further initiatives in these and other areas have dissipated over recent years leading in part to the productivity deficit we see with other comparable economies.

Governments can act to remedy this by reigniting further reforms to boost productivity, but as intimated above, organisations can take stronger ownership of the productivity challenge. For organisations, especially in the SME sector, we see problems primarily in the areas of a lack of skills, knowledge, and funding (particularly risk capital) which holds back productivity improvements.

Another key aspect of productivity relates to the dynamism of organisations to improve their performance. A productive organisation must constantly seek efficiencies in existing operations and processes, reviewing the suite of products and services offered, and developing innovative and new products and services. To improve living standards, the ultimate beneficiary of productivity improvements, organisations need to focus on doing the existing better; being agile in their thinking and innovating for sustainability.

Australia has a strong history of creating innovation. However, Australia's record in translating innovation into profitable business enterprises is much less impressive. Whilst there are some excellent examples, Cochlear, ResMed, Computershare, Bishop Steering Technologies, a high percentage of Australian inventions languish unless picked up by foreign companies that have access to venture capital and the management expertise necessary to recognise translate invention into production. In recent times we have seen Australian innovations in solar cells, CCD photography technology, Wi-Fi, and, even earlier, the aviation Black Box, all generating significant national wealth – for other countries.

One of Australia's key challenges is a lack of organisational capability to take on new opportunities. As international competitive pressure has increased significantly over the last 20 years, the typical Australian response has been to work harder and longer with an increased focus on the immediate challenges of daily operations. Managers, CEOs, and business owners whose attention is absorbed by these needs have little capacity to explore new innovative directions. As a result, organisational structures evolve to deliver more with existing resources rather than create new product and service delivery paradigms.

Yet there is ample evidence that those businesses that understand and apply the established principles of high-performing organisations can do both. Their superior leadership capability enables them to manage their established business activities with efficiency (productivity) and robust predictability, creating the capacity to explore innovative ventures and market opportunities.

One of the proven ways of stimulating better leadership capability across industry is to actively promote understanding and refinement of excellent leadership and management

practices through a peak body and a high-profile awards process. Globally these practices are clearly defined in national excellence models. This submission identifies a proven strategy for improving organisational capability through a focus on productivity and innovation.

BEA believes that the challenges identified in this submission can be addressed by applying the tools and education described above. BEA could provide this more effectively to organisations with the appropriate support of Government. More detail on how this would work is described below,

3. ORGANISATIONAL EXCELLENCE PRODUCES INNOVATION

In the most innovative countries in the world, Governments actively encourage business and Government to use excellence models to develop organisational efficiency and enhance the ability to be more productive and innovative. In the USA, for example, the Presidential Award for excellence, the Malcolm Baldrige Award, is presented by a senior politician at a special function that recognises the successful implementation of organisational excellence concepts. Other examples exist including the Japanese Quality Award and the Deming Prize, and the European Foundation for Quality Management (EFQM) Global Award.

Excellence models guide organisations to continuously improve performance and deliver improved outcomes to their diverse stakeholders. Organisations that use the guidance of an Excellence Model develop the agility and organisational capability required to innovate and adapt to changing market environments constantly. Organisational Excellence is recognised as an essential basis for innovation.

BEA maintains The Australian Business Excellence Framework (ABEF) as Australia's National Excellence Model that aims to create an organisational environment that leads to sustainable performance. The ABEF has been built on tested and proven leadership and management principles.

The ABEF is a collection of now proven, immutable performance concepts for business – it is how an organisation can achieve its purpose. The ABEF provides an integrated leadership and management framework that adapts to individual circumstances, has proven relevance to all types and sizes of organisations, and can be used across all sectors.

The Nine Principles of Business Excellence incorporated in the ABEF, when understood and applied through the Categories and Items of the ABEF, can guide an organisation to improvement and sustainable performance, resulting in greater productivity and innovation.

3.1 WHY AWARDS?

To achieve an Excellence Award an organisation's performance is evaluated against an Excellence Model based on proven and internationally recognised criteria. These evaluations are carried out by specially trained and highly experienced teams from carefully selected government and private-sector evaluators. In addition, many evaluators play an integral role in their own organisations' achievement of award-winning excellence.

Some of the most valuable outcomes of the evaluations are the insights provided through the feedback report that goes to the applicant. It tells them where their strengths lie and where consideration could be given for improvement.

3.2 ABOUT THE AUSTRALIAN BUSINESS EXCELLENCE AWARDS

The Australian Business Excellence Awards (the Awards), which have a 25-year history, are now managed by BEA and recognise the achievements of outstanding Australian organisations that are effectively utilising business excellence principles. They demonstrate a commitment to sustainable performance, stakeholder value, quality and service, philanthropic ideals, ethical behaviour and environmental sustainability. All these factors add significantly to productivity improvement.

