ATTRACTING THE BUSINESS WE NEED

ADELAIDE, SOUTH AUSTRALIA:
SUPPORTING EVIDENCE
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Attract Business activity

Where are new sources of growth?

Growth is an evolutionary process that does not occur smoothly or continuously but rather occurs in spurts[21]

If this statement is correct, how do we ensure South Australia's next decade is a spurt of growth, and not a steady decline? By identifying where new sources of growth exist. We want to be a city where the big business decisions are made here. This means promoting new ventures that bring new sources of growth, and are headquartered here.

A thriving knowledge economy is a prerequisite for innovation and growth. Knowledge intensive sectors of the economy are commonly responsible for higher rates of value-added growth. For example, consider the development of the Apple ipod which, in 2006, was responsible for around 41,000 jobs worldwide. 14,000 were inside the US. 27,000 were off shore. US workers (where knowledge was deployed in the design, R&D, software development and marketing) earned a total US$753m, while almost twice the number outside the US earned US$318m - less than half[22].

Communities that invest in knowledge-based capital see growth because knowledge can be leveraged - in R&D, design and new business models - over and over again without incurring costs of acquiring knowledge. Meaning that knowledge produces the ultimate economies of scale in production. In Australia, since 1974-75, average annual growth of investment in knowledge capital has been around 130% that of investments in physical assets such as machinery, equipment and buildings[23].

Companies like Google that are experiencing high growth are investing in their own knowledge capital. In 2009, physical assets accounted for only 5% of Google's worth[24].

Even more important for South Australia's economy is the need for us to compete in a globally integrated market through our ability to innovate. Research shows that in sectors particularly exposed to overseas imports, jobs and survival rates have fallen in firms that innovate less, but have been relatively protected in high-tech firms[25]. Innovating is essential to competing, and competing successfully is the basis for growth.

Adelaide's existing ecosystem

As of June 2012, South Australia[26] had 148,138 businesses and the second highest survival rate for businesses, after Tasmania (illustrating that ours is a resilient market operating lean business models), but this is in a declining trend. 814,400 people are employed across all sectors in the state[27].

"Business activity can create jobs and entrepreneurial opportunities, cultivate inter-firm linkages, enable technology transfer, build human capital and physical infrastructure, generate public revenue for government and offer a variety of products and services to consumers and other businesses..[28]"

A major policy focus must be to grow the enterprise ecosystem in South Australia if we are to have a sustainable economy. This means engineering the right conditions to attract large listed corporations, large and mature family businesses, and to exploit the emerging potential of the micro and small sector.

Growth in business brings a series of cascading benefits to communities including;
- companies with consistent growth rely on the goods and services around them; supporting the growth of new products and business models to service them - creating opportunities for small companies to scale up, boosting employment and driving innovation
- high growth companies are able to continually create new opportunities, including 'spin out' companies and jobs
- high value (and often disruptive) innovation comes from having smaller companies that are 'placing small bets' but these smaller companies operate 'under the cover' of larger enterprises demanding their services[29]

Creating the right conditions for business start-up, survival

21 Ed Hess, 2013, *Growth is the dynamic confluence of strategy, entrepreneurship, and values*, p6 quoting Edith Penrose "the theory of growth of the Firm"
22 OECD, *New Sources of Growth* p2
23 OECD, *New sources of Growth* p3
24 OECD, *New Sources of Growth* p2
25 OECD, New source of growth p9
26 ABS June 2008 to June 2012, *Counts of Australian businesses, including entries and exits*
27 South Australian Public Sector Workforce information June 2012 Table 2
28 Harvard University *The Role of the Private Sector in Expanding Economic Opportunity through collaborative action*
29 Hess, p17

and growth is essential. Industry groups like Business SA understand this, and have called for clarity in the government's role in supporting business growth; and for this to be reflected in a coherent set of policies and programs across taxation, export assistance and skills development[30].

Growth is probability-based, requiring a range of growth initiatives to be in play at any one time[31]. So we too need a range of strategies to be deployed if we are to generate growth in South Australia. This is one example where we need to walk and chew gum at the same time. Later in this report we offer some examples of where new sources of growth may be found.

So can we afford to attract new enterprise?

Evidence shows that cities that fail to compete in tailoring tax breaks for business, often fall behind. Attracting firms with financial incentives sends a signal that a city is "open for business" but evidence also shows that excessive competition to attract businesses can lead to economic loss.

There are a range of strategies available to cities like Adelaide to ensure costly mistakes aren't made, including designing incentives to include independently verifiable requirements that firms actually generate the promised jobs and economic growth – or else pay back some of the subsidies, or getting citizens much more involved, by vetting proposed deals in a public forum where officials would have to spell out expected gains in jobs and growth. The logic is that officials would be more accountable to voters if the deal turns out to be nothing more than a costly give-away[32].

As a guide to the scale of financial incentives being offered to large global enterprises, the US city of Chicago lured Boeing from Seattle with $50m in tax incentives totalling around $100,000 per job[33], while the US state of Alabama offered Mercedes-Benz around $168,000 for each new job[34].

Adelaide can't, and shouldn't get in to a beauty contest based on financial incentives. But we can compete by offering a combination of financial and non financial incentives. This is where the South Australian quality of life plays a critical role, and the work of Brand South Australia moves from a sophisticated graphic device, to a solid strategy integrated with business investment, policy settings and an entrepreneurial public sector.

Financial incentives

Ireland's success in attracting high profile global knowledge-based industries to Dublin has been attributed to generous financial incentives; specifically designed to appeal to R&D-intensive enterprise including;
- A 25% R&D tax credit – designed to encourage companies to undertake new or additional R&D activity in Ireland.
- incentives to generate qualifying patents – up to €5 million of annual qualifying income can be exempt from Irish tax
- A maximum corporate tax rate of 12.5% on all corporate trading profits generated by RD&I activities[35]

Non financial incentives

We are already strong in the non financial incentives that many cities struggle to offer, including those mentioned earlier; natural amenities, cultural amenities, symbolic amenities, built amenities[36]

Adelaide was ranked 5th in the Economist Intelligence Unit's 2013 Global Liveability Index. However when Mercer rated Adelaide's infrastructure - measuring energy and water provisions, telephone, mail, public transportation, traffic congestion & airport effectiveness - Adelaide was placed 37th[37].

Continued, methodical and evidence based investment in the strategic infrastructure the state needs - and the avoided cost of infrastructure that is not critical to the performance of state growth, presence and market growth - must be maintained as a strategic plank in business attraction.

State and local government collaboration to roll out Adelaide's 'Vibrant city' agenda is an important start. A fresh State brand is a useful device for global audiences. Initiatives

30 Business SA 2010 A charter for a prosperous South Australia
31 Hess p21
32 University of Oklahoma, Cynthia Rogers, April 2013 *How competition to attract businesses leads to economic losses for cities and states: Key findings*
33 UC Berkeley, David Card, Kevin Hallock, Enrico Moretti, 2009 *The Geography of Giving: The Effect of Corporate Headquarters on Local Charities*
34 as above

35 IDA Ireland http://www.idaireland.com/business-in-ireland/research-development-and-/incentives-in-rdi/
36 INTELI, June 2011, Creative-based strategies in small and medium-sized cities: guidelines for local authorities p50
37 Mercer Quality of Living Worldwide City Rankings, 4 December 2012

that upgrade city infrastructure in tandem with cultural programs, markets and 'pop up' style events can be an effective strategy to engage interstate markets.

However, short term and temporary events must not detract from investment in the long term upgrade of urban infrastructure such as our streets, squares and public spaces, public transport, trams, rail and road that catalyse private sector investment and business growth. These are essential in attracting, retaining and growing the enterprise culture in Adelaide.

Elements of an enterprise ecosystem

An ecosystem is an interdependent community - a self sustaining mix that is in balance with its surrounds. It implies a range of size, scale and types of enterprise that is not exclusive, and grows organically.

Adelaide's enterprise ecosystem is currently out of balance. We have only one local business ranked in Australia's Top 50 listed companies. Our SME sector which is our lifeblood, is struggling to survive or grow, let alone innovate. An emerging start up sector is searching for support and capital.

