Contents

Executive Summary 01
Global and local forces are shaping the businesses of tomorrow 05
Business matters for Australia’s prosperity 12
Businesses drive their own success 15
Who are successful leaders? Why do they matter? 21
Collaborate to create shared value 30
Appendix A 34
Appendix B 36
References 41
Executive summary

Australian business leaders reaching their potential would significantly grow Australia’s economy.

An increase in GDP of around $70 billion would result from halving the gap in management effectiveness between Australia and leading nations on this measure – more significant than the estimated productivity benefit of the internet.

The key features of leaders in successful Australian businesses include:

• Fit for purpose education
• A set of core skills, especially management and strategy
• International experience
• Connectivity.

Leaders of Australian businesses also have a critical role to play in helping each other to develop these characteristics. Research shows that success is not just about beating other businesses – sometimes, it involves working with them.

Businesses’ own decisions and strategies are critical to their success. The state of the economy and industry trends are clearly important factors affecting business profitability. But business success can come during any market conditions and opportunities can arise in any industry, provided there’s the right leadership to seize the potential.
This report outlines what it takes to be a prosperous business in an ever-changing, competitive marketplace and why having prosperous businesses matters for Australia’s future.

Businesses obviously play a critical role in the economy – satisfying consumer demands and generating profits for shareholders. And yet the dividend for the nation from fostering successful businesses is much greater than that. Australia’s 2.1 million actively trading businesses create most jobs and are responsible for more than 80% of Australia’s gross value added.

As the business landscape continues to evolve, with increased integration with Asia, disruption from digital technologies and ever-rising consumer expectations, businesses will need to be resilient and adaptable to change.

This report provides fresh insights to understand the businesses of tomorrow, combining learnings from four major data sources – the ABS Business Longitudinal Survey, real-time data from LinkedIn’s career dataset, Deloitte’s Initial Public Offering data, and insights from the World Management Survey.

This report highlights a significant benefit from more successful Australian businesses. The results from academic studies suggest that just halving the gap in management effectiveness between Australia and the world’s best could lift GDP by 4%, which would mean a boost to our economy of around $70 billion a year.

Australia’s current productivity is estimated to be 77% of the US level of productivity. About a third of that shortfall can be attributed to management quality as measured by a range of factors such as goal and target setting, plan execution, talent management and promotion systems (Bloom et al, 2013).

The productivity boost above could be more significant than that of the internet and could lift the World Bank’s ranking of Australia’s PPP-adjusted-GDP per capita from 19th to 14th in the world. For individuals, this is equivalent to an extra $3,000 per person – approximately what the 40 per cent of lowest-income households spend on rent every year.

While a significant improvement in business leaders’ management effectiveness would involve challenges and take time, these figures highlight the benefits of such an aspiration.

For this study, we analysed LinkedIn’s database of over 280,000 profiles of leaders from over 72,000 Australian businesses. We identified two types of successful businesses:

• Top Attractors – 25 companies that are successful at attracting talent as measured by number of job applications submitted, digital engagement of existing employees, and new hire turnover.

• Recurring Financial Review Fast businesses – businesses that have appeared in at least two out of the last three years of Financial Review Fast list.
We found that there are four key characteristics of effective leaders:

- **Fit for purpose education**
  Overall, leaders are well educated. Leaders in ‘Top Attractor’ businesses are 43% more likely to have a higher degree compared with the average business. But there may be changing requirements for leaders across the business lifecycle. Leaders in fast-growing companies are actually 22% less likely to have a higher degree compared with the average business, perhaps because of other business needs that are less based on traditional education, like entrepreneurship.

- **A set of core skills**
  Beyond formal qualifications, leaders need a core set of skills, especially management and strategy skills. What is interesting is that beyond that, business maturity again plays a key role – for established businesses it’s about mastering business process improvement and change management to make businesses more agile in a fast-moving environment, whereas for successful fast-growing businesses, driving business development is a higher priority.

- **International experience**
  Although clearly not a prerequisite for effective leadership, senior people at Top Attractor businesses and fast-growing businesses were two and three times more likely to have international experience than a leader at an average business.

- **Connectivity**
  Leaders in successful businesses tend be more connected with their staff, suppliers and customers; the opposite of isolated. LinkedIn connections are just one proxy for leaders’ communicative and collaborative behaviours, but tellingly – on average, leaders in the Top Attractor businesses have 17% more connections than leaders in businesses overall, and leaders in Financial Review Fast businesses have 88% more than leaders at average businesses.

There is a payoff for individual businesses from leadership. Improving organisational and managerial procedures increased the likelihood of achieving above average revenue growth by 3%.

There are obviously many other factors that drive business success such as focusing on customer needs, engaging and inspiring talent and having successful relationships with suppliers. A specific insight from this report is that success is not just about beating other businesses – sometimes, it involves working with them, collaborating and creating shared value. Through complex supply chains, many businesses rely on other businesses – more than half of the smallest businesses receive most of their income from other businesses. Collaboration between businesses – some with the capital, some with the new ideas, and others with market adjacencies – will generate value both for the businesses and have broader benefits for our economy and society.

A final insight from the analysis of business performance is that businesses’ own decisions and strategies drive their success. The state of the economy and industry trends are clearly important factors affecting business profitability and where the best opportunities are for new businesses. But business success can come during any market conditions and opportunities can arise in any industry, provided there’s the right leadership to seize potential.
Australia’s $70 billion opportunity

If businesses reach their potential, it would significantly grow Australia’s economy...

Effective leaders have...

- 43% more likely to have a Masters, Postgraduate or Doctorate
- 17% more connections
- 2-3x more likely to have international experience
- Fit for purpose education
- Core Skills
- Connectivity
- Experience

Opportunity for a $70b bigger economy

Equivalent to $3,000 more per person

4% GDP boost

2.1m actively trading businesses

More likely to have above average revenue growth

If businesses reach their potential, it would significantly grow Australia’s economy...
Global and local forces are shaping the businesses of tomorrow

Key global megatrends such as globalisation and digital innovation will impact on Australia’s 2.1m actively trading businesses
Global and local forces are shaping the businesses of tomorrow

The business environment is constantly evolving. Underlying trends are changing the environment in which we work, play and do business. Key global megatrends such as globalisation and digital innovations have created markets for virtual talent, and the ability to buy and sell everywhere. The rise of Asia and demographic change are influencing the availability of labour and the preferences for what is produced, and mean that businesses have to adapt to survive. ‘Contestability’ for government services is creating new opportunities. Changing consumer preferences create challenges for businesses in terms of labour supply and delivery of products and services.

These trends create a marketplace that is growing and changing at an increasingly rapid pace. Barriers to entry for new businesses are falling because digital technology adoption and globalisation are making it easier for businesses to access a broad customer base quickly; start-ups no longer require large scale capital investment to get off the ground. The lifecycles of products, and businesses themselves, are speeding up too. These same trends allow a new business to gain market-share and grow at speeds that were not possible in the past; but equally they mean that businesses can regress just as suddenly as they can excel.