The Awards are bestowed to recognise organisations for demonstrated organisational excellence. The Awards involve the most rigorous evaluation process in Australia. The combination of the expertise of the Evaluators, the panel of review, the evaluation process and our leading-edge criteria make this a unique approach.

Recipients are expected to share information about their successful excellence strategies with other organisations. This sharing takes the form of participation in customer forums and the documentation of case studies.

3.3 A RICH HISTORY

The rich history of Business Excellence Awards in Australia dates to the introduction of the Australian Quality Awards in 1988. Over 1,000 Australian organisations have benefitted from being evaluated with over 400 being recognised at various Award levels.

Previous winners of the Awards were of all types and sizes and from a wide range of industries. Receiving recognition is a bonus, but the greatest value of entering the Awards is the comprehensive feedback report prepared by the volunteer excellence professionals who serve as Evaluators. Hundreds of applicant organisations have benefited from having strengths and opportunities for improvement identified against each Item in the ABEF.

The Awards have the most rigorous evaluation process in Australia and are considered among the most stringent in the world. The combination of the expertise of independent Evaluators and the Panel of Review – business and government leaders as well as international Excellence specialists – the evaluation process itself, and the use of leading-edge criteria make this a unique process.

At the 2017 Australian Awards event held in Perth, Finance Minister Mathias Cormann and Governor of Western Australia Kerry Sanderson were present to support the event. This high-level Government representation is essential for the credibility of the Awards and the speed of uptake of organisational excellence as a way of conducting business. In the 2021 Awards event, BEA was honoured to have David Thodey AO, one of Australia's most respected business and thought leaders, to present the Awards.

3.4 INTERNATIONAL RECOGNITION

BEA and the Awards are recognised internationally through the membership of the exclusive Global Excellence Model Council (GEM Council). It consists of organisations that are the guardians of premier Excellence Models and Award processes in their specific geographical region or trading block. These not-for-profit organisations provide mutual learning and sharing of good practices and initiatives and maintain direct access to the private and public sectors.

4. INDIRECT BENEFITS OF EXCELLENCE AND INNOVATION

Innovation in this context is not just about bringing new products to market. It is innovation in all aspects of managing an organisation that improves productivity, organisational performance and outcomes. Improvements in Australia's international competitiveness will produce more jobs in the future and help create local capacity for the commercialisation of innovation. BEA can assist organisations to:

- achieve more robust financial performance
- raise productivity and reduce operating costs
- create visionary and inspirational leadership
- drive innovation in products and services
- improve customer service and perception of value
- increase market penetration and revenue
- create effective business planned processes
- engage teams in the process of improvement and increase staff satisfaction
- improve their decision-making capabilities and increase their capacity to manage change.

There are strong connections between excellence, innovation, and both customer satisfaction and employee engagement which lead to other commercial and economic benefits, including:

- international competitiveness
- higher productivity
- reduced stress
- improved mental health
- lower absenteeism
- lower health care costs
- improved social cohesion.

It is clearly in Australia's economic interest for all organisations to adopt and promote the principles of organisational excellence as extensively as possible.

5. RECOMMENDATIONS

The recommendations in the following table identify areas where Government investment and support are urgently required to improve organisational capability by focusing on productivity and innovation. BEA welcomes the opportunity to consult with the Government on these recommendations:

Business Excellence Australia's Recommendations	
1	<p>Support for the continuation of BEA as the peak body to lead Australia's efforts in developing organisational excellence and capability to embrace innovation.</p> <ul style="list-style-type: none"> •Formally nominate BEA as the peak Australian body for organisational excellence. •Support the organisation to set up a structure that runs self-funding programs that enables it to educate, advocate, promote and recognise organisational excellence in Australia. •Provide initial financial support during the further establishment of the organisational structure that will enable a self-funding long-term business model.
2	<p>Support the Australian Business Excellence Award that establishes clear criteria for organisation excellence and recognises organisations for their achievements.</p> <ul style="list-style-type: none"> •Work collaboratively with industry groups and specialists to ensure the criteria for organisational excellence remains clear and relevant. •Provide ongoing financial support for the management of the Awards and the organisation of the Awards event as the premier organisational excellence Awards event in Australia. •Support the event through the annual attendance of the Prime Minister or suitable senior Cabinet Minister at the Awards Event.
3	<p>Encourage improvement, excellence and innovation within organisations.</p> <ul style="list-style-type: none"> •Provide financial support to organisations investing in developing their capability to innovate through funding structured improvement and excellence initiatives. •Support innovation seed projects within organisations where new concepts can be discovered, trialled and supported to ensure success.
4	<p>Support Research and Education in the area of Organisational Excellence.</p> <ul style="list-style-type: none"> •Provide additional incentives for Educational Institutions to invest in research and education programs into organisational excellence.

