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than
money



PATHWAYS TO BUILDING

Australia's entrepreneurs



NAB Catalyst
Insights Series



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NAB's Catalyst Insight Series brings together industry experts and leading thinkers to discuss the issues that are central to securing Australia's future prosperity. Its purpose is to take ideas beyond the boardroom, to help shift the national conversation in the direction of action and discover possible solutions to some of Australia's biggest social, economic and community challenges.

The series reflects NAB's strong commitment to working with industry, business and community stakeholders to support growth and opportunity in an inclusive Australian economy, reflecting our purpose to back the bold who move Australia forward.

This publication is the fourth in our series and follows **Reimagining Australia's Future Infrastructure, A New Architecture for Social Good** and **Building Australia's Prosperity: Pathways to Meet the Asian Opportunity**. This report was developed following a roundtable hosted by NAB Chairman Dr Ken Henry to gain insights on how we can better enable Australia's future entrepreneurs. Dr Henry was joined by:

- Ms Belinda Hutchinson, Chancellor, Sydney University
- Mr Craig Scroggie, CEO, NEXTDC
- Mr David Thodey AO, Chair, CSIRO
- Ms Cathryn Carver, Member of the Corporate & Institutional Banking Leadership Team, Executive General Manager, NAB; and
- Mr Jonathan Davey, Executive General Manager, Digital and Innovation, NAB

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Australia is a nation of entrepreneurs, with small to medium businesses enterprises contributing 57% of Australian GDP¹. These businesses employ seven million Australians² and represent more than 90% of net job creation³.

Australian businesses are operating in an economy that is in good shape, and showing resilience. The NAB Monthly Business Survey in February recorded the highest business conditions since the survey began in 1997 with confidence above the long-term average⁴. Non-mining business investment is also rebounding, laying a platform for broad-based, durable economic growth and a rebound in productivity.

But we should not be complacent. Not all businesses see the same opportunity in these strong macro conditions. Our small and medium businesses are critical to Australia's prosperity, so it is important that we put in place the right settings that enable our entrepreneurs to have the greatest chance of success. That means making sure we have answers to the challenges we as a nation face. We need to convert challenges into opportunities.

For example, what we know is that as the nature of work continues to change, the jobs of the future will look very different from the jobs of today. This has implications for the way in which our education system is designed and the way in which it delivers the right skills to the Australian workforce.

Linked to entrepreneurship is innovation. Innovation is the source of new business ideas and its pace and shape will determine the way in which businesses adapt to a rapidly changing and increasingly competitive marketplace.

We hear often of Australia's innovation performance on world indices. We hear that we are not performing as well as we should be. We hear praise for countries like Israel, the United States (Silicon Valley) and we compare ourselves unfavourably with these places. Yet, while there is much to learn from international experience, there is an extraordinarily positive success story to be shared about the Australian experience. Even so, Australia can lift the bar and create a more pro-active and supportive environment for business success. Developing a national confidence in our abilities rests on greater collaboration between business, government and academia.

Tomorrow's entrepreneurs are constructing the foundations for Australia's next wave of prosperity. As Australia's business bank, our job is to back these entrepreneurs to grow and succeed; we want to back them to move Australia forward.

Dr Ken Henry
Chairman, National Australia Bank

1. NAB Report - "Moments that Matter – Understanding Australian Small to Medium Businesses"
2. NAB Report - "Moments that Matter – Understanding Australian Small to Medium Businesses."
3. Australian Government - Australian Innovation System Report
4. NAB Monthly Business Survey February 2017

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Introduction

When today's children enter the workforce, there is a good likelihood they will be applying for jobs that don't yet exist. "Tomorrow's Digitally Enabled Workforce" by CSIRO reports that digital technology and "platform economics" are changing employment markets and organisational structures, and that people will become more entrepreneurial and create their own jobs. In addition, the Committee for Economic Development of Australia ("CEDA") predicts that digitalisation and automation will replace more than 5 million Australian jobs over the next 10-15 years⁵.

Linked to entrepreneurship is innovation. Innovation provides the basis for entrepreneurship and it is the entrepreneur who is needed to convert innovation concepts into thriving businesses.

We know that innovation is important to economic prosperity. The Organisation for Economic and Co-operation Development ("OECD") found that as much as 50% of long-term economic growth in its member countries can be attributed to innovation. Within Australia, we

have a great base to build on – "innovation-active businesses"⁶ make up 45% of all employing businesses and contribute to more than 60% of sales and employment. They are also 40% more likely to increase income and profitability, twice as likely to export and 2 to 3 times more likely to report increased productivity, employment and training⁷.