In this environment we may expect to see more winners and losers in the marketplace. Greater opportunities created by the interconnectedness of our world also create challenges, and not all businesses will be able to survive. Businesses that are at the top may not stay there for as long as they hope; and there may be faster turnover in the leader-boards of success. The key for businesses in a market like this will be agility, and the speed with which they can adapt to ongoing market and customer demand changes.

Global Megatrends

Globalisation
The integration of markets and economies around the world, and the progressive reduction of barriers, allows businesses to trade, invest and employ freely across national borders. Globalisation is not a new trend, but the changes it brings such as regional integration are accelerating. For example, in the last two years Australia has entered into free trade agreements (FTAs) with China, Korea and Japan, and is currently negotiating FTAs with a number of other countries including India and Indonesia.

The world is getting smaller. The globalisation process and rise of free trade agreements are shifting the way that businesses operate. Cross-border trading is becoming increasingly accessible to businesses, employees are internationally mobile, and tasks can be outsourced or offshored.

Globalisation has resulted in significant opportunities and challenges for businesses within Australia. Increased global economic integration has changed the competitive landscape faced by businesses, allowing them to compete in foreign markets, but also creating new competition from overseas organisations in domestic markets. Further, globalisation has enabled businesses to relocate or offshore specific business processes overseas. This increases the diversity of the pool of resources that businesses can draw on, potentially leading to lower operating costs and access to a larger labour market for filling skills shortages.

Digital disruption
Digital disruption waves are continuing to hit Australian businesses. As the pace of change continues to accelerate, unique opportunities, challenges and risks are presenting themselves to business at an exponential rate. For example, smartphone technology was first launched in 2007, and by 2015 80% of Australians were actively using a smartphone (Deloitte Access Economics, 2015a). This presents both opportunities and challenges for businesses trying to remain current in a quickly changing world.
Technology has decreased barriers to entry for businesses. It is now easier for businesses to join the market and compete for market share, intensifying competition. This, along with changing consumer demands, means that incumbent businesses have to regularly update their business models to remain current and competitive. Incremental innovation and improvements are increasingly important. Technology has also led to faster growth through knowledge sharing, facilitating interaction between workers and increasing overall prosperity for Australia.

**Technology has made it easier for businesses to join the market and compete for market share, but has also made it harder for businesses to stay current and competitive.**

These advantages have been accompanied by new challenges. Deloitte Access Economics has mapped the impact of digital disruption on Australian industries (Figure 1.1), classifying them by the length of their fuse (the length of time it would take for the industry to experience the effects of digital disruption), and the size of the bang (the expected change in the industry in percentage terms across a range of metrics). Industries in the ‘short fuse’ category have already felt the impact of digital disruption, however fresh opportunities and challenges still exist for those businesses in ‘long fuse’ industries such as health and education.

**Figure 1.1: Digital disruption map**

Source: Deloitte Access Economics (2012)
Economy in transition

Rise of Asia
Our regional trading partners are evolving rapidly. Over the last two decades, emerging economies in Asia have been a major driver of global economic growth, led by China where annual output growth averaged 9% between 2000 and 2013. China’s growth in turn lifted the economies of many neighbouring nations through increased investment, as well as demand for goods, services, minerals and agricultural products.

One impact of this is a shift in the types of products sought by these emerging economies. In recent years, rapid population growth, urbanisation and industrialisation have underpinned unprecedented demand in Asia for the products of primary industries in Australia. Rising average incomes have prompted an increase in demand for protein, dairy, and wheat products which Australia is well positioned to capitalise on. In China, meat consumption has grown from 4kg to 54kg per person per year in the 50 years to 2010 (Future Directions International, 2014), and much of this meat must be imported. Beyond an increase in demand for our agricultural products, education services and tourism have also experienced dramatic increases in demand from Asian nations. For example, the number of Chinese tourists has doubled in the last five years (Tourism Australia, 2016).

These trends are predicted to continue, and there will be opportunities for businesses in other industries as well. The burgeoning Asian middle class, which is expected to reach 3.2 billion people by 2030 (ANZ, 2015), will increasingly demand high-quality goods and services and this will create opportunity for Australian businesses in many industries.

As wealth in emerging economies increases, Australian businesses will need to adapt to new opportunities to cater to changing consumer preferences.

Contestability
In the early 1990s Australia underwent a wave of competition policy reform with the privatisation of a range of transport, communication, electricity, and financial services. This created both opportunities and challenges for businesses at the time. Now, the country is headed to a renewed wave of contestability reform, this time focused more on human services such as health. The Competition Policy Review conducted in 2015 recommended a revised set of principles for the governing of a range of areas including human services, transport, intellectual property and electricity, gas and water. As government moves to implement these changes, there will be scope for more businesses to move into these industries to provide services either alongside or in place of government.

The marketisation of traditionally non-market services such as health and education will create new opportunities for businesses.
Demographic change
The ageing population is a cause of change for businesses, both from a labour supply angle and a consumer demand perspective. Figure 1.2 shows the extent of this demographic trend globally; by 2050 there are expected to be 2.1 billion people aged over 60 (United Nations, 2015). Ageing consumers have different demands and interests, which provides new opportunities for businesses, while the change in composition of the labour-force creates new challenges for business.

The increasing number of retirees is creating new opportunities for businesses in the aged care services sector (for instance in the provision of residential aged care and home care services), and older generations are ready to pay for it: 50-69 year olds hold more than 40% of the nation’s wealth (Per Capita Australia, 2014).

While the relative decrease in young workers in Australia is a challenge, the experience and capabilities of older workers should not be dismissed. The average age of entrepreneurs in Australia is 45 (Maritz et. al. 2015), and estimates suggest that a 5% increase in paid employment for Australians over 55 could boost GDP by $48 billion annually (Deloitte Access Economics, 2012).

“Current demographic changes are unprecedented. After remaining broadly unchanged for centuries, the age structure of the world’s population is now changing dramatically”

(IMF 2004)
Supply chain
The emergence of the peer-to-peer economy has created platforms that allow buyers and sellers to interact directly, with lower transaction costs. Trust and brand are paramount for success in this economy – for buyers, sellers, and platforms. Although it does not represent a significant proportion of the economy, the peer-to-peer model is already far-reaching and is forcing traditional businesses to re-evaluate and react. For example, 61% of Australians have used a peer-to-peer service such as Uber, Airbnb and eBay, and 85% intend to use one within the next year (Asia Pacific Banking and Finance, 2015). Disruptive business models such as these have a disproportionately large impact on the market, and businesses will need to engage with this change.