Governments, industry groups, communities and businesses and leading individuals must work together on a plan that tailors strategies for large corporate firms, family business and smart start up, micro businesses, that considers lower corporate tax rates along with an aggressive and creative campaign to an interstate and global audience. Enterprise needs digital infrastructure of a global standard; digital dark fibre, ubiquitous public WiFi, seamless transport as well as regular, reliable international flights and connections. It needs strong, bipartisan and vocal political support for the best intellectual protection in Australia.

Why is 'headquartering' important?

Research shows that a corporation will direct around 70% of its donations to the city of its headquarters[38]. Santos may be our largest public company, but it's not our only big 'headquartered' business. In 2011/2012, the Coopers Foundation distributed around $450,000 to 30 Australian charities, and has contributed around $1.75m since 2007[39].

38 as above, p5
39 Coopers Foundation, Coopers Brewery Foundation 2012 Annual Report p1

Locally headquartered corporations generate revenue for their local community, support local not for profit, cultural, sporting and charity organizations. We need to grow this pool. So which are the right industries to attract?

The value of R&D-intensive industries

"Due to the increased internationalization of business R&D, foreign-controlled multinational enterprises are now seen by most governments as a central actor in national innovation systems and as a catalyst for upgrading in global value chains[40]"

If we want to compete with other cities, and regional economies then we must move to a knowledge-intensive, value-based - not a priced-based - economy. This means promoting sectors that *create* value and can compete on the basis of higher value return for input.

An enabling environment for R&D includes;
- advanced technology strategies and infrastructure
- access to world class research and skilled labour
- the cost of labour, especially for lower end R&D activities
- other multi national enterprises active in R&D
- public incentives to promote corporate R&D
- smart intellectual property protection
- climate and quality of life
- language skills of the local population
- bureaucracy and time associated with creating and functioning an R&D enterprise[41]

An R&D-friendly environment means offering the best market for ideas to be converted in to products and services. This demands a contemporary, robust environment that promotes the development of new ideas, and provides the right conditions for Intellectual Property Rights, access to finance and market testing.

Demonstrating an industry-centred understanding of intellectual property rights and copyright would act as an agent to attract multi national enterprise, and small high value creating firms with limited capacities to negotiate or enforce their rights.

40 Jose Guimon, Paper presented at the Global forum on International Investment, 2008, *Government strategies to attract R&D-intensive FDI*, OECD
41 Jose Guimon, p3

"Beyond incentives, the availability of world-class researchers is arguably a more critical location driver for R&D-intensive Foreign Direct Investment. This calls for policies to increase the number of scientists and engineers...[1]"

OECD paper p5

And it's no small part of Australia's economy. A 2012 study by Pricewaterhouse Coopers found that Australia's copyright industries generated $93.2 billion in economic activity (around 6.6 percent of GDP), accounted for just over $7 billion in exports;and employed more than 906,000 people - or 8% of the nation's workforce[42].

Yet the report goes on to note a 'perfect storm' generated by the rise of digital means of production, the rise of internet use and other technology-related factors has impacted the growth of copyright-related industries, and that appropriate regulatory models that support this high value sector are yet to be developed.

In South Australia, this suggests that around $6.2bn of annual economic activity and 42,245 jobs could be at risk without a contemporary regulatory framework in place[43].

Adelaide - Australia's creative capital - must set the pace in designing a 21st C framework for intellectual property rights that balances exclusive rights and competition, but also recognises the disruptive nature of information technology and the increasingly open source character of value creation.

A number of OECD countries are rethinking their Intellectual Property frameworks[44]. Adelaide can be the global leader in a new generation of intellectual property protections that attract the R&D investment of multinational enterprises keen to register copyright and design rights, to commercialise, prototype and trial in Adelaide's market. We can simplify and streamline the registration for products with short product cycles which are common in high value creating technology focused firms.

Attracting highly skilled workers for innovation

In a knowledge economy, people are assets. So any initiative to attract R&D intensive companies to establish a presence in Adelaide must include policies to attract and retain skilled migrants with innovation skills, and expertise in science, design and engineering. In fact, because location decisions are commonly made because of personal relationships, "governments are advised to provide targeted support to talented scientists in a flexible and personalized manner, and to build upon their expertise for investment promotion purposes".

Global firms are increasing their spend on R&D in subsidiaries away from headquarters and this constitutes a powerful mechanism of international technology transfer which can enable host locations to develop specialized clusters and integrate better in to global value chains. It can also ease access to Foreign direct investment.

Adelaide must compete for talent in areas where we have strength, and where we apply a creative approach to genuine innovation in new sectors that have a high growth future, but work in smaller, highly connected economies like ours.

We've included three examples of how we can grow new industries by drawing from existing sectors that can be better joined up. This can be helped by greater transparency in the design of government policy so industry and communities can be meaningful players. It means being more open, more early.

Getting serious about growing these sectors demands that we assemble passionate, talented and skilled champions from across government, the private sector and from leading centres of research, with licence to call for reform where it's needed most.

We have experience with this model of broad scale engagement and a skills-based taskforce, but we also have experience with bold, evidence-based and ambitious reforms being watered down or stifled by governmental process. The result is often good work and serious investment being lost in translation with the only outcome being fodder for the nightly news.

42 pwc, 2012, The Economic Contribution of Australia's Copyright Industries p4
43 as above p19 and p28
44 OECD New sources of growth p16

Universities as hubs in the knowledge economy

The growth of the high-value knowledge economy will be greatest in those cities where knowledge is created and effectively exchanged. Adelaide can do more to integrate research and innovation in our industry value chains. Our smaller scale allow this to happen more broadly and systemically than the chance encounters and fraught logistics of larger cities.

The primary source for research comes from our universities. Universities attract talented researchers, teachers and post graduate students on their global ranking. But South Australia's universities are yet to be ranked within the top 200 globally, and only the University of Adelaide is ranked in the top 10 nationally[45].

The growth and performance of our universities matters, and must be seen as a priority. Commercialisation of research can yield big returns.

The best way to support our Universities is to demonstrate innovation in product development that results from research partnerships. This requires our researchers to have an industry mindset, and an industry with a patient respect for the research environment. This is something we must continue to foster if we want to be a global test bed for ideas and innovations.

Universities make ideal developers. Our universities are not only centres of teaching and learning, but are also highly valuable partners in the long term development of the city. University capital is generally patient capital; projecting returns over decades and developing assets that enliven the city, commerce and the night time economy.

We have traditionally viewed Universities as discrete training providers, and not as strategic partners in the growth and development of Adelaide. And not as essential hubs in the innovation network.

What should we do?

Be bold. Establish an Enterprise Attraction Program devised and implemented jointly by a broad skills based taskforce comprising 50% private sector, 20% gov, 20% university sector, and 10% not for profit to identify global and interstate players for tailored attraction. The program could be delivered as part of the Brand South Australia initiative to demonstrate the depth and connection of the brand to business.

The program should comprise financial and non financial incentives such as;

1. Develop a focused rationale to attract enterprise sectors that are R&D-intensive, and support complex value chains such as; pharmaceuticals, nanotech and biotech, medical and health-related technologies; defence, space, flight and civilian technology, simulation, sensing and robotics and ICT-intensive industries from the emerging fields of big data, digital and green technology networks, media and computing

2. Ensure advanced innovation skills exist in overseas trade offices, and are boosted on government websites using industry-focused language and character, and with authority to negotiate directly with inward investors on R&D-related incentives

3. Move first to assemble a nationally respected, high profile taskforce of industry, policy experts and leading researchers with experience in commercialisation to prepare a milestone vision document to rethink Intellectual Property in the 21st Century; the legal and financial implications of technology and globalised business. Further, partner with the Australian Government, and a regional body such as ASEAN or the UN to ensure a regional framework results to foster alignment of intellectual property between jurisdictions.

4. Consider the role of social enteprise. Australia's not for profit sector remains an untapped resource for smart, well-connected and socially responsible enterprise that is large, and continues to grow. Adelaide can be Australia's centre for social enterprise; building on strengths we are known for.

45 2013 ARWU SHJT Shanghai Jiao University China Academic Ranking of World Univerisities (15 August 2013)


Santos
tour
down
under
Santos
Santos

The value of stable giants

Large, globally connected corporations provide a sort of 'stability' to the labour market and local economy, as well as providing a complex demand for the goods and services large enterprises need. As an example, more than 400 small to medium enterprises support South Australia's defence sector[46].

