



Australian Institute of Performance Sciences

SUSTAINED VALUE-CREATION OUT-PERFORMANCE

www.aips.online

contact@aips.online

Telephone: 1300 762 190

GPO Box 1524, Melb, VIC, 3001

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Michael Sukkar, MP
Assistant Minister to the Treasurer
Parliament House,
CANBERRA, ACT, 2600

SUSTAINED HIGH-PERFORMANCE VALUE-CREATION IN THE AUSTRALIAN ECONOMY

Jobs growth. Wage growth. Economic leadership for a new era.

Budget Submission Paper

EXECUTIVE OVERVIEW

Breakthrough research has identified the governance practices that lead to sustained highly-effective value-creation. Preliminary evidence demonstrates the potential for this to stimulate significant systemic social and economic benefits for Australia.

Stimulation of \$100Bn annual additional corporate investment in innovation, productivity and export growth has been identified, along with sustained wage growth, transformation of the ideas economy, and increased effectiveness in public and community sector outcomes. This can be achieved without the need for legislative change, corporate welfare or expensive incentive programs.

This approach provides a counter measure to systemic short-termism, to the erosion of public trust, to the challenges of communicating complexity to public stakeholders, to the antagonistic engagements between Australia's economic leaders and to the deadlock in positive public policy discourse. In commercial or public spheres, it provides a practical mechanism for creating, engaging, leading and effectively delivering a future vision within uncertainty.

Initiatives are coalescing Australian research engagement and subsequent interest from directors across all of Australia's top 10 listed companies (7 at Chair), other major companies, CEO/Directors at major Asset Owners, and their peers at relevant Government Agencies, Departments and Executive.

An authoritative report will enable government to take appropriate decisions and action in relation to this new knowledge – and its economic impact with the forward estimates.

It is recommended that government fund the creation and launch of a report entitled:

“Sustained High-Performance Value-Creation in the Australian Economy”

The concepts, opportunities, economics, interest-in-participation and development pathways for Governance of Value Creation in Australia's commercial, investment, public and community sectors... and, its context within Australian and Global regulation and practice development.

REQUESTED BUDGET ALLOCATION: \$350,000

Breakthrough Australian research provides new perspective and new pathways for action. Delivery of a definitive report will make it actionable.

BACKGROUND

The *'Intergovernmental Review of Business Investment'* prepared by Heads of Treasuries, and the Productivity Commission's *'5 year productivity review'* identify sustained "concerning" systemic underperformance in business investment. The Grattan Institute concludes that economic development has "No silver bullets – only tough choices... and realistic expectations that these choices will only produce incremental increases".

Breakthrough Australian research provides new perspective and effective new pathways for action in these core areas of interest to government and the Australian public.

These approaches integrate, and thereby activate (not duplicate), the vast multi-disciplinary body of professional practice. They can be understood as extensions to Integrated Thinking (IIRC) encompassing UN GRI and other measures. This is a culmination of, not a diversion from, historical investments in good practice.

International and local experience, industry and expert engagement, and other indicators support the potential for achievement of the identified benefits. Preliminary research findings and a body of supporting materials provides further backing.

Government will require, and should sponsor development, of a higher level of supporting evidence to enable decisions about exemplar collaborative action.

The cost / benefit / risk should be considered. Evidence suggests that the eventual maximum cost to government is low, the benefit high, and risk low. This would be a highly effective use of public funds. It would not conflict with other strategic or policy options that may be being considered.

ECONOMIC AND SOCIAL BENEFITS

The AIPS delivers significant outcomes aligned to stated Economic Development objectives;

- Stimulating of an additional \$100Bn annual corporate investment focussed on innovation, productivity and export growth,
- Promoting the flow-on of benefits to SME, Service Sector and the Ideas Economy (*AIPS submission to Federal Parliamentary Inquiry on Work and Workers*),
- Promoting the flow-on of benefits to jobs and **wage growth** (*AIPS whitepaper Australian Prosperity*),
- Defining Australia as an advantaged destination for investors with a stated commitment to long-term sustainability outcomes (eg: >\$5Tn BlackRock, Vanguard, et al) through enhanced systemic assurance of the quality of sustained value-creation, and
- Enhancing stewardship and accountability for creation of public value from the application of resources across the public, community and commercial sectors (*AIPS whitepaper Enhanced Stewardship*).