Australia performs well in the share of the world's top 1% of cited research papers in Science, Technology, Engineering and Mathematics ("STEM")⁸, and is placed 9th out of 144 worldwide for the quality of our scientific research institutions⁹. However, Australia has fallen several notches on measures of innovation development, ranking 23rd on the Global Innovation Index. In addition, Australia ranked 30th on the 'output' sub-index and 12th on the 'input' sub-index, suggesting the record of 'conversion' is not strong¹⁰. The Office of the Chief Scientist of Australia has suggested that the important missing link is the entrepreneur, who brings the ability to translate knowledge into Australian business and jobs.

Against this backdrop, we know that small and medium sized businesses are vital to Australia's prosperity and we also know that 1 in 3 Australians would like to own their own business¹¹. Australia has the entrepreneurial spirit and together with a new generation of business owners is ready to take the leap; however, we can do more to ensure that our entrepreneurs have the best chance of success.

This report outlines key actions to ensure Australia's success as an entrepreneurial nation:

- Cement our strong foundations through the education system.
- Challenge the cultural bias and back ourselves as world leaders.
- Encourage cross disciplinary teams and collaborative networks.
- Leverage our diverse pools of capital to fund our growth companies.
- Support our entrepreneurs at each stage of their growth trajectory.

5. CEDA - "Australia's Future Workforce"

6. Obtained from ABS data, 'innovation-active businesses' includes businesses that undertook any innovative activity irrespective of whether the innovation was introduced, still in development or abandoned during the reference period.

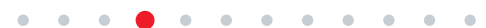
7. Australian Government - Australian Innovation System Report

8. Office of the Chief Scientist - Benchmarking on STEM

9. Global Innovation Index 2017 (Cornell University, WIPO and INSEAD)

10. Global Innovation Index 2017 (Cornell University, WIPO and INSEAD)

11. NAB Special Report - "The Lure of Entrepreneurship – Australia's Start up Culture"



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1.2M

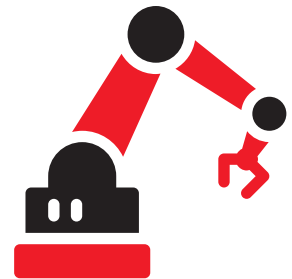
1.2 million new jobs were created by start-ups (businesses in operation 0-2 years) between **2004 to 2011**, representing **90%** of net job creation¹³

Australian “**innovation active**” businesses are twice as likely to export and two-to-three times more likely to report **increased productivity**, employment and training¹⁵



SMEs (defined as businesses of up to 200 people), provide **70% of Australia's private sector** employment¹²

Approximately **5 million** Australian jobs are predicted to be replaced by **digitisation** and **automation** over the next 10-15 years¹⁴



Australia is ranked **23** on the **Global Innovation Index**¹⁶



One in three Australians say they would like to own their own business¹⁷

40 per cent of budding entrepreneurs and **75 per cent** of existing business owners need/needed less than **\$50,000** to get their businesses off the ground¹⁸



12. NAB Special Report - "The Lure of Entrepreneurship – Australia's Start up Culture"
13. Australian Government - Australian Innovation System Report
14. CEDA - "Australia's Future Workforce"
15. Australian Government - Australian Innovation System Report
16. Global Innovation Index 2017 (Cornell University, WIPO and INSEAD)
17. NAB Special Report - "The Lure of Entrepreneurship – Australia's Start up Culture"
18. NAB Special Report - "The Lure of Entrepreneurship – Australia's Start up Culture"

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Action #1: Cement our strong foundations through the education system

While many factors play into how we can further build Australian entrepreneurship, our education system is a foundational building block.

Research by the Office of the Chief Economist found Australian universities were central to developing entrepreneurial cultures in communities, as well as implementing world-class entrepreneurship education initiatives. Our universities are responding by excelling at teaching business fundamentals and disciplines, and offering no less than 584 subjects related to entrepreneurship¹⁹.

Given the evolving nature of business and innovation, the experiential side of the educational process is critical. We are seeing a significant change in the academic approach to entrepreneurship, which acknowledges the broad range of skills, exposure and experiences that together provide the capabilities needed to become an entrepreneur.