“Uber, the world’s largest taxi company, owns no vehicles... Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world’s largest accommodation provider, owns no real estate.”
(TechCrunch, 2015)

Figure 1.2: Older people as a proportion of global population

Source: United Nations Department of Economic and Social Affairs (2015)
Changing preferences

Labour market flexibility
Like capital, the workforce is becoming increasingly mobile (both globally and locally). Both employees and employers recognise the advantages of working and studying abroad and the career development opportunities that it can provide. In 2014, almost two in three people were already working in another country, or willing to move to another country for work (BCG, 2014).

Like capital, the workforce is becoming increasingly mobile (both globally and locally).

Employees may also benefit from flexibility in their working hours. This may be to accommodate study, family or caring responsibilities and can be more easily facilitated by technology that allows people to work while being away from an office or shop.

Greater turnover may also be more likely in the workforce of the future. Previous research suggests that while employees prioritise job security, many are considering a move. Figure 1.3 shows that 35% of surveyed Australian employees in 2012 were unsure about staying or planning to leave their current job in the next 12 months, further evidence of the shifting labour force.

Consumer demands

As Australia’s population ages, and average incomes rise, the demands of consumers are shifting. Consumers are increasingly demanding services, not just goods, and focused on the social and environmental impact of the businesses they purchase from. Due to digital trends and decreased transaction costs consumers are also more aware of the products and services available and have improved their ability to access them. In a global survey of customer preferences, 9 in 10 respondents said that they expect businesses to address social and environmental issues (Cone Communications, 2015). Businesses have always needed to adapt to ensure their operations are aligned with customer demands, and this need will continue in the future.

“Today’s global consumers see companies as more than just profit-making entities – they think companies have the responsibility and opportunity to make effective social and environmental change.”

(Global CSR study, 2015)

Figure 1.3: Expectations of staying with current employer – next 12 months

Source: Deloitte Access Economics (2013c)
Halving the gap in management effectiveness between Australia and the world’s best could mean a $70 billion boost to our economy.
Business matters for Australia’s prosperity

Business success comes in many forms: revenue growth, survival, employee growth, rate of return on investments, long or short-term profit, longevity, productivity, customer satisfaction, personal or employer happiness, and many more. Walker and Brown (2004) note that small business owners in particular tend to place emphasis on non-financial goals. The pair found that for small business owner-managers in Australia, “personal satisfaction and achievement, pride in the job and a flexible lifestyle are generally valued higher than wealth creation”. Figure 2.1 demonstrates some of the many ways businesses choose to define success.

However, it’s undoubtedly the case that financially successful businesses can have a big impact on the Australian economy. The difference between businesses which succeed and those which do not is stark. By innovating, responding to changing consumer desires and making the best use of all the resources available to us successful businesses, have been a driving force in Australia’s internationally high standard of living. Extensive surveys of business practices have found that within and between countries the performance of firms varies considerably (Agarwal et al., 2015). While many businesses prosper, there are also many that do not.

Figure 2.1: Some potential measures of business success

Source: Deloitte Access Economics
From a global perspective the standards of Australian businesses are high; but they are not the highest. In 2009 the Australian Department of Innovation, Industry, Science and Research commissioned a report into the quality of Australian management based on the methodology established by the World Management Survey (Green, 2009). The report ranks Australia sixth out of 16 countries studied to date behind Canada, Germany, Sweden, Japan and the United States. There is therefore considerable room to improve the quality of Australian businesses.

And that improvement has the potential to pay big dividends. Successful firms are more productive, producing more goods and services with the same amount of capital and labour used by less efficient firms. Bloom et al. (2013) examine the effect of quality management on economy-wide productivity (total factor productivity or TFP). They find that firms that are successfully managed perform significantly better than their peers.

This firm-level increase in performance translates to an economy-wide productivity boost. Differences in how well-run businesses are help explain differences in productivity between nations. Thanks in part to its successfully run businesses, for instance, America has one of the highest total factor productivity levels in the world. Bloom et al (2013) provide an estimate of the effect of individual firm improvement on country-wide total factor productivity. Across all countries, 29% of the difference in productivity between the United States (with the highest management effectiveness scores) and other nations can be explained by how well businesses are run.

Using this finding, it is possible to estimate the impact on the economy if Australian businesses were run more effectively. If the gap in management quality between Australia and the United States were halved today, Australia’s productivity would rise to 80.3% of America’s level, up from its current level of 77% (Jones and Romer, 2010).

Achieving this today would lead to a 4.3% increase in GDP over its current level. This represents an increase in GDP of around $70 billion and is equivalent to around $3,000 per person per year. That’s roughly equivalent to what the 40 per cent of lowest-income households spend on rent every year. This boost would raise Australia’s PPP-adjusted-GDP per capita rank from 19th to 14th in the world; and be more significant than the estimated productivity impact of the internet. It goes to show the reward of business success to the Australian economy.
Success is not just about the market: many businesses thrive in lean economic times and many fail in times of plenty.
Businesses drive their own success

Economic and industry circumstances are important in shaping the success of businesses. However, it is possible to overestimate their effect. Success is not just about the market: many businesses thrive in lean economic times and many fail in times of plenty.

Clearly, times of significant economic distress such as recessions will have major impacts on business performance. After two and a half decades of economic growth, the consequences of downturns should not be forgotten. Some industries are particularly susceptible to volatility such as boom/bust cycles in mining, the impact of property prices on construction, the impact of climate on agribusiness and the role of the exchange rate in the fortunes of trade-exposed industries such as manufacturing and some services.

However, the importance of individual businesses’ strategies and decisions in driving their destiny, is illustrated in statistics on bankruptcies and business exit rates. As acknowledged in Nicholls and Orsmond (2015), company management issues are a major factor in business failures. Chart 3.1 shows that around 5,000 businesses typically go bankrupt each year. Not surprisingly, this number is higher in times of recession such as 1991-92, but it is clearly possible for businesses to be unsuccessful during any period of the economic cycle. The more recent business exit rate statistics (a wider measure than just those associated with bankruptcy) tell a similar story: while exit rates were higher during the GFC, businesses can come unstuck during other periods as well.

Chart 3.1: Business exit rates and bankruptcies 1989-90 to 2015-16

Source: ABS Counts of Australian Businesses; ABS Small Business in Australia 1.321.0; ASFA Business and non-business personal insolvency time series.

4 As acknowledged in Nicholls and Orsmond (2015), business exit rates can reflect a number of factors, but many are the consequence of business failure
Meanwhile, businesses clearly have significant opportunities for success through the cycle. Between 1994-95 and 2010-11, total annual business gross operating profits across Australia increased fairly steadily from $48 billion to $304 billion, with growth slowing in recent years (ABS cat. no. 5676.0, Table 15, 2016).

Another factor influencing business opportunities will be the different growth rates of industries. Chart 3.2 shows forecast industry growth rates for the coming decade. Some sectors like mining and health are expected to record industry growth rates over twice that of other sectors like utilities and farms.

