



## **Australia's productivity performance**

Australian HR Institute submission to the Productivity Commission

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## **Background**

The Australian HR Institute (AHRI) is the professional body for Human Resources in Australia. The not-for-profit organisation sets the standard for HR practitioners and has more than 16,000 members. AHRI, supported by its expert industry advisory panels, conducts independent research and liaises with both Australian and international partners on matters of interest to Australian workers and workplaces.

AHRI has identified workplace productivity as a key issue for HR, business and government moving forward. This will be a key focus for AHRI's research and thought leadership.

## **Introduction**

AHRI's submission to the Productivity Commission Inquiry on productivity focuses on those issues that have been highlighted by the Commission that are of particular relevance to AHRI. These include:

- the settings for productive investment in human and physical capital and how they can be improved to lift productivity
- the forces shaping Australia's productivity challenge as a result of the COVID-19 pandemic and policy response
- the opportunities created for improvements in productivity as a result of Australia's COVID-19 experience.

## **Scope of government policy**

While the government is right to both focus and direct its efforts on innovation<sup>[1]</sup> and manufacturing<sup>[2]</sup> to boost productivity growth, the risk is that its current approach is too narrow to have much of an impact on the overall productivity performance of the economy. Manufacturing, for example, while very important, accounts for just 6.5% per cent of employee employment<sup>[3]</sup>. AHRI is therefore in favour of a much broader approach to public policy that includes wider policies such as immigration, skills, employment regulation, workforce participation, inclusion and management practices.

We suggest, therefore, that the primary focus of government policy should be to develop cross-sector ‘horizontal’ policies to improve productivity and performance across as wide a range of industries as possible, which could take the ambitious form of an industrial strategy.

## **What are the key drivers of productivity growth that governments should be influencing?**

### **Skills and the workplace**

As Phillip Lowe, Governor of the Reserve Bank of Australia has remarked, there is a clear link between human capital investment and productivity growth; especially in terms of the diffusion of new technologies and emerging skills shortages<sup>[4]</sup>. Automation is likely to accelerate further in a post COVID-19 labour market as more organisations embed hybrid working models. In addition, according to the OECD, over a third of jobs in Australia face a high risk of automation or a risk of significant change<sup>[5]</sup>, a disproportionate number of which are low-skilled.

Australia’s performance with regard to training provision is better than the OECD average. However, it is a poor performer in terms of the relatively low proportion of adults who receive training. According to the OECD, forty two per cent of adults do not participate in adult learning and report being unwilling to participate in the learning opportunities that are currently available to them (“i.e. they are disengaged from adult learning”) in Australia.

Taken together, the data point to the need for a national, joined-up initiative that aims to both reskill workers, especially those in low-skilled roles that are vulnerable to automation, and help more employees and organisations adopt technology across the whole economy. The data also reinforce the case for a potential reallocation of the public training budget that puts more emphasis on lifelong learning. Any reallocation should thus prioritise basic skills training and digital technologies for low-skilled adults.

Governments could employ a range of tactics to optimise the training and skills potential of the Australian workforce. With COVID-19 having demonstrated the value and effectiveness of online training delivery, which has accelerated the provision of online short courses in educational institutions, now would be the ideal time to support such courses on basic skills and digital technologies.

More ambitiously, there are a variety of different international approaches that have led to an increase in the take-up of training among adults in many cases. These include a light-touch right to request training (UK), individual training accounts (USA and Singapore) and the provision of employer grants (Norway)<sup>[6]</sup>. The Norwegian Skills Plus Work programme, which has supported more than 30 000 adults in acquiring reading, writing, numeracy and digital skills, seems particularly relevant to this discussion.

### **The understated role of people management**

The economic literature consistently shows a clear relationship between the quality of management and productivity<sup>[7]</sup>. And while the findings of this particular study are just over a decade old, they are as relevant now as they were in 2010. In particular, the findings suggest ‘that there is a substantial tail of firms that are mediocre, especially in their approach to people management ... it may now be appropriate to build longer-term competitive advantage through targeted, supportive public policy initiatives’. This ‘people management deficit’ is often a cause of broader performance failure in organisations, especially where inadequate leaders and managers fail to engage and motivate staff to raise their game.

One way of addressing this would be to establish a people management skills development fund within the overall publicly funded training budget. The fund would not be used to directly subsidise the cost of people management training. The fund would instead provide expert advice on appropriate training in leadership and people management skills plus guidance on the availability and quality of providers operating in the field.

This would also help boost the demand for skills that makes fuller use of workers' skills to improve productivity, which is another dimension where Australia is performing below the OECD average. The OECD Skills Strategy Dashboard shows that Australia ranks in the bottom 40% of OECD countries for improving the use of workers' skills<sup>[8]</sup>.

Additionally, the government could show leadership by ensuring that public sector employers prioritise development of people management skills within their own overall spending on staff training.

These efforts could be further supported by a government-led taskforce or campaign that gives practical advice to employers on a wide range of issues that could also include relatively overlooked areas such as managing conflict and fairness.