Large companies generally have an established culture of employee skill development and mentoring which acts as a training ground for motivated individuals that can use this knowledge to 'spin off' and form smaller enterprise.

But besides the jobs and economic activity generated by large companies, Adelaide's global network presence is aided by organizations that operate in foreign countries and exchange staff, knowledge and ways of working that slipstream Adelaide in to the global economy.

Large companies also support local communities.

Supporting local charitable organizations

The link between corporate activity and charitable giving is better documented overseas than in Australia. But it is an established fact of corporate life that business provides support to the community in which it trades. Generally this is seen as essential to securing a 'licence to operate'; the means by which a community permits an enterprise the scope to build a business with its support.

Attracting or retaining the headquarters of a publicly traded firm can yield around $3-10 million per year in contributions to local non-profits[47]. Furthermore, each $1000 increase in the market value of the firms headquartered in a city yields $0.60-1.60 to local non-profits[48].

These are US figures where the conditions and expertise around giving, and recognising the giving is an established culture that we would do well to learn. Afterall, corporate giving in the US is estimated to total $14bn each annually[49].

What fields of interest do corporations tend to support? A Business Council of Australia report references excerpts from the Donations Policy from a major resources company that shows support is generally evenly shared between a number of sectors, including; arts, environment, sport, community or charitable organizations and science, technology or education.[50]

South Australia's only Top 50 company, SANTOS, gave $16m in sponsorship and support to local communities in 2012. This includes seed funding for affordable housing projects, support for artistic and cultural enterprise, the provision of dental facilities in remote communities, and environmental care programs. More than $6m of that was directed to South Australia's arts organizations, health initiatives, environment, indigenous, youth and community programs[51].

This program of support expands the contribution that SANTOS makes beyond providing around 1,600 direct jobs, and around 2,300 more in contract positions.

Large companies generate value to shareholders, create demand for goods and services from a supporting SME sector, provide employment for locals, support charity and not for profit initiatives as well as being recognised as the training ground for the next generation of small or start up companies that bring renewal and innovation to our economy,

But can we continue to rely on SANTOS as Adelaide's only Top 50 company headquartered in South Australia?

For Adelaide's enterprise to thrive, we need to develop a deeper range of enterprise activity that includes large publicly listed corporate organizations, and privately owned businesses as well as the micro enterprises that too often sail under the traditional radars yet which evidence shows, contribute to job creation, idea forming and new products for new markets.

We explore the potential, and the needs of this enterprise ecosystem and ask; how can we boost the economic activity across the range and scale of business in Adelaide?

46 SA Defence Business, May/June 2010 Bright Future: how SME's are crucial to SA's Defence Industry p11
47 UC Berkeley, David Card, Kevin Hallock, Enrico Moretti, 2009 The Geography of Giving: The Effect of Corporate Headquarters on Local Charities p3
48 as above p3
49 as above p5

50 Australian Government, Business Council of Australia and the Centre for Corporate Public Affairs 2007, Corporate Community Investment In Australia p27
51 SANTOS Sustainability Report, *Delivering Sustainably* 2012

Coopers

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Why it's all in the family

Family Business Australia believes that around 70% of all businesses in Australia are family-run businesses. A family business is generally defined as involving two or more related individuals who work together in a commercial enterprise that is controlled by one or more of them[52]. Family businesses are also defined by their unique structure, which may include over 100 family shareholders across a number of generations.

Incredibly, there is no authoritative data on the number of family businesses in South Australia. In 2008, the South Australian government estimated that around 53,000 businesses in South Australia were family-run, employing around 55% of the total private workforce[53]. If these figures are accurate, family-run businesses are a critical part of South Australia's enterprise ecosystem.

Many of our family businesses are well known, and help define the state's profile interstate and overseas. Just think of Beerenberg, Spring Gully, Detmold, Haigh's. These family businesses reflect the unique strength of Adelaide's social networks, and in many case, reflect our agricultural and manufacturing past.

A Senate Committee report, Family Businesses in Australia - different and significant; why they shouldn't be overlooked found that the family business sector has been overlooked by Australian governments, and that as a consequence, policies, programs and incentives often fail to support the unique needs of family-run enterprise.

Family run businesses are heavily represented in sectors that are central to the South Australian economy and include farming, tourism, trades, construction and transport, and they have common features and traits that distinguish them from non-family enterprises.

A strong family business environment can indicate a positive underlying enterprise framework defined by the recurring characteristics found in family-run enterprise, including;

- A long term approach to investment decisions - often measured in generations, not financial year accounting or short term performance bonus' for executives.
- An aversion to risk which may mean that family-run businesses don't generate as much revenue as non-family companies, but in difficult times family firms outperform their peers[54].
- Rapid decision making suited to a dynamic business environment where family members - unconstrained by a Board structure - can agree on strategy and direction quickly and at short notice.
- Generally a greater commitment to retaining staff in difficult times according research published in the Harvard Business Review including examples where family members have taken pay cuts to keep their staff
- Significant contribution to the community in which they operate, including support for youth, sporting and cultural programs in local communities
- Higher labour productivity than non-family firms[55]

These traits are measurable in the balance sheet assets, their debt to equity ratio, the tenure of family business CEO's, the average number of years of employee service in family businesses and the businesses' philanthropic contributions as reported to the Australian Tax Office.

There can be a view that family businesses are less productive or professional than non family business. But evidence suggests the contrary. In fact, in family-run businesses, the contribution of labour to output is generally greater than capital to output[56] - meaning that you get more out of family-run enterprises because of their unique commitment to the business which can be measured in the additional time and effort invested.

Family-run businesses often embrace vertical integration over outsourcing as a competitive advantage because suppliers are often seen as an extension to the family. Because of this emphasis on personal connections, family businesses are often characterised by strongly local supply chains; deeply embedded in local regions and often not based on lowest cost performance.

Family businesses are not only those small shopfronts on our mainstreets, but also include some of South Australia's

52 MGI/RMIT Australian Family and Private Business Survey 2013 p13
53 Dennis Jaffe, The Future of Family Business in South Australia, p11. Estimates based on ABS figures

54 Nicholas Kachener, George Stalk, and Alain Bloch November 2012 What you can learn from Family Business, Harvard Business Review
55 Senate Report, Family Businesses in Australia - different and significant; why they shouldn't be overlooked
56 as above

largest and most valuable global brands, including;

Thomas Foods International
Founded in 1988 and based in Murray Bridge, Thomas Foods International is Australia's largest family-owned meat-processing company with annual revenue of more than $1bn[57]. Major clients include IGA, MacDonalds, Coles, Woolworths and Tesco.

Coopers
Coopers Brewery was founded in 1862 and is currently managed by the fifth and sixth generation of the Coopers family. Coopers is Australia's largest owned brewer with $186.3m in revenue in 2011/2012. In 2012, Coopers generated a 17.5% full year profit - outperforming the giants like Japanese-owned Kirin and SABMiller[58].

Family-run businesses are significant players in global markets. In the US, around one third of all companies in the S&P 500 index are family-controlled and many outperform their competitors due to their long term view of investment[59]. Internationally, family-run businesses include some of the most successful global companies including Hyundai, Samsung, News Corp, Wal-mart, Porsche and Sainbury's.

Challenges in family-owned business

But family businesses also face a number of challenges when competing in a fast moving marketplace that is increasingly leveraging frontier technology to expand their market share. For example, the overwhelming majority of family businesses do not use social media to communicate with their customers[60].

A third of businesses do not use design as part of their business strategy, and 76% of family business owners report that profitability has stayed the same or declined. 64% are uncertain or have negative expectations of the next 12 months.

If this is true - and if it's true that 55% of our workforce is employed in family-run business - then half of South Australia's workforce may be in fragile employment with declining prospects, and in businesses that are struggling to use technology to stay competitive. There is a social and economic cost to business failure and South Australia must act to support this important segment of our enterprise ecosystem.

The challenges and threats to family businesses are different to those faced by publicly listed companies. Just some of the challenges include;

Managing succession: Handing down a business between generations can be difficult. Family members may not wish to inherit the business, and evidence suggests that only 40% of family business owners intend to hand down the business to the next generation .