This can be achieved without corporate welfare, blank-cheque incentive programs, or regulatory change. It can operate in addition-to, not as a choice-between, other actions.

The AIPS is a genuinely new perspective providing new pathways for action.

THE VEHICLE

The Australian Institute of Performance Sciences (AIPS) is forming as a major cross-industry collaborative vehicle (www.aips.online) targeting increased effective performance in the TOP50 (and TOP500) participants in the Australian economy. It brings new knowledge to increase sustained value-creation performance in large-scale commercial and public organisations and across public networks. And it enables long-term investors to assurably assess the quality of organisations' future prospects.

This initiative is coalescing research and subsequent engagement from directors across all of the ASX10 (7 at Chair) and other listed companies, CEO/Directors at major Asset Owners, and their peers at relevant Federal and State Agencies, Departments and Executive.

The AIPS is a NFP with an independent Formation Advisory Board, aided by a highly qualified Expert Advisory Committee and supporting research linkages.

Government's role in this model is to consider exemplar Foundation Participation in a collaborative Institute... working alongside its economic leadership peers, on a scale commensurate with its size within the Australian economy.

An authoritative report will enable government to appropriately consider such exemplar collaborative participation.

PRECEDENTS

In operation, the Australian Institute of Performance Sciences can be considered as somewhere between the AASB's role in the development of accounting standards, and the Australian Institute of Sport. It facilitates the collaborative development of leading edge practice, and coaching for high-performance use by elite practitioners.

We note that The Australian Institute of Sport was funded in 1981 on the basis of two reports 'The role, scope and development of recreation in Australia' (1973) and 'Report of the Australian Sports Institute Study Group' (1975). It was done at a time when the Australian Olympic performance was regarded as a national embarrassment, and a national priority. The AASB is a government agency under ASIC.

A technical precedent is demonstrated by the JORC code. Collaboratively developed by the Australasian Joint Ore Reserves Committee, it is now enforced by ASIC and the ASX. Developed in response to the Poseidon nickel boom/bust in the 1960s, it provides standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets. It has been duplicated in similar disclosure regimes across the world. AIPS promotes a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to JORC providing periodic demonstration of the level of certainty associated with an organisation's future prospects. This visibility activates participating stakeholders, provides an investible assessment, and a basis for enhanced agile decision-making.

Advancement of this new knowledge brings significant impact to Australia's future success.

Danny Davis MAICD, FAIM

Executive Director
Australian Institute of Performance Sciences
danny.davis@aips.online

Lars Schiphorst MAICD

Executive Director
Australian Institute of Performance Sciences
lars.schiphorst@aips.online

APPENDIX 1: TECHNICAL BACKGROUND

Academic and commercial research undertaken in Australia has engaged directors at the top 10 listed companies (seven at Chair), CEOs and directors of fiduciary investors and their equivalents amongst government legislators, departments, agencies and regulators. **On the basis of the preliminary indications of this research, the Institute seeks to facilitate the collaborative maturing and global application of:**

Governance of Value Creation, as a future-oriented analogue to Financial Governance.

This is an integrated, multi-disciplinary model for sustained highly-effective value-creation. It can be applied across all sectors, strategies and structures of organisation or asset.

- Quality information-foresight enables timely, balanced decision-making for optimising multiple bottom-line outcomes, across multiple time horizons, in the context of complexity and uncertainty.
- Accounting for periodic movement in certainty of future-outcomes (from experimentation, learning and changing externalities) empowers decision-agility and the immediacy of KPI performance measurement of progress towards long-term objectives as a counter to short-term pressures.

And, the related Value-Creation Maturity Assessment (VCMA), as an assurable, investible disclosure of the certainty of future-prospects. This is a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to the JORC / SAMREC / SME standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets.

- Standardised disclosure across multiple time-horizons, including the extent of consideration and level of preparedness for standardised contingencies. And, use of a method that maintains confidentiality of strategy, and appropriate roles for directors in preparation and assurance.
- Enhanced impact for fiduciaries from a global-scale systemic approach that moves beyond proxy voting and informal behind-closed-doors discussions, and beyond listed vehicles whilst expanding your investible universe.

These approaches integrate, and thereby activate (not duplicate) the vast multi-disciplinary body of professional practice. They can be understood as extensions to Integrated Thinking (IIRC) encompassing UN GRI and other measures. This is a culmination of, not a diversion from, historical investments in good practice.