Established pathways of success are being disrupted. To continue to adapt and provide education that positions our students for the future, we need to transcend out-dated perceptions and biases of what attributes will lead to success. We need to be less prescriptive and more diverse when we signal entrepreneurial possibility to our pre-tertiary students and not only value strong performance in traditional academic subjects.

“What we really want is to encourage people who are hungry to do things.”

Mr David Thodey, Chairman, CSIRO

“We have totally redesigned our undergraduate curriculum. Our students today need deep disciplinary and cross disciplinary skills and experience, but they also need to develop an innovative, entrepreneurial mindset. Digital literacy is critical, as is global engagement, cultural competency, problem solving and working with business and teams.”

Ms Belinda Hutchinson,
Chancellor, University of Sydney

¹⁹. Swinburne University of Technology and the University of Tasmania - “The Status of Entrepreneurship Education in Australian Universities”.

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Action #2: Challenge the cultural bias and back ourselves as world leaders

Notwithstanding the many entrepreneurial success stories in Australia, there is a need to reflect on some of the cultural nuances that might be holding business back. There can be a tendency to think locally rather than globally, and Australia's relative prosperity and intermediate size may have stymied more ambitious possibilities. With a population of 24.8 million²⁰, 26 years of uninterrupted economic growth²¹ and no immediate threats to security, there can be a tilt to complacency. There is also a tendency to view other markets as having greater entrepreneurial competence and a greater tolerance of failure.

Cultures which are often cited as being strong on innovation and entrepreneurship such as Silicon Valley and Israel have impressive track records of commercialising innovation, are outwardly focused and are aspirational about the global impact their entrepreneurs can have. These cultures also understand that failure is a necessary part of success.



A new national mindset is required, one where Australians see themselves as leading the pack rather than following, which will in turn drive more focus on the commercialisation of ideas. Developing this national confidence will require stronger leadership from the business community, the kind of leadership that can deliver a better national dialogue about our already strong competencies, our impressive achievements and new opportunities in a global context.

“...We have great examples where there has been incredible innovation. We do lead the world. But we do talk to the negative.”

Mr David Thodey, Chairman, CSIRO

“I speak to a lot of banks from around the world about their digital capability and strategies. In many cases Australian banks are world leading; however we often undersell our capability with a misguided view that others are doing it better.”

Mr Jonathan Davey, Executive General Manager of Digital and Innovation, NAB

The NAB Innovation Survey found that Australian businesses did not view Australia very favourably in terms of the culture of innovation, overall viewing it 'moderately' with only 15% of businesses rating the culture of innovation in Australia highly²².

20. <http://www.abs.gov.au/ausstats/abs@.nsf/Web+Pages/Population+Clock?opendocument>

21. <https://www.austrade.gov.au/news/economic-analysis/australia-has-experienced-the-longest-economic-growth-among-major-developed-world>

22. NAB Labs Australian Business Innovation Index 2017.

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Action #3: Encourage cross disciplinary teams and collaborative networks

Universities are considered central to developing an entrepreneurial culture, as well as implementing world class entrepreneurship education initiatives. Continuing to build cross-disciplinary teams, for example where science and commercialisation come together in the same environment, is key.

Within the education sector, there is collaboration through bodies such as the Sydney School of Entrepreneurship that promotes innovation and develops the capabilities of emerging entrepreneurs. The next steps are greater collaboration between government, academia and business; and platforms that encourage the exchange of ideas and debate.

When sectors move out of their silos, skilled people can move across boundaries to share their expertise: public servants can move into business; business people can move into and contribute to academia; academics can speak to the business agenda.

There is also an opportunity for businesses to work together to drive innovation with a common goal. This can be difficult. It demands the courage to engage with risk and a willingness to disrupt.



“The hard part is getting business leaders together who are prepared to stand up and say ‘We’re going to do something that hasn’t been done before.’”

Mr Craig Scroggie, CEO, NEXTDC

“It is about having a mindset that wants to build collaborative partnerships, and then finding those organisations who have the same mindset and who are thinking about a much bigger picture.”

Ms Cathryn Carver, EGM, Corporate & Institutional Bank, NAB

CASE STUDY

Where ecosystems of partners work together toward a common goal, innovation can result. In Victoria, a consortium of energy users got together to procure a clean energy power purchasing agreement. The organisations including NEXTDC, City of Melbourne, Melbourne Zoo, Australia Post, RMIT, Melbourne University and NAB used their collective knowledge and resources to disrupt the traditional model of retail energy delivery and created an outcome which was not possible individually.