## **Migration**

Overall, AHRI supports the government's work-related immigration policy, with its focus on hiring workers with specific occupational skills deemed to be in short supply. This approach has clearly had a positive impact on employers who have been able to hire skilled workers from outside Australia who have specific skills that are not readily available in Australia. However, the use of the ANZSCO job categorisation could be reviewed to ascertain its ongoing fitness for purpose given the rapid changes in workplaces and emerging job roles. In the immediate term, the ability to have workers sponsored on the short-term list as a pathway to permanent residency would also assist employers to fill specific occupational skills' needs.

The re-introduction of labour market testing (LMT) could be reviewed to ensure that the costs outweigh the benefits, and it is not unnecessarily delaying recruitment of workers with specialist skills in short-supply.

At the same time, we take the view that the tightening labour market and the incremental shift towards a skill-based system is at odds with recent government policy to increase the

proportion of business, innovation and investment visas. As the Grattan Institute points out, the government's decision to increase the number of Business Innovation and Investment visas "has reduced the lifetime skilled migrant intake by about \$2 billion"<sup>[9]</sup>. On average, people who get these visas are older, less educated and speak poorer English than other skilled migrants according to the institute.

### **Inclusion**

Australia also scores relatively well on many of the dimensions of labour market inclusiveness. However, as the OECD has pointed out, Australia also performs less well on the gender pay gap. This is because the incidence of part-time employment for women is higher than the OECD average while the labour supply of mothers with young children is low<sup>[10]</sup>. In addition, the official data suggests that older workers are faring less well compared with other age cohorts in terms of the participation rate since the onset of the pandemic.

Flexible working is undoubtedly a key vehicle to improving the employment outcomes of these groups, which could be further encouraged by changes to flexible working legislation. One way of achieving this is to reduce the qualifying period for eligible groups to request flexible working from 12 months to 6 months. In addition, the right to request flexible working could be extended to all employees, but with a possible delay to avoid any increased cost involved in processing requests being incurred before the covid recovery has gained solid momentum. This seems to be a sensible policy response given both the success of the existing legislation, which is due to its light-touch nature, and the growing tightness of the labour market.

AHRI welcomes the increase to the child-care subsidy for families with more than one child aged five or younger as a mechanism to increase workforce participation, and would support further measures.

At the same time, AHRI is very aware that improvements in such HRM practices are also key to creating more productive and inclusive workplaces. Attempts by policy makers to address gender inequality, increase the proportion of under-represented groups in employment, or respond to the challenge of Australia's ageing workforce, will be undermined unless there is a wider uptake amongst employers of progressive HR and people management practices. These challenges also reinforce the case for more attention to be directed towards people management by both employers and government.

## **Conclusions**

In this submission, we have argued that the government should make improving people management and working practices central to its policy agenda. A joined-up public policy agenda that promotes improved workplace management practices, skills investment, skilled migration, workforce participation, inclusion and a light-touch approach to employment regulation thus has the potential to make a significant, positive contribution to improving the productivity of Australian workplaces and the performance and competitiveness of the Australian economy.

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<sup>[1]</sup> [Australia 2030: Prosperity through Innovation SUMMARY \(industry.gov.au\)](https://www.industry.gov.au/publications/australia-2030-prosperity-through-innovation-summary)

<sup>[2]</sup> [Make it Happen: The Australian Government's Modern Manufacturing Strategy | Department of Industry, Science, Energy and Resources](https://www.industry.gov.au/publications/make-it-happen-the-australian-governments-modern-manufacturing-strategy)

<sup>[3]</sup> [Welcome to the Labour Market Information Portal. \(lmip.gov.au\)](https://www.imip.gov.au/)

<sup>[4]</sup> [Productivity, Wages and Prosperity | Speeches | RBA](https://www.rba.gov.au/speeches/2019/09/20190901-productivity-wages-and-prosperity)

<sup>[5]</sup> [Policy Highlights \(oecd.org\)](https://www.oecd.org/policy-highlights/)

<sup>[6]</sup> [engaging-low-skilled-adults-2019.pdf \(oecd.org\)](https://www.oecd.org/engaging-low-skilled-adults-2019.pdf)

<sup>[7]</sup> [Report Management-Matters-in-Australia-just-how-productive-are-we.pdf \(worldmanagementsurvey.org\)](https://www.worldmanagementsurvey.org/reports/management-matters-in-australia-just-how-productive-are-we.pdf)

<sup>[8]</sup> [Skills-Strategy- Australia-EN.pdf \(oecd.org\)](https://www.oecd.org/skills-strategy-australia-en.pdf)

<sup>[9]</sup> [Rethinking permanent skilled migration after the pandemic - Grattan Report](https://www.grattanreport.com.au/rethinking-permanent-skilled-migration-after-the-pandemic)



<sup>[10]</sup> [jobs-strategy-AUSTRALIA-EN.pdf \(oecd.org\)](#)