**Chart 3.2: Forecast industry output compound annual growth rates, 2015-2025**

Source: Deloitte Access Economics forecasts
However, industry growth is not the same as business performance. Indeed, there are likely to be many highly successful businesses in slow growing sectors and some failures in areas of growth – just as there has always been. As shown in Chart 3.3, the opportunity to succeed can come from any industry; suggesting that the decisions that individual businesses make will ultimately shape their success.

Chart 3.3: Business survival rates 2011-2015 by industry

Source: ABS cat. no. 8165.0; Deloitte Access Economics analysis
Initial Public Offerings

Reaching an initial public offering (IPO) is a key objective for some businesses. It provides the opportunity to scale through a significant increase in capital. For equity holders and founders, IPOs can also be financially rewarding.

In the last few years, the Australian equities markets have supported IPOs across a broad range of industries (see below) and stages of the business lifecycle (from start-up, to expansion, to mature businesses).

### ASX listings by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>Infrastructure and logistics</td>
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<td>1</td>
<td>4</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>Energy and resources</td>
<td>19</td>
<td>8</td>
<td>4</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>TMT</td>
<td>5</td>
<td>14</td>
<td>27</td>
<td>13</td>
<td>59</td>
</tr>
<tr>
<td>Commercial services</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Consumer goods and services</td>
<td>4</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>Financial services</td>
<td>9</td>
<td>17</td>
<td>19</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>Healthcare</td>
<td>5</td>
<td>8</td>
<td>12</td>
<td>6</td>
<td>31</td>
</tr>
<tr>
<td>Property and construction</td>
<td>6</td>
<td>5</td>
<td>8</td>
<td>3</td>
<td>22</td>
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<tr>
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<td>6</td>
<td>5</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>-</td>
<td>7</td>
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<td>56</td>
<td>71</td>
<td>97</td>
<td>40</td>
<td>264</td>
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<table>
<thead>
<tr>
<th>As % of total</th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>TMT</td>
<td>8.9%</td>
<td>19.7%</td>
<td>27.8%</td>
<td>32.5%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Energy and resources</td>
<td>33.9%</td>
<td>11.3%</td>
<td>4.1%</td>
<td>10.0%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Financial services</td>
<td>16.1%</td>
<td>23.9%</td>
<td>19.6%</td>
<td>15.0%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>8.9%</td>
<td>11.3%</td>
<td>12.4%</td>
<td>15.0%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Consumer goods and services</td>
<td>7.1%</td>
<td>5.6%</td>
<td>10.3%</td>
<td>12.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Other</td>
<td>25.0%</td>
<td>28.2%</td>
<td>25.8%</td>
<td>15.0%</td>
<td>24.6%</td>
</tr>
</tbody>
</table>

There is no one industry which will succeed upon listing, in fact there has been a fairly even split between the types of businesses that list. Further, there isn’t necessarily a ‘right time’ to list. Over the past three years, the split between ASX companies over and underperforming their listing price has been fairly even. Between 2013 and 2015, between 35% and 60% of companies over-performed, and between 39% and 64% underperformed. Fundamentally, a business with a strong business model with a story that investors believe in, a proven management team, capital growth potential, and good return on investment will do well.
Given that businesses play a big role in determining their own success, it is important to consider the levers a business can pull internally to ensure that success. This report considered a range of drivers that influence the way a business is run in order to determine the ingredients for success.

This report focuses on the need to have strong leadership and the importance of collaboration. But of course, these are not the only tools for business success.

For example, businesses that focus on customers and how their offerings can meet customer needs are more likely to succeed. A customer service focus and investment in brand and technology will be important in future success for businesses.

Inside a business, engaging and inspiring talent is an important focus. As demographic change shapes the workforce, attracting and retaining talent will be increasingly important.
Who are successful leaders? Why do they matter?

Introducing new organisational or managerial practices increased the likelihood of achieving ... 3% above average revenue growth.

An effective leader has...

- Connectivity
- International experience
- A set of core skills
- Fit for purpose education
Who are successful leaders? Why do they matter?

The principle tool businesses need to thrive is effective leadership. The economic, social and technical environments in which businesses operate are always changing, but effective management can drive success. Leaders have the important role of steering their businesses in ever-changing directions, responding to new consumer demands. Through the creation and execution of a business’s strategy, leaders help develop the day-to-day and long-run dynamism every business needs.

The World Management Survey provides an insight into the huge effect management quality can have on businesses. Managers were asked a series of questions in order to evaluate their performance. The questions were asked in an indirect manner so that the managers did not know they were being evaluated. Mangers were rated on a scale of one “worst practice” to five “best practice” across a range of areas. In Australia the survey found that, after controlling for country, sector, employees, skill, and hours worked, a “single point improvement in management practice score is associated with the same increase in output as a 25% increase in the labour force or a 65% increase in invested capital” (Green, 2009).

A single point improvement in management score is equivalent to a 25% increase in labour or a 65% increase in capital.

Using the ABS Business Longitudinal Survey data, for this report a simple model was run which looked at the effect of many factors and their impact on the probability of achieving above average revenue growth. The model found that a business focus on innovation increased the likelihood of achieving above average revenue growth by 7%. Introducing new organisational or managerial practices increased the likelihood of achieving above average revenue growth by 3% over not doing so.

Improving management has a big dividend for Australian firms and there is always room for improvement. Agarwal et al. (2015) propose a model where management practices exhibit a ‘lifecycle’ as a country’s economy grows. Management practices begin as factor-driving: competing on labour (typically uneducated) and capital factor endowments. They then move to efficiency driven practices which focus on lean manufacturing practices, long term planning and evaluating and rewarding employee performance. The last stage of the lifecycle is innovation-driven practices which seek to enhance productivity through active research and development. Agarwal et al. argue that Australia is at a crucial point in its life cycle.

Firms that do not consider ways to innovate in their management practices “may end up lagging behind those countries that have taken such initiatives, and position themselves at a competitive disadvantage for the future”.

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The regression model is described in further detail in Appendix B.
So what do good leaders look like? Leaders of growing businesses have a growth outlook. The psychological attitude of a business leader can have a heavy influence on a business’s growth. Almost every business leader will say that they hope to grow their enterprise; however, reaching this goal requires strong resolve. A review of small businesses in the UK by the British Government (2015) found that businesses with substantive growth ambitions were more likely to have achieved growth in practice in the previous two years. This outcome was also found by Orser (1997) who observed that owners which stated five years previously that they wished to grow the businesses were less likely to have failed. In general, high growth businesses take an attitude that success is in their hands and nobody else’s. High-growth firms perceive issues they cannot control – such as economic conditions and competition – as less of a barrier to success than low-growth firms, placing greater concern on issues they can control, such as recruitment and cash flow (NESTA, 2011).

LinkedIn can provide further insight into what makes a good leader. By creating a list of ‘successful businesses’ based on a range of criteria, LinkedIn data produces a snapshot of what leaders in these businesses have that is different to their peers in the average Australian company. The successful business list is made up of two parts:

- **The Top Attractors** – This is a list of 25 companies compiled by LinkedIn that are successful at attracting talent. The criteria include number of job applications submitted, digital engagement of existing employees (the proportion of employees who visit the business’ LinkedIn page or post about the business), and new hire turnover (average length of time new hires stay with the business). These businesses are largely well established, mature businesses with specialised leaders.