Internal conflict: Unlike non-family business which relies on professional managers with performance practices, family businesses are susceptible to the usual breakdowns of human relationships we all experience in our own family.

Access to finance: The risk averse mindset of family businesses can act as a disincentive to seeking finance options like private equity. Many financial institutions don't distinguish between family businesses and non family enterprises when determining the risk associated with the family business sector.

Passing down or passing up?

A survey by PwC found that 40% of family-run businesses intend to pass down the business and management to the next generation. The remainder are twice as likely to sell or float than bring in professional managers[61]. Passing down is not easy, and this is where family business becomes everybody's business. If businesses fail, jobs are lost and impact is felt by communities.

The majority of family-run businesses lack a formal constitution that might detail what should happen in the event of family death or incapacity, what sort of entry and exit provisions there are for new family members or non family members, and how and when third party mediation might occur in the event of conflict[62]. And a sizeable

57 www.tandrpastoral.com.au
58 Sydney Morning Herald, Business Day, 17 October 2012, Coopers goes from (full) strength to strength, Eli Greenblat
59 Business Insider Australia, 18 November 2011 "The 10 largest Family Businesses in the US" Karlee Weinmann, Aimee Groth
60MGI/RMIT Australian Family and Private Business Survey 2013 p8
61 Price Waterhouse Coopers, Spring 2012, Growing the future of Australia's family businesses,
62 as above (PwC) - just 16% of family businesses report having a constitution

"Family businesses are important to the economy, and how successful or unsuccessful family businesses are will affect many people. Family businesses are not a separate discipline but a vital part of the State's economy and community[1]"

Dennis Jaffe p17

majority do not have a formal Board of Directors.

This is important when you consider that a quarter of all family businesses are owned by those at retirement age, and more than a third of owners do not have adequate retirement provisions in place.

For South Australia, this may mean that half of our local jobs rely on businesses that may be missing the basic infrastructure to provide stability in the event of family conflict, and in the face of rapidly developing technology. So it's important we have an intimate understanding of the particular needs of family-run businesses. And it's important that the next generation of family business owners feel that theirs is a market with a future.

What should we do?

South Australia needs more productive partnerships that bring government and industry together to actively scope what change looks like, not manage the here-and-now. A dedicated taskforce could work with the South Australian chapter of Family Business Australia to;

1. identify the number of family businesses in South Australia; their location and industries in which they operate

2. identify which family businesses are first, second, third and later generation family businesses

3. the number of family businesses established from culturally and linguistically diverse communities (establishing trade and cultural ties between cultures)
4. agree and collect data on the contribution made by family businesses to South Australia's Gross State Product, employment and export earning

5. work with family businesses to determine the value of assets and balance sheets, debt-to-equity ratios, the tenure of CEO's, and average number of years of employee service and the contribution made by the sector to cultural and philanthropic organizations

6. the effect of state regulations; tax, fees and policies on the unique needs of family business enterprise.

7. develop programs to assist the 40% intending to pass down the business to the next generation, and to ensure the 60% intending to sell or float are given every opportunity for the business to remain headquartered in South Australia.

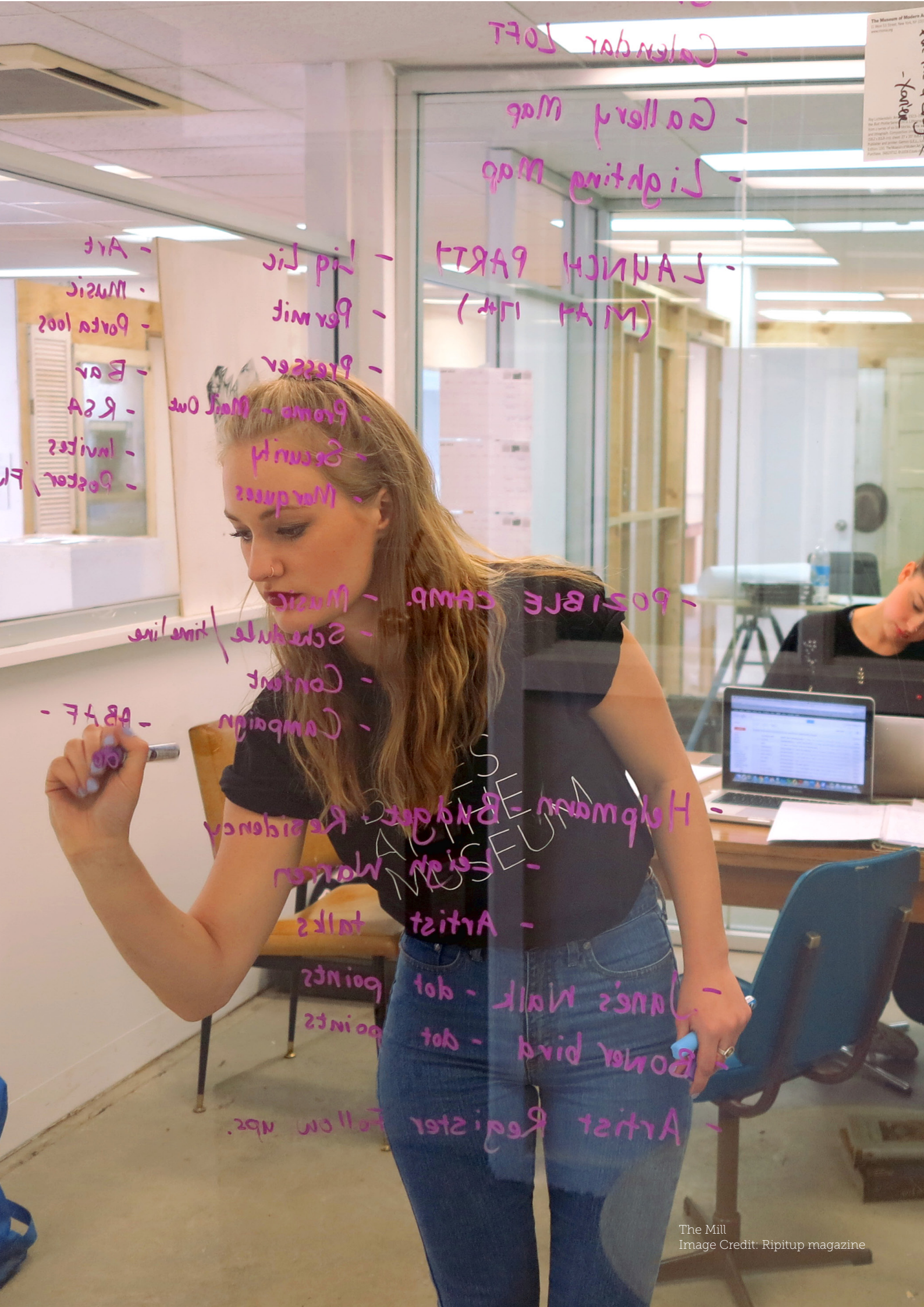
8. Revisit the work of 2008 Thinker in Residence, Dennis Jaffe and consider the report recommendations in the context of todays economic environment

The truth is, we just don't know the real contribution made to South Australia's economy by our family business sector. So we don't know if the sector will continue to grow, or if we face a volatile time. We know that succession can be a challenge for small business and we know that the likelihood of failure rises exponentially as the business is handed on.

Adelaide should be Australia's Family Business capital. If we create the conditions that make family businesses easy to sustain and grow, then part of our enterprise ecosystem should be in attracting family businesses with established reputations.

The good news is this should not involve capital incentives, but a regulatory environment that is tailored to the particular needs of a specialised - and until now largely overlooked - part of the economy. An example of this is the leadership South Australia took in 1996 to reform family trusts; a structure common to family run businesses. South Australia is the only jurisdiction to have removed limits on the duration in which a family trust may operate; abolishing the 80 year rule that limited the operation of a family trust to the approximate lifespan of a person.

Evidence suggests that growing family business in South Australia will enhance the resilience of our economy, provide stable employment - even in hard times - and grow our productivity.



The Mill
Image Credit: Ripitup magazine

Nano, micro and "off radar" enterprise

Young, micro enterprises are difficult to value for a number of reasons, and the standard techniques we use to estimate value often don't work.