6. APPENDIX

BUSINESS EXCELLENCE AND ORGANISATIONAL PERFORMANCE

Extensive research carried out in Australia and overseas clearly demonstrates that significant business improvements and increased productivity will result from implementing business excellence through a model of excellence like the *Australian Business Excellence Framework*.

THE BUSINESS EXCELLENCE INDEX

SIRCA, a financial services research organisation, was commissioned to conduct a study of all Australian Stock Exchange (ASX) listed *Australian Business Excellence Award* winners. The research produced the Business Excellence Index, which compares the performance, over 16 years, of the ASX listed *Australian Business Excellence Award* winners against the ASX All Ordinaries Index.

A hypothetical investment in all listed *Australian Business Excellence Award* recipients generated a significantly higher return than that of the market benchmark - Standard and Poor's Accumulated Index. A portfolio of *Australian Business Excellence Award* recipients generated a 169 per cent return, outperforming the Standard and Poor's Accumulated Index benchmark of 113 per cent.

RESEARCH BY MASSEY UNIVERSITY, NEW ZEALAND

Research conducted by Massey University, New Zealand, supports SIRCA's results. A key component of the University's research was the benefits users derived from implementing the *ABEF*. In brief, 62 percent of respondents believed that their performance was significantly better since implementing the *ABEF*. All these organisations had been using the *ABEF* for between four and 12 years and it was evident that the benefits increase as the length of use increases. In fact, all the organisations that have used the *ABEF* for more than 10 years believe it benefits them significantly.

DIFFERENT MODELS OF EXCELLENCE

A Centre for Organisational Excellence Research report in September 2020 indicates that 73 countries are promoting business excellence based on a holistic BE framework and use similar assessment methods to internationally recognised frameworks such as the EFQM Excellence Model, the Baldrige and the *Australian Business Excellence Framework*.

SOME EXAMPLES OF EXCELLENCE

Singapore has shown dramatic improvements over the last 50 years to become one of the world's leading economies and societies, as indicated in international measures. You can't escape business excellence in Singapore as you experience it from cradle to grave with hospitals, housing developments, schools, businesses, law enforcement (including jury service) and funeral services being recognised as Singapore Quality Class organisations. These organisations understand and use business excellence models and principles and are continually searching for better practices.

The **Tata Group** (India based) comprises over 100 companies operating in seven business sectors, in over 80 countries, across six continents, with a workforce of over 425,000 and a combined revenue of \$106 billion US in 2020. The Tata Group has been using their Tata Business Excellence Model (TBEM) (based on Baldrige) for over 23 years. Each company is evaluated yearly against the TBEM.

MPWiK, a water utility in south-west Poland utilising the EFQM model to guide their management system, partnered with a software organisation to develop an innovative SmartFlow system for the reduction of water losses in the distribution network which has enabled MPWiK to reduce water losses by 1/3rd over three years.

International Education Services (IES) is a directorate of the South Australian Department for Education. IES adopted the ABEF to assist them in improving their operations to the extent that they have achieved numbers such as:

- increased the government schools' market share in South Australia from 39% to over 60% and has maintained this advantage for six years.
- enrolled the highest number of international students per capita in Australia.
- achieved record enrolment numbers despite a downturn in many markets during the period.
- continually increased the annual net return (profit) to the South Australian Government -it more than doubled between FY 2014/2015 and FY 2017/2018.

OTHER SNAPSHOTS OF SUCCESS

The following are extracts from organisational submissions for a business excellence award, from various countries that promote business excellence such as the Australian Business Excellence Awards.

Improved Revenue results:

- Nearly 7% per year increase in market share on average in the core business segment over three years
- 34% increase in assets and 54% increase in profit over five years, against industry declines of 21% and 35%, respectively
- Nearly 20% average annual increase in consolidated pre-tax operating income over four years

Customer Satisfaction:

- 95% of contracts renewed by its customers
- Highest average length of customer retention in the industry
- 95% customer loyalty and 97% customer retention in the year

Employee Satisfaction:

- 39% decrease in employee turnover over five years,
- 80% of employees recommend the company as a good place to work against a national norm of 55%
- Employee satisfaction 50 percentage points higher than the industry benchmark

These examples and studies highlight the positive correlation between performance measured against the models of excellence (such as the ABEF) and improvements in key results.