We see increased systemic productivity defined not as cost-cutting, but as the 'effective creation of new sustained value'. We identify the vast latent capacity in human ingenuity, and how it can be liberated and applied to new value-creation through updated practice. We identify that effective growth does not demand increased risk. Creation of new value presents as the path to sustained wage growth, trickle-up economics, participation, trust and sustainably vibrant societies.

Systemic advantages suggest piloting cross-economy uptake in the Australian context, as an exemplar for accelerated global advancement. We have years, not decades in which to deliver global impact. Success will contribute to how corporations and investors create value, but more so, to how corporations, investors, governments and community jointly participate in achieving effective future outcomes.

APPENDIX 2: COMMENTARY ON ECONOMIC GROWTH

- In a decade of unprecedented global threat and opportunity, Australia’s corporate capital investment and profits have flat-lined.

“Business investment, which is critical to economic growth, has been underperforming in recent years... Investing in new productive capacity creates employment, raises future incomes and both creates and embodies new innovation.” INTERGOVERNMENTAL REVIEW OF BUSINESS INVESTMENT, HEADS OF TREASURIES, 2017

“Australia is now experiencing its biggest ever five-year fall in mining investment, as a share of GDP. And non-mining business investment has fallen from 12 per cent to 9 per cent of GDP, lower than at any point in the 50 years from 1960 to 2010... What should the Australian government do to encourage investment? There are no silver bullets – only tough choices. And we need to set realistic expectations that these choices will only produce incremental increases in investment... Lower growth may well be the ‘new normal’, and investment is likely to remain below previous peaks.” STAGNATION NATION, GRATTAN INSTITUTE, 2017

“The investment slump is particularly concerning... It implies that capital-intensity in the bulk of the Australian economy will not grow at the historical average, putting future downward pressure on labour productivity. Investment, after all, is what creates the new tools for labour to lift production beyond the previous norm.” 5 YEAR PRODUCTIVITY REVIEW, THE PRODUCTIVITY COMMISSION, 2017

- Australia has the ‘raw materials’ in both human and ideas capacity, and also financial capacity to compete in the global digital economy and knowledge economy; however, it lacks management capacity to bring it to effective value creation outcomes.

“Australia has the relevant skills but lacks the capacity to manage and use these skills and other inputs for innovation...Australia needs to improve the way it turns knowledge inputs into outputs to become a more efficient and successful innovator.” SKILLS AND CAPABILITIES FOR AUSTRALIAN ENTERPRISE INNOVATION, AUSTRALIAN COUNCIL OF LEARNED ACADEMIES, SAF10, 2017

Australia is ranked #73 globally for effective innovation performance, just behind Pakistan and Zambia. (reported from) GLOBAL INNOVATION INDEX, INSEAD, 2016

- Research has identified that this failure in decision-making arises in part from a system-wide lack of effective long-term measures.

“To break free of the tyranny of short-termism, we must start with those who provide capital...If these players focus too much attention on the short term, capitalism as a whole will, too. In theory they shouldn’t, because the beneficiaries of these funds have an obvious interest in long-term value creation. But although today’s standard practices arose from the desire to have a defensible, measurable approach to portfolio management, they have ended up encouraging short-sightedness. Fund trustees, often advised by investment consultants, assess their money managers’ performance relative to benchmark indices and offer only short-term contracts. Those managers’ compensation is linked to the amount of assets they manage, which typically rises when short-term performance is strong. Not surprisingly, then, money managers focus on such performance—and pass this emphasis along to the companies in which they invest. And so it goes, on down the line.” CAPITALISM FOR THE LONG TERM, DOMINIC BARTON, 2011

“Information Dysfunction: Peter Drucker observed ‘what gets measured gets managed’. In a short-termism world, corporate and investment performance measurement systems have short-term orientations. Longer-term information is seldom demanded or provided.” KEITH AMBACHTSHEER, DIRECTOR EMERITUS OF THE INTERNATIONAL CENTRE FOR PENSION MANAGEMENT, ROTMAN SCHOOL OF MANAGEMENT, UNIVERSITY OF TORONTO, 2017

- Research has identified a broadly applicable, generalised model for the **Governance of Value Creation** in complex large-scale organisations. Implementation of this model has been shown to be technically feasible and aligned to Australian corporate cultures across all forms of commercial, public, community and investment sector organisations, systems and networks. It explains the practices leading to the sustained out-performance of successful Australian companies, such as the large-scale international success of CSL.
- This Governance of Value Creation knowledge, and the resultant organisational capacity for effective innovation (value-creation), delivers sustained out-performance. This is occurring now in well-run, mature, principled organisations – not just the high profile ‘unicorn’ success stories we most frequently read about. It is possible. It can be achieved. There are Australian examples.