These companies generally start small, and represent a small part of our economy. But their scale hides the enormous value and impact they have on the enterprise ecosystem. For example, evidence shows that start up may be responsible for up to 2/3rds of new jobs created, and that they are a means of experimentation and radical innovation. Evidence also suggests that the faster growing economies of the past two decades have high rates of new business formation[63].

Growth is probability-based, and so we need multiple sources of new growth. This is also true in new business formations, because along with growth, comes failure. A study of 5,196 start ups in Australia found that around 10% of start ups failed in any year, and more than 60% failed over a ten year period.

Yet while these micro enterprises contribute significantly to the economy, they share common traits that indicate a volatile operating environment, including; no operating history so financial and other performance data can be missing; small or no revenues, or operating losses; and a dependence on private equity; including family sources or friends for low or no interest loans.

The unique combination of these traits has fostered a culture based on the dream of 'miracle success'; overnight support gained from invisible venture capital patiently watching the emerging opportunities of growth in an idea.

Adelaide-based start up company, Teamgage, founded by Noelle and Ben Smit, scored big in 2013 when Australian basketballer Andrew Bogut - based in the US - introduced the company to Californian-based venture capital firm Metrix Capital Group Partners[64].

This is a great example of how individual relationships and introductions propelled by expatriate connections can be leveraged to promote Adelaide enterprise on a global stage.

But more sustainable growth options must be developed locally.

An online search for 'start ups' reveals a focus on technology companies developing software and apps for digital platforms. But contrary to the results, start up enterprise, and micro businesses emerge in all sectors, fields and disciplines. We can't assume that it's only tech-focused start ups, although hubs like Majoran Distillery are an important home for this nascent community. Creative design, boutique manufacturing, film and simulation, and craft based retail enterprise feature strongly in Adelaide's emerging start up scene; evident in the flourishing artist run initiatives of The Mill, Format Collective, CoWest and others.

Adelaide-based investors appear to agree we can do more to support local entrepreneurialism, including more mentoring, and more 'joined up' function of government to better measure, value and grow our self-starters. Speaking to online newspaper, *Indaily* in July 2013, the President of the South Australian Entrepreneurs Organization, Tim Seymour Smith, identified that entrepreneurs were 'hitting a wall in terms of bringing ideas to market in SA"[65].

In 2013, the government announced support for Creative hubs in Adelaide. This support is important, and how it's managed is critical. How this work evolves and how its implementation is managed in the long term is more of a challenge to the many agencies that cross over in business, innovation, arts, education and technology, than to the entrepreneurial micro enterprises themselves.

What should we do?

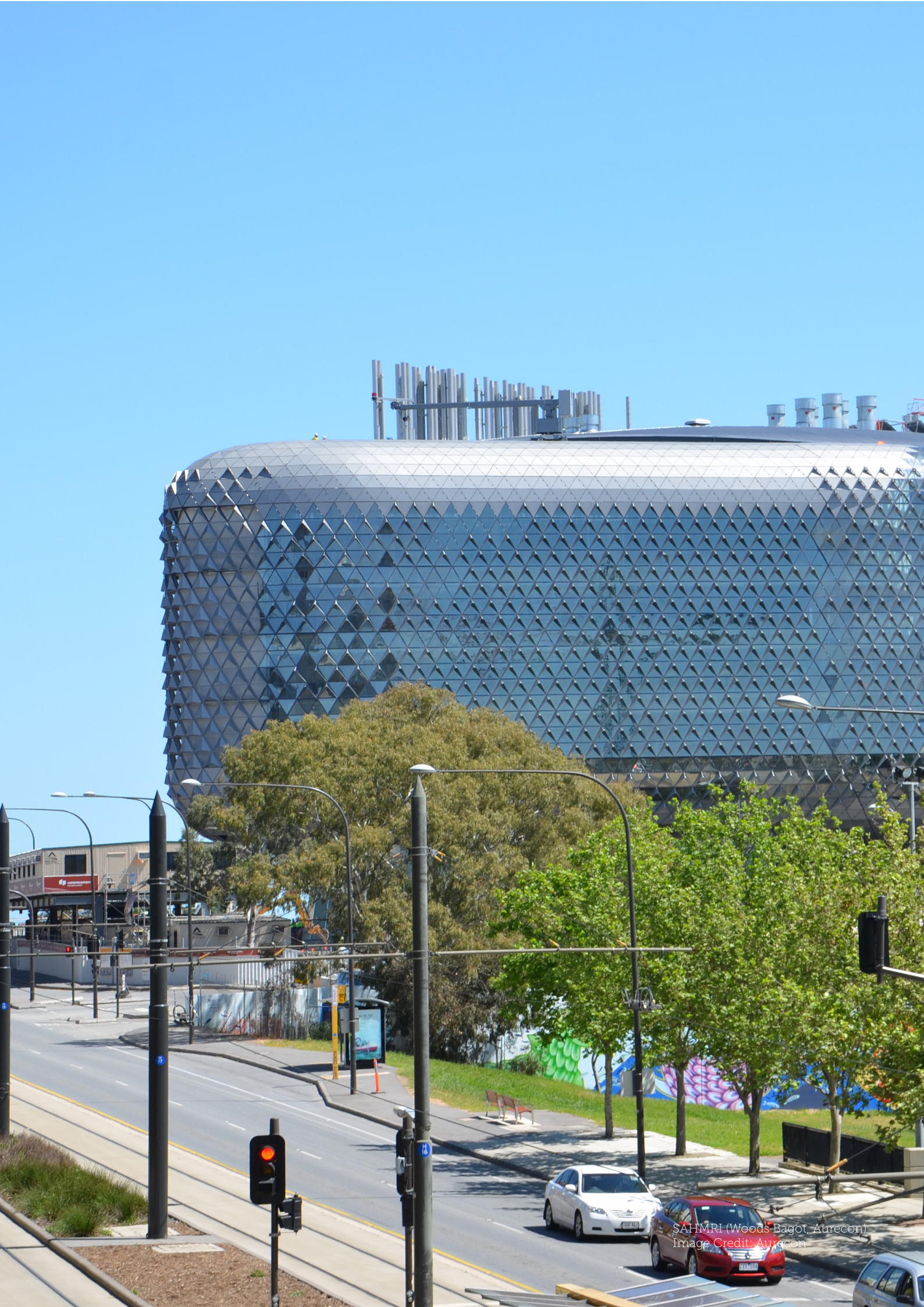
We need better firm-level data collected by working with the local networks of start ups, creatives and entrepreneurs. We have to let users of the system identify what could work better.

Next, to better connect the smart capabilities of these young organizations to the needs of larger business and government in the form of modestly funded competitions that value capability over experience alone; fostering a new generation of small businesses that struggle in the traditional risk-based tender environment.

63 Aswath Damodaran, May 2009, *Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges* p4-5

64 http://www.brw.com.au/p/entrepreneurs/andrew_bogut_helps_attract_silicon_kU087UoxXyxjASYkL4NPiJ

65 http://indaily.com.au/news/2013/07/30/young-sa-entrepreneurs-hitting-the-wall/



SAHMRI (Woods Bagot, Aurecon)
Image Credit: Aurecon

Case study: Pharmaceutical, health and R&D

"The pharmaceuticals industry is one of the world's leading knowledge-based industries and is currently being heavily impacted by the biotechnology revolution that is changing the nature of the products it creates and the business models it uses"[66].

South Australia is a small market within a small market, so local sales will never drive Pharmaceuticals to headquarter here based on volume. But increasingly, pharmaceutical companies operate as integrated global businesses, where R&D can be located in centres close to research capability and markets that are suited to speedy trials, and a friendly regulatory environment.

Economic factors that inform decisions on the location of R&D and production facilities include;

- availability of key factors of production and other specialised resources (such as high quality local science capability and a strong clinical research base);
- costs of production;
- ability to achieve necessary quality standards;
- reliability of supply; and
- access to key end user markets[67].

Australia's pharmaceuticals sector employs around 40,000 people (with one-third in manufacturing), accounting for $22bn in turn over in 2009-10.