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Action #4: Leverage our diverse pools of capital to fund growth companies

There are more ways for entrepreneurs to access capital than ever; from angel investing, to venture capital, to crowd funding, to traditional bank loans, equity and capital markets. However, it is important to access the right form of capital at the right time. Debt is not always the most appropriate form of funding, nor is it necessarily available at an attractive cost, and many businesses rely on equity partners in the early stages.

Technology has become a key enabler, facilitating access to capital sources such as crowd funding as well as other platforms that use artificial intelligence algorithms to lend directly to projects. While larger lenders have traditionally focussed on security-based lending, new products such as NAB's QuickBiz²³ are part of a new 'next generation' of capital sources. Lenders have been required to innovate in the way they lend in order to meet the needs of our innovators.

Growth can still be a slow path for entrepreneurs, even those of a significant size, and it requires passion and commitment to stay the course. Even where capital does exist,



entrepreneurs need help accessing it, and capital providers also need to build specialist skills, including through advanced technology.

“When we started we went to equity partners. Over time, people got behind us and believed in us. Eventually we broke even and became large enough to come to the bank to ask for a large loan. It was a difficult thing to do.”

Mr Craig Scroggie, CEO, NEXTDC

“We are challenging ourselves as to how we shepherd our entrepreneurs in a different way to what we've done before.”

Ms Cathryn Carver, Member of the Corporate & Institutional Banking Leadership Team, Executive General Manager, NAB

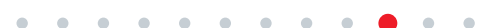
CASE STUDY

INVESTING AND CONNECTING CAPITAL

As the capital and technology landscape has evolved, NAB has evolved its offering to bring the best to its customers, redefining the boundaries of traditional banking services. NAB Ventures is NAB's venture capital arm, supporting entrepreneurs in their quest to build leading technology companies which in turn brings innovation back to NAB's customers.

NAB also plays a role linking our customers to investment opportunities. In 2017, NAB Private entered into an innovative and strategic collaboration with OurCrowd, one of the world's largest global equity crowdfunding platforms. The collaboration provides NAB Private's accredited clients with investment opportunities to early stage technology companies and access to a global network.

²³ NAB launched QuickBiz in June 2016 to assist Australian small businesses to grow and expand by backing the strength of their business without the need for security requirements such as property or cash. Businesses can apply via a fast and simple digital application process, with conditional credit approval granted in minutes.



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Action #5: Support our entrepreneurs at each stage of their growth trajectory

Entrepreneurs can face an uphill battle getting started, and even successful ones can find it hard to prove an idea and get support. Part of the challenge is finding the right people with the right mindset to help.

Creating valuable connections can be done in many ways, such as via mentors, advisors and coaching circles, as well as through physical entrepreneur communities such as co-working spaces and innovation hubs. This will look different for different companies at different stages. There's demand from Australian entrepreneurs for greater connection, with more than one in three aspirational and existing business owners keen to be part of a 'community' of other entrepreneurs²⁴.

Best placed to help entrepreneurs are entrepreneurs themselves. They can impart wisdom, such as the importance of purpose to sustain drive. Equally important is the need to be comfortable with failure, something that may not be naturally present in the Australian culture.



“Entrepreneurs can give back to the start-up entrepreneur community – they have the skills, the experience, the capabilities and the connections.”

Ms Belinda Hutchinson,
Chancellor, University of Sydney

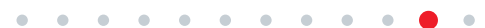
“What a small business that goes into an incubator needs is very different to what a business in the ASX100 needs. But we still need help. At different stages of the journey, you need a different set of coaches who have got skills and experience to help you get to that next level.”

Mr Craig Scroggie, CEO, NEXTDC

Coming soon ...

The Australian Securities Exchange is partnering with a number of organisations, including NAB, to produce an Entrepreneur's Roadmap²⁵ which will aim to connect fast growing enterprises with world class expertise on the issues they face on their journey.

²⁴. NAB Special Report - "The Lure of Entrepreneurship – Australia's Start up Culture"
²⁵. Scheduled release May 2018



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For more information:

At NAB, we believe we have a responsibility to help secure a prosperous and comfortable future for our customers, communities and economy. We want to be as good with people and the whole community as we are with money, so people can secure better lives.

That's why NAB is talking to experts and our customers about how we can work together to solve some of the nation's challenges – whether that's connecting capital with good ideas, helping develop new and innovative forms of financing or acting as advocates for our customers.

We encourage clients to get in contact with the NAB team to find out more:

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