- **Recurring Financial Review Fast businesses** – This list consists of all businesses that have appeared in at least two out of the last three years of Financial Review Fast list. The list classifies successful businesses as those that have grown the fastest in revenue growth terms over the past year. Many of these businesses are young, employ fewer people than the Top Attractors, and have less specialised leaders who multi-task.

In total, the LinkedIn career dataset contains information on over 280,000 leaders in 72,000 businesses in Australia. This approach provides a fresh insight into what good leaders look like and the impact they can have for business.
Fit for purpose education

Looking first at education among leaders in Australia, the clear takeaway is that leaders are well-educated. Over 70% of leaders in Financial Review Fast businesses have a Bachelor’s degree listed on their LinkedIn profile, as do around two-thirds of Top Attractor leaders.

Chart 4.1 shows the likelihood of leaders having a degree in Top Attractor and Financial Review Fast businesses, relative to their peers in leadership positions in other Australian businesses. While LinkedIn data on education is not always complete (some people do not record this information on their profile, others include only their most recent or highest qualifications), some trends do emerge. The prevalence of Bachelor’s degrees is not substantially different for leaders in successful businesses relative to the average leader. However, leaders in Top Attractor businesses are 43% more likely to have a Masters, Postgraduate or Doctorate degree than the Australian average; and leaders in Financial Review Fast companies are 22% less likely to have one. This suggests that over the lifecycle of a successful business the educational requirements of leaders changes.

While businesses are young and growing rapidly there is less emphasis on higher degrees. However, as the business matures and grows, seasoned leaders with high educational qualifications are favoured. Clearly, businesses need to adjust their management strategies over the lifecycle of the business to remain successful.

Management and Commerce has consistently been the most popular area of study for university students in Australia. The number of enrolments for degrees in this field has consistently increased over the past decade. In 2014, approximately 360,000 students enrolled to study management/commerce at university, and just over 97,000 students completed the degree (Department of Education and Training, 2016). Universities are responding to this interest in management and commerce. For example, the University of Technology Sydney has introduced a new degree, a Masters of Business Administration in Entrepreneurship, to help students be better equipped to be strong leaders in business.
UTS: An MBA in Entrepreneurship

The MBA in Entrepreneurship (MBAe) is a new degree offered by the University of Technology, Sydney. It aims to provide a way for leaders in businesses that are reaching the mature stage of their development to adapt to the changing needs of the business, to disrupt the business from within, or to start a new business of their own. This degree can give managers the skills they need to run successful businesses into the future, and ensure that management practices do not become stale or outdated. Offered as three short courses over a 12 month period, an MBAe helps managers to understand what makes ventures successful, and equips them with the skills to execute their ideas to enhance innovation and growth in the business.

Students earn graduate certificates in commercialisation, entrepreneurship, and new venture funding, with the goal being to give students key business skills. Students engage with industry through mentoring opportunities, networking events, masterclasses, and excursions to ensure that students learn how to build professional relationships.

According to Roy Green, Dean of the UTS Business School, the future will bring lots of change to business; much of it will be unpredictable. Therefore, the key to success is being adaptable and resilient in the face of constant change.

The structure of organisations is also going to change, there will be less of a focus on vertical integration, and instead production units will become smaller and more interdependent. For this, a wide network and strong connections will be key. 20th Century business focused on technology and markets, but 21st Century business will be about design thinking and business analytics. With a focus like this, businesses will need managers that are both knowledgeable and able to engage with staff and encourage creative thinking throughout the business.

He also thinks that business is no longer just about profit; instead the focus is shifting to shared value. Those that choose not to engage with the community risk facing a backlash from customers.
A set of core skills

The top skills listed by leaders in successful businesses reveal the importance of management and strategy for success. Table 4.1 lists the top 10 skills listed by leaders in both the Top Attractor and Financial Review Fast businesses on LinkedIn (excluding job-specific skills such as accounting and financial analysis). Both lists heavily favour management, strategy, and leadership skills. They both also highlight change management specifically as an important skill, suggesting these businesses are capable of continuous change and are adapting to the evolving marketplace.

Table 4.1: Top skills for Australian leaders

<table>
<thead>
<tr>
<th>Top Attractors</th>
<th>Financial Review Fast list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>Management</td>
</tr>
<tr>
<td>Strategy</td>
<td>Business development</td>
</tr>
<tr>
<td>Business process improvement</td>
<td>Business strategy</td>
</tr>
<tr>
<td>Business strategy</td>
<td>Strategy</td>
</tr>
<tr>
<td>Change management</td>
<td>Leadership/team leadership</td>
</tr>
<tr>
<td>Project management</td>
<td>Change management</td>
</tr>
<tr>
<td>Leadership</td>
<td>Strategic planning</td>
</tr>
<tr>
<td>Business analysis</td>
<td>Project management</td>
</tr>
<tr>
<td>Program management</td>
<td>Business process improvement</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>Negotiation</td>
</tr>
</tbody>
</table>

Source: LinkedIn internal data (2016)
International experience

The level of experience a leader has is another important determinant of what makes a great leader. Absolute length of time in the workforce does not vary much between successful leaders and average leaders; in fact Financial Review Fast leaders on average have slightly less experience than the average leader (16.4 years compared with the average 17.6 years). However, where there is a sizeable difference between the groups is length of time working internationally. Chart 4.2 shows the likelihood of leaders having international work experience compared to leaders in the average Australian business. Leaders at Financial Review Fast businesses are more than twice as likely to have international experience as the average leader, and leaders at Top Attractor businesses are more than three times as likely. Average length of this experience is 5.8 and 6.4 years respectively for Financial Review Fast and Top Attractor leaders.

This can translate into better financial performance. Carpenter et al (2001) studied 245 American multinational companies to test the hypothesis that companies whose CEOs have international assignment experience would perform better financially. It found that, controlling for firm size, industry globalisation, diversification and other factors, CEO international assignment experience was a statistically significant positive influence on both return on assets and stock returns.

Chart 4.2: Likelihood of leaders having international experience

Source: LinkedIn internal data (2016)
**Connectivity**

Connections are critical for successful leaders. Chart 4.3 presents the average number of LinkedIn connections leaders in successful businesses have compared to the average Australian business. Leaders in the Top Attractor businesses have 17% more connections on average than leaders in the base case, and Financial Review Fast List leaders have 88% than the base. Bearing in mind that Financial Review Fast leaders are at firms which have been singled out for their fast growth, it is clear that connections are vital for growing a business.