"Pharmaceuticals is a knowledge-based, technology-intensive industry that is uniquely placed to develop and commercialise the outcomes of Australia's long term investment in medical research". - Australian gov

In order to remain competitive, pharmaceutical companies need to be constantly innovating. This makes them lead customers for knowledge-intensive R&D. And expenditure on R&D is rising. The leading global pharmaceutical companies can direct up to 18% of turnover to R&D, and employ large numbers of highly qualified researchers[68].

In Australia, the sector spent over $1bn on research and development in 2008-09 and exported more than $4bn in the 2009-10 financial year[69], with strong growth projected in global sales.

What's more, the demand for R&D to support the development of pharmaceutical products extends over a long period. The development of a new drug can range between 10-15 years from discovery, through pre clinical and clinical trials, to regulatory review and manufacturing. Further still, research by the Pharmaceutical Research and Manufacturers of America shows that for every one new drug approved for sale, around 5,000-10,000 experimental compounds have been considered; costing around US$1.7bn for each new drug.

The pharmaceutical sector relies on a set of skills and capabilities that include;

- developing research
- product development
- manufacturing and production
- marketing, sales and industry engagement
- healthcare services[70]

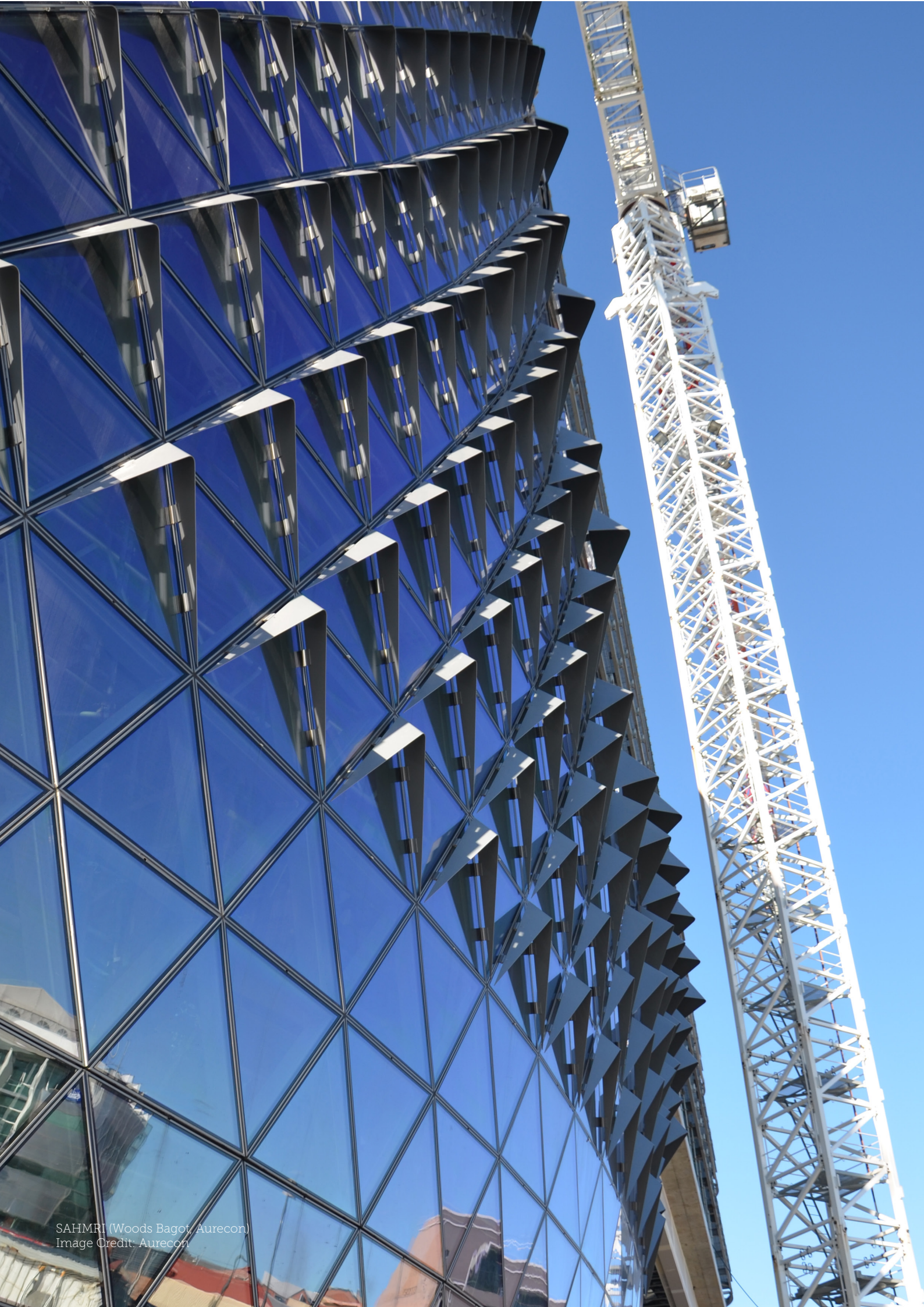
Riding the knowledge frontier

Given their position at the forefront of science, medicine and technology means pharmaceutical companies help accelerate innovation in the sectors, companies and individuals they embrace. Innovation streams include;

- bio informatics; creating databases of biological information, 3 dimensional modeling and computer-aided design and impact assessment of new drugs
- automation and robotics; the rise of automation in the development of drug compounds has accelerated the rate at which testing and matching takes place

66 Allen Consulting Group p10
67 Allen Consulting Group, p2-3
68 Allen Consulting Group, 2006, Drivers of Pharmaceutical Industry Investment p1

69 http://www.innovation.gov.au/INDUSTRY/PHARMACEUTICALSANDHEALTHTECHNOLOGIES/PHARMACEUTICALS/Pages/PharmaceuticalsIndustryProfile.aspx
70 Morgan Castner, Joanna Hayes, and Daniel Shankle for SOC142D, 2007 The Global Pharmaceutical Industry: international trade and contemporary trends, Duke University www.web.duke.edu/soc142/team2/shifts.html



SAHMRI (Woods Bagot, Aurecon)
Image Credit: Aurecon

- Biomarkers; the genetic signature of disease that can be identified using advanced diagnostic technology; making early detection, treatment and prevention more effective.

- Molecular targeting; involving the design of drugs that specifically target molecular pathways without disrupting the normal function of cells and tissues, allowing less toxic and more effective treatments to be delivered

- Nanotech; microscopic nanoparticles are able to target cells or tumours at the site of the infection or disease, without affecting healthy cells

- Personalised medicine; involves the design of drugs or treatments tailored to an individuals' gene sequence which can include prevention programs, nutrition or protective drug therapies[71].

Projections for the value of this research and technology suggest a potential global value of between $700bn and $1.6 trillion each year by 2025.

Investment by government in the South Australian Health and Medical Research Institute (SAHMRI), and support to grow bio medical research in new centres adjacent to SAHMRI provides the infrastructure essential to expanding this sector. Building on this work, a program to identify and attract the R&D laboratories of global pharmaceutical companies would continue to expand on this high value work.

Growing existing value chains

Efforts to attract centres of R&D for global pharmaceutical companies would complement investments in bio medial research programs, and new facilities like South Australia's Health and Medical Research Institute (SAHMRI). It would also accelerate the spillover of innovation from pharmaceutical and bio medical R&D in to other sectors such as food, assistive technologies for ageing population and personalised transport.

Fostering new research in the link between our clean agriculture and food sector, pharmaceuticals and healthy ageing are also an authentic 'fit' for South Australia, and relevant for an ageing population across the world.

South Australia's heritage in medical and bio medical research is reflected in two Nobel Prizes being awarded to scientists who lived, trained or taught in Adelaide, including Howard Florey (1945) and J Robin Warren (2005).

Global giant, Faulding started on Adelaide's Rundle St in 1845, with sales in excess of $1bn by 1993[72]. It is a field of excellence that continues in the 21st century. Prof Basil Hetzel's discoveries of the link between Iodine deficiency and infant brain damage has resulted in global action improving the lives of around 2 billion people.

What should we do?