“We need to ensure that we are not battling to meet 21st Century challenges with, at best, 20th Century decision-making and reporting systems” ACCOUNTING FOR SUSTAINABILITY, and the INTERNATIONAL INTEGRATED REPORTING COUNCIL, 2004

“I cannot make wiser leaders, but I can give insight and foresight to make better decisions” DANNY DAVIS, 2018

- Research has identified foregone above-hurdle innovation opportunities in ASX listed companies the vicinity of \$100Bn due to systemic short-termism and resultant ‘perverse incentives’.

“The tendency of capital markets to focus on the short-term puts the realisation of immediate market value at the centre of corporate attention. And, as a result... encourage excessive risk taking at the expense of long-term wealth creation, society and sustainability.” CORPORATE GOVERNANCE FOR A CHANGING WORLD, CASS BUSINESS SCHOOL, 2016

- Research has identified commonly used practices that inadvertently encapsulate elevated risk, frequently resulting in value-destruction. It has identified enhanced practices that enable larger, more entrepreneurial, more effective value-creating innovation portfolios containing lower overall risk. **High performance growth does not require increased risk-taking. It requires enhanced decision making.**

“75% of respondents admit that their projects are either always or usually doomed right from the start” GENECA, WHY A MAJORITY OF BUSINESS AND IT TEAMS ANTICIPATE THEIR SOFTWARE DEVELOPMENT PROJECTS WILL FAIL, 2011

“There are only two phases of a program. The first is ‘It’s too early to tell.’ The second: ‘It’s too late to stop’.” FITZGERALD’S FIRST LAW, A. ERNEST FITZGERALD, US MILITARY FINANCE

- Research has identified the potential for application of Governance of Value Creation in the Public and Community Sectors. This would enable enhanced stewardship, consistently aligned system-wide enhanced decision-making, and the achievement of more effective social outcomes.
- Research has identified sovereign wealth and superannuation asset owners’ aspirations for long-term sustainable investment and ‘active ownership’ can be achieved through Governance of Value Creation approaches. It shows that these have significant influence on market behaviours, and sustained investment performance, through the utilisation of appropriate long-term sustained-performance measures.

“(CEOs should) resist the powerful forces of short-termism afflicting corporate behaviour... and should lay out for shareholders each year a strategic framework for long-term value creation... and explicitly affirm that their boards have reviewed those plans.” LARRY FINK, CEO BLACKROCK (\$4.5 TRILLION IN ASSETS), 2017

“Boards have on the whole become less, rather than more, effective. Boards are not effective if they represent good intentions. Boards are not effective if they represent ‘investors’. Boards of business enterprises are effective if they represent strong owners, committed to the enterprise.

...The need for an effective board has been stressed by every student of the publicly owned corporation in the last 40 years. To run a business enterprise, especially a large and complex enterprise, management needs considerable power. But power without accountability always becomes flabby or tyrannical and usually both.

...Having better people is not the key; ordinary people will do. Making a board effective requires spelling out its work, setting specific objectives for its contribution.

...I suspect that in the end we shall develop a formal business-audit practice, analogous perhaps to the financial-audit... based on predetermined standards (of) a systematic evaluation of business performance.

...It may not be too fanciful to expect that in ten years a major pension fund will not invest in a company's shares or fixed-income securities unless that company submits itself to (such) a business-audit.” PETER DRUCKER, RECKONING WITH THE PENSION FUND REVOLUTION, 1991.

The Australian Institute of Performance Sciences has been formed as a collaborative initiative between large business, government and investors to further develop and apply Governance of Value Creation knowledge to positively impact the future of the Australian economy. We seek to lift effective value-creation performance across the Australian economy to make it more competitive in a new era of global competition.

APPENDIX 3: COMMENTARY ON JOBS AND WAGE GROWTH

- The major trend across global advanced economies is the transition to a knowledge economy. Australia's future economic and social success hinges on our ability to create high-performance knowledge-worker roles, and activate enhanced knowledge contribution from all workers. These are roles that are effective in sustained value-creation in competitive knowledge service businesses. This is the future reality of the global economy in which Australia competes, and the only mechanism to **secure long-term employment growth**.