---

**Chart 4.3: Average number of total connections leaders have**

<table>
<thead>
<tr>
<th></th>
<th>Top attractors</th>
<th>Financial Review Fast List</th>
<th>Australian average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connections</td>
<td>520</td>
<td>831</td>
<td>443</td>
</tr>
</tbody>
</table>

Source: LinkedIn internal data (2016)

---

**Women in leadership**

From 2006-2012, companies with female board representation outperformed those with no women on their board in terms of share price performance, according to Credit Suisse (2012).

Yet women remain underrepresented in senior roles. The most recent census of women in leadership revealed that just 12.3% of directors and executives in the ASX 200 were women, and 60.6% of those companies had no female executive key management personnel (Equal Opportunity for Women in the Workplace Agency, 2012).

One observation from the Linkedin data was that in the average Australian business, female leaders have 29% fewer connections than male leaders. This is difficult to interpret and may reflect women leaders on average having less senior roles with fewer staff reports, which may affect connections.
What makes a good leader?

There are four key characteristics of effective leaders, based on our analysis of the database of over 280,000 LinkedIn profiles of leaders from over 72,000 Australian businesses. They have:

**Fit for purpose education**

Overall, leaders are well educated. Leaders in ‘Top Attractor’ businesses are 43% more likely to have a higher degree compared with the average business. But there may be changing requirements for leaders across the business lifecycle. Leaders in fast-growing companies are actually 22% less likely to have a higher degree compared with the average business, perhaps because of other business needs that are less based on traditional education, like entrepreneurship.

**International experience**

Although clearly not a prerequisite for effective leadership, senior people at Top Attractor businesses and Financial Review Fast businesses were two and three times more likely to have international experience than a leader at an average business.

**Connectivity**

Leaders in successful businesses tend be more connected with their staff, suppliers and customers; the opposite of isolated. LinkedIn connections are just one proxy for leaders’ communicative and collaborative behaviours, but tellingly – on average, leaders in the Top Attractor businesses have 17% more connections than leaders in businesses overall, and leaders in Financial Review Fast businesses have 88% more than leaders at average businesses.

**A set of core skills**

Beyond formal qualifications, leaders need a core set of skills, especially management and strategy skills. What is interesting is that beyond that, business maturity again plays a key role – for established businesses it’s about mastering business process improvement and change management to make businesses more agile in a fast-moving environment, whereas for successful fast-growing businesses, driving business development is a higher priority.
Collaborate to create shared value

Business aren't just competitors, it's an ecosystem. More than half of small businesses have their main client as another business or government.
Collaborate to create shared value

Competition shapes the success of many businesses. More than one quarter of Australian businesses cite the need to lower profit margins to remain competitive as a barrier to their performance (ABS cat no. 8167.0, 2015). This creates a view that other businesses are a threat.

However, businesses also rely on each other to succeed. More than competition, other businesses can be suppliers, customers or investors. More than half of small businesses (with 0-4 employees) receive most of their income from other businesses (ABS cat no. 8167.0, 2015). Similarly, for 34.5% of large businesses, small and/or medium businesses represent their largest supplier.

Thus, businesses which support others can be investing in their own success. Half of Australian businesses rely on a small number of clients. If a business were to lose one of these customers, 50.8% estimate there would be a moderate to large impact on their income.

It’s not just businesses that can benefit from collaborating. Businesses can also work together or individually to create “shared value” – defined by Michael Porter as generating economic value in a way that also produces value for society by addressing its challenges.

This can be done through cooperative arrangements between businesses and community organisations or individuals. In 2000-01, the Australian Bureau of Statistics measured the value of these arrangements, which “normally involve the voluntary transfer of money, goods or services in exchange for strategic business benefits such as improved staff expertise, wider networking, enhanced community reputation and/or other quantifiable benefits”. It found that these projects were worth over $182 million.

Businesses with similar turnover ranges and employee counts may face similar challenges. SMEs are more likely to face barriers associated with access to capital (19%) and cash flow (14%), while larger businesses could be more concerned with innovation and attracting talent (17%). By working together, businesses can help each other overcome these challenges. Co-working spaces such as Fishburners and Tank Stream Labs in Sydney, the York Butter Factory in Melbourne and River City Labs in Brisbane offer some examples. Start-ups at Tank Stream Labs alone have raised $147.8 million since its inception (Tank Stream Labs, 2016).
Even dividing businesses by size can create false barriers. As Chart 5.1 shows, business size can change; 10% of businesses employing 0-4 people in 2006-07 grew to medium or large employers over a five year period, while nearly one quarter of businesses employing more than 20 people contracted over the same period.

Business collaboration can create new opportunities through investment, joint ventures and strategic alliances. In 2014, Australia ranked tenth out of ninety countries on this metric, with 0.04 joint venture/strategic alliance deals per trillion purchasing power parity adjusted GDP dollars (Cornell INSEAD WIPO, 2016). This puts Australia ahead of the USA and UK, but behind Canada, Singapore and NZ.

Other businesses can also be an important source of support, advice and access to new networks of customers and opportunities. These relationships can be established through formal and informal networks, word of mouth, and associations such as industry bodies. Membership in industry associations is strong; for example, Ai Group has 60,000 business members, the NSW Business Chamber has a network of over 19,000 businesses, Chartered Accountants ANZ has over 100,000 members, and the Victorian Automobile Chamber of Commerce, which represents over 5,000 automotive businesses in Victoria. In 2015-16, business associations had an estimated revenue of $3.20 billion (IBISWorld, 2016), reflecting the value that businesses place on these services.

All this points to the value of the business ecosystem. Through complex supply chains, many businesses rely on other businesses for supplies or custom. Collaboration between businesses – some with capital, some with new ideas, and some with market adjacencies – will generate value both for the businesses and have broader benefits for our economy and society.

**Chart 5.1: Business change in employment size category by year**

<table>
<thead>
<tr>
<th>Year</th>
<th>0-4 employees in 2006-07</th>
<th>5-19 employees in 2006-07</th>
<th>20+ employees in 2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>0.4%</td>
<td>19.5%</td>
<td>79.1%</td>
</tr>
<tr>
<td>2007-08</td>
<td>4.3%</td>
<td>17.7%</td>
<td>78.0%</td>
</tr>
<tr>
<td>2008-09</td>
<td>4.1%</td>
<td>17.4%</td>
<td>78.5%</td>
</tr>
<tr>
<td>2009-10</td>
<td>4.0%</td>
<td>17.3%</td>
<td>78.7%</td>
</tr>
<tr>
<td>2010-11</td>
<td>4.0%</td>
<td>17.6%</td>
<td>78.4%</td>
</tr>
</tbody>
</table>

Source: ABS Business Longitudinal Survey; DAE analysis
Appendix
Appendix A

Management as a Technology

Bloom et al.’s (2013) report Management as a Technology estimates the effect of management on total factor productivity (TFP) using data on the management quality of over 8,000 firms across 20 countries. They construct a model where management is a “technology” that increases the output of a firm for a given amount of capital and labour. The model hence partially explains the consistent phenomenon of stark differences in TFP between countries.