Adelaide must move to develop a world class attraction program that is co-ordinated across government, private sector and university research sectors. Cities such as Dublin provide a model for attracting high value global organizations suited to our local strengths. A program like this must include;

1. Regulatory reform to safely accelerate pathways from pre-clinical to market trials

2. Financial and taxation reforms to attract and retain manufacturing investment at large scale

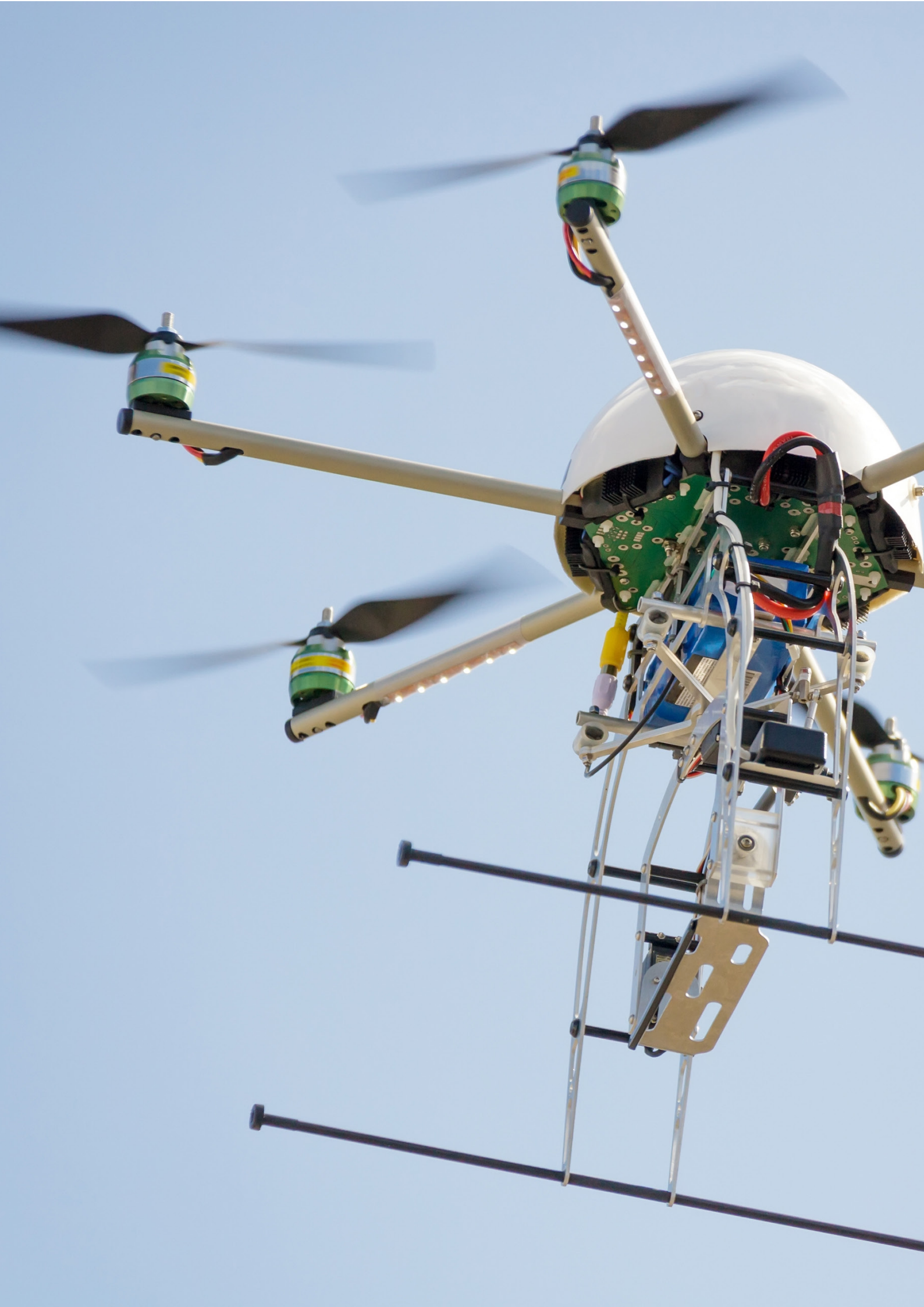
3. Intellectual property and patent life protection. IP protection can include; patents and data protection that are enforceable.

Adelaide can attract pharmaceutical and biotechnology companies by developing a high profile IP environment designed around a tailored IP framework fostering R&D, innovation and prototypes; linked to financial and regulatory reforms where performance is demonstrated.

A more visible campaign to promote Adelaide's biomedical research capability could be promoted through state branding initiatives, trade and tertiary education programs.

71 Future of Innovation; discovering new medicines for better lives and a brighter future, www.innovation.org .

72 http://www.faulding.com.au/about-faulding



Case study: Civilian spillovers from defence technologies

South Australia has secured defence contracts totalling more than $13 billion. In particular the Air-warfare Destroyer contract valued at $8 billion has created demand for more highly skilled labour due to its capital and skill intensive nature[73]. South Australia is home to around 30% of Australia's entire defence manufacturing capacity, including flagship projects such as:

- the $8 billion Air Warfare Destroyer build contract and AWD Systems Centre, and multi-billion contract for Collins class submarines
- the $1 billion AP-3C Orion aircraft maintenance upgrade
- the $1 billion Customs Project Sentinel contract –a fixed wing civil maritime surveillance program [74].

South Australia's defence collaborations are centred on dedicated clustering centres such as Edinburgh Parks, Technology Park and Techport.

Around 80% of revenue earned by South Australian defence companies comes from government purchase of defence hardware; making the sector heavily reliant on the continued growth of public sector investment in large defence projects to sustain employment[75].

We must expand the opportunities for defence technologies to 'spillover' in to civilian use if the sector is to develop sustainable revenue from non government sources. This would insulate the sector from public sector funding cuts, and fuel a new source of growth as defence technologies are commercialised in other sectors.

Spillovers occur regularly. For example, US based defence contractor Kaman Aerospace, applied a vibration reducing technology designed for helicopters, to the production of high-end fiberglass- laminated acoustic guitars[76]. Or the spillover from civilian to defence use; such as the purchase by German company Knorr-Bremse of Adelaide-based simulation software company, Sydac for $10m.

Early on when technology is in its generic stage, there is high value in making this technology visible to other sectors. This increases the chance for new technologies to cross over in to new sectors if engineers, designers and early adopters can be used to broker cross platform applications.

Defence is at the forefront of a global mega trend in the development of more effective human-to-computer interaction. This technology underpins voice activated and behaviour modifying devices such as smart phones, advanced extraction of minerals, energy and resources, and smart urban systems.

Accelerating the spillover of defence technology into civilian uses will fuel new sources of growth in emerging consumer markets for wearable computing, intelligent machine-to-machine information sharing and autonomous devices including vehicles, personal communication and managing complex information flows. Accelerating the spillover of defence knowledge into civilian applications can project Adelaide into a global elite that is able to rapidly prototype specialist knowledge on intelligent systems, software and simulation, and hardware for local use and emerging global markets, in;

- personalised transport systems, including air powered automotive, hybrid and solar powered autonomous vehicles

-civilian uses for lightweight unmanned flight technology, including for use in regional and remote areas, emergency monitoring and response co-ordination, agriculture and climate observation

-assistive technologies for an ageing population, including mobility aids, medical devices and technologies for home based living for longer

What should we do?

Our planning and our decisions need to be centred single-mindedly on identifying and promoting innovation across policy areas, beyond manufacturing and into technology, education, research, business and finance. This should include the collection and publishing of firm-level data, and new industry and end user partnerships to jointly design policy. It's not enough to be excited by the new. We need to compete to make the new happen here first.

73 Economic Issues 31 p3
74 http://www.dmitre.sa.gov.au/why_south_australia/industry_sectors/defence
75 as above "the majority of the revenue earned by defence industry was from Defence Material Organisation (DMO) contracts ($1.45 billion) which accounted for around 80 percent of total defence-related revenue."
76 Simen Gangnæs Enger, Spring 2013, Dual-Use Technology and Defence–Civilian Spillovers: Evidence from the Norwegian Defence Industry, Master's thesis, Centre for Technology, Innovation and Culture (TIK), University of Oslo p17

http://www.digitaltrends.com
Image Credit: Mike Flacy

Case study: Dealing in digital

We are in a new era.

The rise of mobile digital data, internet-based markets and online social networks continue to expand and mature as an intrinsic part of a globalised economy. It's essential that we see this not only as a shift in the tools we use for business-to-business and business-to-consumer activity, but as a major new driver of economic activity for South Australia.