Australia's Gross expenditure on R&D – rated 15 of 37. High-growth enterprise rate, measured by employment growth – rated 27 of 27. (reported from) PERFORMANCE REVIEW OF THE AUSTRALIAN INNOVATION, SCIENCE AND RESEARCH SYSTEM, INNOVATION AND SCIENCE AUSTRALIA, 2016

“Personal effectiveness does not suffice in the knowledge-worker age... The challenges and complexities we face today are of a different order of magnitude” STEVEN COVEY, AUTHOR '7 HABITS OF HIGHLY EFFECTIVE PEOPLE

“Long-term oriented firms added nearly 12,000 more jobs on average than other firms from 2001-2015. Had all firms created as many jobs as the long-term firms, the US economy would have added more than five million additional jobs over this period. On the basis of this potential job creation, this suggests that the potential value unlocked by companies taking a longer-term approach was worth more than \$1 trillion in forgone US GDP over the past decade.” MEASURING THE ECONOMIC IMPACT OF SHORT-TERMISM, MCKINSEY GLOBAL INSTITUTE, 2017

- Higher value-contribution from staff, within higher value-creation activities in new era business operations (Productivity redefined from cost-cutting towards 'more effective creation of new sustained value') is fundamental to Australia being able to afford and deliver **sustained long-term wage-growth**.

“Wages and salaries in Australia's labour market are exhibiting their weakest growth in the history of the relevant statistics... imposing great harm on affected workers, their families, government budgets, and Australia's macroeconomic performance. (The consequent) reduction in post-retirement incomes should be of direct concern to superannuation trustees and administrators... And, Governments will share a significant portion of the resulting damage: they will collect less in taxes on superannuation contributions and investment income, and will pay out more in means-tested Age Pension benefits.” THE CONSEQUENCES OF WAGE SUPPRESSION FOR AUSTRALIA'S SUPERANNUATION SYSTEM. THE AUSTRALIA INSTITUTE, 2017

- Stimulation of new-era growth as a counterforce to the pressure on traditional economy jobs can operate immediately. Australia's high levels of education, and latent staff contribution in all organisations, means large numbers of Australian workers can participate. As new-era roles are created, backfilling will give other workers opportunity to advance. **Economy-wide this presents as 'trickle-up economics'**.

“Productivity growth is the main long-term driver of growth in Australian incomes and living standards... When productivity leaps in Australia, all incomes eventually rise. Average productivity growth is not good enough. In the period between now and the next of these Reports in 2022, income growth in Australia is likely to be about half of historical levels.” 5 YEAR PRODUCTIVITY REVIEW, THE PRODUCTIVITY COMMISSION, 2017

- All organisations want to get the greatest value 'return' from their investment in staff. And research shows, the more staff contribute value to collaborative purpose, the greater their motivation, job satisfaction and personal fulfilment. Governance of Value Creation

demonstrates high performance value-creation in large organisations, and explains how this staff engagement can be achieved.

“The person who figures out how to harness the collective genius of the people in his or her organization is going to blow the competition away.” BUILDING LEARNING ORGANIZATIONS, PETER SENGE, 1994

- U.S. ‘unicorn’ businesses have been exposed for frequently toxic work practices; cool, but toxic. These are not the working conditions that should be adopted by Australian businesses. Culturally appropriate, high-performance Australian examples exist and should be recognised.

Sustained job growth and wage growth is vital for maintaining Australia’s economic and social well-being. Enhanced value-creation capacity in the mainstream economy (across corporate, public and community sectors) provides the greatest possible stimulus to the creation of ‘good’ and sustainable knowledge economy jobs.

*Governance of Value Creation is an assurable governance framework and enhanced decision-making practice for sustained collaborative value-creation in mature-stage organisations and across complex public networks – applying to both financial and social-outcome measures. It allows leaders (stewardship and stakeholders) to engage and **assure** the ‘Future Fiduciary’ question “**Are we optimally invested in our own future?**”.*

Additional information is available at www.aips.online. For further depth, refer to links there to the ‘Formation Advisory Board’, the ‘Expert Advisory Committee’, and the AIPS whitepapers and submissions to Parliamentary inquiries available for download behind the ‘LEARN MORE’ button.