The management quality data used is based on an extensive series of interview-based evaluations, developed by McKinsey & Company. Managers were scored from one (“worst practice”) to five (“best practice”) across 18 practices, falling into three areas: monitoring, target setting and Incentives/people management. Example questions used to evaluate the firm’s management quality include:

- What kind of KPIs would you use for performance tracking?
- What types of targets are set for the company? What are the goals for your plant?
- Can you describe the production process for me?
- How does your appraisal system work? Tell me about the most recent round?

The score across the 18 practices was averaged to find a total management score. In all, 8,117 firms were used in the dataset.

The dataset is based on medium-sized manufacturing firms, surveyed as part of the World Management Survey. The World Management Survey, however, has also examined the effects on management on healthcare, education and retail. Bloom et al note that “the association of management practices with performance is also clear in other sectors outside manufacturing”. The benefits of management quality on firm performance for manufacturing firms are taken to be indicative of the general benefits of improving management quality across all industries.

A series of models were run which sought to calculate the effect of management quality on firm performance. Using the management scores of firms, a management quality variable was created. A number of possible success variables were regressed on the management quality variable, such as sales, size, return on capital, sales growth and bankruptcy. For example, the follow regression of firm sales ($Q_{it}$) was estimated:

$$\ln Q_{it} = \alpha M_{it} + \alpha L_{it} + \alpha K_{it} + \alpha X_{it} + u_{it}$$

Where $M_{it}$ is a management quality variable for firm $i$ at time $t$, $L$ is the number of employees, $K$ is the capital of the firm, $X$ is a vector of control variables, such as the proportion of employees with college degrees, and $u$ is the error term. They find that better managed firms are generally larger, earn a higher return on capital employed and are significantly more likely to grow and less likely to fall bankrupt and have a higher market value relative to their measurable assets. For instance, a one standard deviation increase in management quality increases average firm employment by 194 workers. Evidence from randomised control trials suggests that these positive correlations between management quality and firm performance are causal.  

7 Bloom, Eifert et al. (2011) undertook a randomised control trial in India where firms were a random subset of firms received intensive management consulting. Compared to the control firms that did not, the intervention firms increased their productivity by 11%
The extent to which economic resources are reallocated to better managed firms depends on the flexibility and competitiveness of a country’s markets. Lower trade barriers and more flexible labour promote a greater relocation of resources. Management scores were therefore reweighted to reflect the strength of this allocation effect, creating an aggregate management index \( M \) that presents management scores in z-scores:

\[
M = \sum M_y + \sum (M_i - \bar{M}_i) (Y_i - \bar{Y}_i) + M = OP + \bar{M}
\]

Where \( M \) aggregate management index, \( Y \) is a measure of firm size (such as employment), \( M \) is an unweighted average management score and \( OP \) is the ‘Olley Pakes’ covariance term that reflects the reallocation effect.

Using this management index, it is possible to examine the extent to which management explains cross-country differences in TFP. This is done by comparing each country’s TFP gap to their management gap. Based on regressions of firm performance on management quality and prior empirical work, Bloom et al. estimate that a one standard deviation increase in management causes a 10% increase in TFP. They can therefore estimate that management quality explains 29% of country’s the TFP gap with the US on average:

\[
\text{Proportion of TFP Gap due to Management} = \alpha M \times \frac{M - 0.67}{\text{TFP gap with USA}}
\]

Where \( \alpha \) is the effect of a one standard deviation increase in the management score on TFP, based on Bloom et al. 2013. \( M \) is the share-weighted average management score of a given country and 0.67 is the share-weighted average management score of the US.

Using the estimated TFP gap between Australia and United states 23% (Jones & Romer, 2010), it is therefore possible to estimate the effect of halving the gap in management quality between the United States and Australia on GDP. Australia’s productivity would rise 3.3 percentage points (29% of half of 23%). A 3.3 percentage point increase in productivity would raise Australia’s TFP by 4.33% from its current level of 77% of America’s TFP (Jones and Romer, 2010) to 80.3% of America’s level. This increase in TFP would directly raise GDP by 4.33%.
Appendix B

Business Longitudinal Data

Data used
The regression analysis in the report uses data from the Australian Bureau of Statistics’ Business Longitudinal Data 2004-05 to 2009-10. The data is based on mail-out/mail-back questionnaires of businesses, with the aim of representing the business population of Australia.

The sample is divided into two panels. The first panel contains 2732 firms and is representative of the business population as at 30 June 2005. The second panel contains 3432 firms and is representative of the business population as at 30 June 2006. Each panel is surveyed once a year for five years.

The businesses in the survey are classified by industry, size and company type (company, sole proprietor, partnership or trust). They are asked a wide variety of questions, including on skill shortages, business focus, business performance, business changes, finance and technological sophistication. In all, businesses were asked 463 questions.

Panel 2 was chosen for the analyses done using the BLS data for three reasons:

- It has a larger sample size
- The data is one year more current
- It includes a revenue variable, where Panel 1 does not.

Dependent variable
This report seeks to determine the characteristics of individual businesses which contribute to business success. Success can be defined in absolute (for example meeting revenue growth targets) or relative terms (for example outperforming other businesses). We looked at whether or not a firm had above average revenue growth in a year (i.e. success was measured relative to other businesses).

The model considers contributors to relative success, using a generated variable, $R_D$, as a dummy dependent variable. $R_D$ was assigned a value of 1 for any firm who had above average revenue growth in a given year and a value of 0 if it did not.

$$R_D = \begin{cases} 1 & \text{if } R > \frac{1}{n} \sum_{i=1}^{n} R_i \\ 0 & \text{if } R \leq \frac{1}{n} \sum_{i=1}^{n} R_i \end{cases}$$

The model thus produced estimates for the probability that a firm would have above average revenue growth in a given year.
Independent variables

The model is a simple linear regression using an ordinary least squares methodology. Using the Business Longitudinal Survey data, the success variable of achieving above average revenue growth was regressed as follows:

\[ \text{Success} = \alpha_0 + \sum_{i=1}^{12} \beta_i \cdot \text{industry}_i + \sum_{i=1}^{4} \beta_i \cdot \text{int\'lmeasures}_i + \sum_{i=1}^{24} \beta_i \cdot \text{focus}_i + \sum_{i=1}^{5} \beta_i \cdot \text{customertype}_i + \sum_{i=1}^{2} \beta_i \cdot \text{useofweb}_i + \sum_{i=1}^{2} \beta_i \cdot \text{processes}_i + \epsilon \]

Where:

• 12 variables for each industry category (as identified in the 1993 ANZSIC system)
• 4 variables for international measures such as foreign ownership and exports of goods or services
• 24 variables for intensity of business focus on financial measures, cost measures, operational measures, quality measures, innovation measures, human resources
• 5 variables for customer type – big, small-medium, public, foreign and how dependent businesses are on them
• 2 variables on use of the web for placing or receiving orders
• 2 variables on whether firms introduced new operational processes or any new organisational/managerial processes.