McKinsey research shows that when governments invest in digital transformation, it creates complex demand that stimulates a whole supply ecosystem; and that high levels of non government investment in digital infrastructure occurs in jurisdictions with high government investment[77].

Dealing in digital is about us being the first to see the potential of how technology can be applied to existing sectors for greater innovation, productivity and growth. That may include the ability to customise consumer products, reduce the costs of production or to avoid the potential disruption to local businesses by superior technology adopters in other states, regions and countries. It can include the technology used to fuel research and develop prototypes in advanced manufacturing and medical research. And it can include the way data can change the relationship between government and citizens; in how we collect and share data.

Being competitive in this field means applying a new energy to how technology is used, and the brokering of new partnerships for leading edge experimentation.

Adelaide is a hub in the digital economy

Mid sized global cities like Dublin and Manchester show how global data-based enterprise can be a foundation for a digital economy in the new sectors of media, software development and tech start ups. These sectors feature strongly in neighbouring asian economies and offer Adelaide a basis for trade in professional services and technology-based creative enterprise that build trans national networks in our timezone.

To capitalise on this market, South Australia must move from a moderate player with an ambivalent position, to being actively zealous in riding the frontier of digital technology with Adelaide as our technology hub. We must move from viewing digital platforms as a threat to retail, our own privacy or more open government, and seize the initiative to leverage the strengths we have in simulation technology, computer generated imagery and digital design.

Adelaide's *Fab Lab* in the city is an example of bold but quiet steps in this direction. We must now build on this new fabrication technology, supporting it with ambitious partnerships to discover the unique applications of the technology in order to create new markets. Like the researchers at Nemours/Alfred I. duPont Hospital for Children who developed an exoskeleton support for a two-year old girl born with a disease that causes joints to become permanently fixed in a single position. Evident in the child's arms, it was impossible for her to lift her own arms on her own in order to do something as simple as picking up a toy or even giving her parents a hug[78].

Using technology to compete

In 1870, South Australia committed almost half its annual state budget to building leading edge communications infrastructure of its day. The Overland Telegraph line connected Adelaide as the first capital city to London. Comprising 36,000 poles through central Australia, the project was completed just two years later[79].

Being located remotely from Australia's interconnected centres of Brisbane, Sydney, Melbourne, Newcastle and Wollongong, Adelaide has always stood on our own.

To compete at our smaller scale, Adelaide must be clever in the tools and technologies we use to leapfrog the capabilities of other cities. Adelaide has pockets of excellence in its digital infrastructure such as SabreNet; a dark fibre network that links our universities and centres of research. Or the recently announced trial of free public WiFi in Hindmarsh Square that deserves the supported and expanded.

Affordable, reliable mobile technology is redefining markets around the world, disrupting traditional measures

77 McKinsey p5

78 Read more: http://www.digitaltrends.com/cool-tech/3d-printer-builds-magic-arms-for-two-year-old-girl-with-joint-disease/#ixzz2ey6H2SXL

79 http://www.travelling-australia.info/Infsheets/Overlandtelegraph.html

of productivity as new modes come online. Australian research suggests skilled, knowledge-intensive workers are preferencing the use of public transport over private car use as it allows time to engage with social media[80]. So providing digital infrastructure like WiFi on public transport can be viewed as an investment in making travel time, productive time. Developing the ease and reliability of this infrastructure as a core experience in public transport can help grow users of public transport which has the added benefit of reducing road based congestion at peak travel times.

Globally, the value generated by mobile related digital infrastructure is estimated to be between $3.7 trillion and $10.8 trillion by 2025 from three sources; improved service delivery for governments and businesses, productivity increases in certain work categories and growth in internet use from new users leveraging wireless access[81]

Data is driving new value

Data generated from digital sources can create economic and social value through insights that can be applied to new business models, products and services. Digital tools generate information which makes evidence based, data-driven public services a possibility because it is premised on having definitive baseline data allowing monitoring, evaluation and measurement of impact.

Digital technologies like social media networks, 3D printing or crowd funding platforms can be disruptive to business, financial markets and the services we rely on. But often, disruption is due to a rapid change in consumer behaviour. And experience shows that consumer behaviours can't be reversed. Take text messaging or the rise of social media. This is all the more reason for Adelaide to take a lead role in shifting our attitudes to technology and adopting a digital-by-default approach to public services, policy design and enterprise development.

It can be hard to see the disruptive nature of technology at first because we often don't know how a new technology or innovation may be used. For example, 3D printing radically reconfigures traditional supply chains as consumers are able to control the means of production themselves. Future uses of this technology may disrupt the business models of those involved in the warehousing and transport of some products that may be more suited to home or local community based printing hubs. Retail businesses may need to account for a greater share of some products being sourced directly by download, and authorities may need to reconsider how tariff, standards or other regulatory initiatives can be relevant when our digital networks operate regardless of local jurisdiction.

But just as these new technologies are threats, they are opportunities for new growth too. KcKinsey estimates that 3D printing alone could generate between $230-550bn of economic impact by 2025[82].

Government can contine to more actively support digital-first delivery in public services. This is best seen in the following three examples;

1. Easy to understand 3 dimensional urban planning tools, which move from plan-based to fully visualised form-based models of built form, open space, road networks and key urban data to act as an engaging online platform for public discussion and streamlined planning approval to enable quality urban development.

2. City management tools based on real time feedback of city traffic, water and energy consumption, people movements and use of their city, parks and squares.

3. Supporting and growing programs that add value to public data held by government agencies and authorities like UnleashedADL (co-hosted with Deloitte as part of a global GovHack event)

These platforms are important because they drive a shift to more open government; enabled by a transformed relationship between government and citizens.

Technology is often thought to destroy jobs by automating the work performed by people. And in some cases this is true. But this is not the whole picture. The application of digital technology has been shown to create 2.6 new jobs for each job lost[83].

80 http://www.smh.com.au/nsw/highways-give-way-to-air-waves-as-the-young-opt-to-forgo-a-set-of-wheels-20121029-28fpo.html
81 McKinsey, *Disruptive technologies* p30
82 McKinsey *Disruptive technologies* p105
83 McKinsey Global Institute, May 2011, *Internet Matters: The Net's sweeping impact on growth, jobs and prosperity*

"In the same way that previous innovations such as the steam engine and medical breakthroughs paved the way for radical social and economic changes..digital changes are ushering in a new era[1]"

IBM & National Institute of Economic and Industry Research, Reinventing Australia enterprises for the digital economy p15

Technology is lowering the barriers to entry for business, and creating new business opportunities for people without the cost of traditional business infrastructure. Many of these businesses are micro enterprises trading in markets such as technology, software, design, fashion and bespoke manufacturing in ways the represent new online business model innovations.

What should we do?

South Australia is on its way to a 'digital first' strategy for collecting and publishing all data in programs, policies and project information. Moving transactions to digital platforms can save between 50-70% of processing costs over a paper transaction.

South Australian Universities can lead in the emerging market of online adult learning; building markets interstate with the growing cohort of lifelong learners, and globally with expatriate South Australians and foreign nationals. Could South Australian be the first state to issue 'digital passports' to expatriates and foreign nationals regularly doing business with South Australia?

We can massively expand the scope of digital infrastructure in major centres like Elizabeth, Marion, Port Adelaide and the City of Adelaide to turbo charge the provision of education, retail activity and social networks and act as a magnet for daytime activity in public places. This should include the provision of high speed, multi channel WiFi in all public spaces including; Riverbank, and the city square mile, and public transport

Actively recruit prominent and respected leaders to act as digital champions in business, education and local communities linked to five year programs to lift digital literacy through use of mobile-based technology

Redirect the focus of Government's Digital Economy Strategy Group to learn from Dublin's Digital Hub Development Agency that has delivered around 2,000 jobs and worked with over 170 organizations since it was founded in 2003.

Employ user-centred principles to guide the development of a digital-first approach for all web-based public services. This means not only using digital platforms to deliver services, but designing the interface to be intuitive, and a pleasure to use without training and suited to mobile devices. A new kind of platform for 21st C public services.

The UK's Digital Design Principles and Australia's Centre for Digital Business are good examples.