Once a dummy was dropped for relevant variables (to avoid multicollinearity) the degrees of freedom was 42.

Model results

Table B.1 shows the estimated coefficients and corresponding p-values from the model. Coefficients from can be interpreted as the impact of each variable has on the likelihood of a business achieving above average revenue growth, holding all other items equal.

The model was run using 7,033 observations because we observe businesses over a five year period. There are some reductions because of missing data and attrition from the survey.
### Table B.1: Coefficients from regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>0.10</td>
<td>0.02</td>
<td>0.00</td>
</tr>
<tr>
<td>Mining</td>
<td>0.11</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.03</td>
<td>0.02</td>
<td>0.20</td>
</tr>
<tr>
<td>Construction</td>
<td>0.04</td>
<td>0.03</td>
<td>0.16</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail trade</td>
<td>-0.03</td>
<td>0.02</td>
<td>0.21</td>
</tr>
<tr>
<td>Accommodation, cafés and restaurants</td>
<td>0.01</td>
<td>0.03</td>
<td>0.85</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>0.00</td>
<td>0.03</td>
<td>0.94</td>
</tr>
<tr>
<td>Communication services</td>
<td>0.01</td>
<td>0.03</td>
<td>0.77</td>
</tr>
<tr>
<td>Property and business services</td>
<td>0.07</td>
<td>0.03</td>
<td>0.01</td>
</tr>
<tr>
<td>Cultural and recreational services</td>
<td>0.00</td>
<td>0.02</td>
<td>0.90</td>
</tr>
<tr>
<td>Personal and other services</td>
<td>0.00</td>
<td>0.03</td>
<td>0.98</td>
</tr>
<tr>
<td><strong>Any foreign ownership</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports goods</td>
<td>-0.05</td>
<td>0.06</td>
<td>0.39</td>
</tr>
<tr>
<td>Exports services</td>
<td>0.02</td>
<td>0.05</td>
<td>0.74</td>
</tr>
<tr>
<td>No exports</td>
<td>0.00</td>
<td>0.06</td>
<td>0.94</td>
</tr>
<tr>
<td><strong>Business focus – financial measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not at all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small extent</td>
<td>0.04</td>
<td>0.03</td>
<td>0.13</td>
</tr>
<tr>
<td>A moderate extent</td>
<td>0.00</td>
<td>0.03</td>
<td>0.89</td>
</tr>
<tr>
<td>A major extent</td>
<td>-0.01</td>
<td>0.03</td>
<td>0.74</td>
</tr>
<tr>
<td><strong>Business focus – cost measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not at all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small extent</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.58</td>
</tr>
<tr>
<td>A moderate extent</td>
<td>-0.02</td>
<td>0.02</td>
<td>0.55</td>
</tr>
<tr>
<td>A major extent</td>
<td>-0.02</td>
<td>0.03</td>
<td>0.46</td>
</tr>
<tr>
<td><strong>Business focus – quality measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not at all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small extent</td>
<td>-0.02</td>
<td>0.02</td>
<td>0.32</td>
</tr>
<tr>
<td>A moderate extent</td>
<td>-0.02</td>
<td>0.02</td>
<td>0.32</td>
</tr>
<tr>
<td>A major extent</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.62</td>
</tr>
<tr>
<td><strong>Business focus – operational measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not at all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small extent</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.58</td>
</tr>
<tr>
<td>A moderate extent</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.80</td>
</tr>
<tr>
<td>A major extent</td>
<td>0.01</td>
<td>0.02</td>
<td>0.77</td>
</tr>
</tbody>
</table>
### Business focus – innovation measures

<table>
<thead>
<tr>
<th>Business focus – innovation measures</th>
<th>Coefficient</th>
<th>Std Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small extent</td>
<td>0.04</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>A moderate extent</td>
<td>0.03</td>
<td>0.02</td>
<td>0.07</td>
</tr>
<tr>
<td>A major extent</td>
<td>0.07</td>
<td>0.02</td>
<td>0.00</td>
</tr>
</tbody>
</table>

### Business focus – human resources

<table>
<thead>
<tr>
<th>Business focus – human resources</th>
<th>Coefficient</th>
<th>Std Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A small extent</td>
<td>-0.03</td>
<td>0.02</td>
<td>0.07</td>
</tr>
<tr>
<td>A moderate extent</td>
<td>-0.04</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>A major extent</td>
<td>-0.10</td>
<td>0.02</td>
<td>0.00</td>
</tr>
</tbody>
</table>

### Main source of income

<table>
<thead>
<tr>
<th>Main source of income</th>
<th>Coefficient</th>
<th>Std Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main source of income – large business</td>
<td>0.01</td>
<td>0.02</td>
<td>0.58</td>
</tr>
<tr>
<td>Main source of income – small/medium business</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.40</td>
</tr>
<tr>
<td>Main source of income – general public</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.51</td>
</tr>
<tr>
<td>Main source of income – overseas</td>
<td>0.00</td>
<td>0.03</td>
<td>0.87</td>
</tr>
<tr>
<td>Main source of income – reliance on small number of customers</td>
<td>0.01</td>
<td>0.01</td>
<td>0.30</td>
</tr>
</tbody>
</table>

### Operational/managerial processes

<table>
<thead>
<tr>
<th>Introduced new or improved operational processes</th>
<th>Coefficient</th>
<th>Std Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Placed orders via the internet</td>
<td>0.00</td>
<td>0.01</td>
<td>0.93</td>
</tr>
<tr>
<td>Received orders via the internet</td>
<td>0.00</td>
<td>0.01</td>
<td>0.82</td>
</tr>
<tr>
<td>Constant</td>
<td>0.23</td>
<td>0.07</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Deloitte Access Economics modelling
A few key points stand out from the results:

- Many factors do not record statistically significant impacts on business success. This could either reflect issues with the accuracy or completeness of the data or may simply reflect the complexity of relationships – for example, while a focus on financial measures may help a business, they may arise more commonly among businesses in financial distress.

- For the majority of industries, the likelihood of revenue growth being above a benchmark industry’s revenue growth (wholesale trade was selected, for convenience) was not statistically significant. The exceptions were agriculture, mining and property and business services, whose likelihood of stronger growth was statistically significant.

- Two business factors had a statistically significant impact on business performance.
  
  - Improving organisational/managerial practices made businesses 3% more likely to have above average revenue growth.
  
  - Focusing on innovation measures to a major extent made businesses 7% more likely to have above average revenue growth.

The BLS is clearly a valuable source of information about business. Other research has found statistically significant relationships such as between start-ups and jobs growth using the database. However, statistical significance becomes more difficult when dealing with more specific business features (Hendrickson et al, 2015). Given these limitations, the explanatory power of the model is not strong and the results should be used with caution. However, the data provide useful corroborative evidence for the hypotheses that improving management and focusing on innovation are good for business.
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