



# Australian Institute of Performance Sciences

SUSTAINED VALUE-CREATION OUT-PERFORMANCE

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Joint Standing Committee on Trade and Investment Growth

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## **re: Inquiry into the trade system and the digital economy**

To the Committee Secretary:

Thank you for the opportunity to submit comments to the Committee's Inquiry into Australia's trade system and the digital economy.

The Australian Institute of Performance Sciences has been formed to drive a major increase in effective innovation performance in the bulk of the mainstream of the Australian economic ecosystem, which is made up of large corporate, government and investor community. This will have a significant pull-through effect to stimulate higher levels of innovation and growth across the rest of the economy.

We are formed as a collaboration around breakthrough Australian research that indicates new strategic action capable of stimulating \$100bn additional annual corporate investment focused on innovation, productivity and export growth. This alternative action is set to be achieved without corporate welfare, blank-cheque incentive programs, or regulatory change – and can operate in addition-to, not as a choice-between, other actions.

### **Overview**

In a connected world Australia needs to lift its digital, cyber resilience and regulatory performance above current levels to be able to adapt to changing conditions and compete successfully.

- Insufficient management of technology risk and cyber resilience across Australia's trade focused business sector is best addressed systemically through enhanced, fit-for-purpose governance practice.
- Solutions cannot be effectively achieved using isolated approaches, as, whilst they are important, organisations see these issues as merely one characteristic within highly complex ecosystems. These issues will be most effectively engaged as part of an integrated governance model that at-the-same-time enhances effective leadership and high-performance achievement of interrelated future outcomes.
- Breakthrough Australian research has identified such a model linked with sustained high-performance value-creation in large-scale Australian organisations. The AIPS has been created to facilitate ongoing collaborative development, dissemination and application of this Governance of Value Creation model.

The AIPS provides Australian economic and government leaders both a forum and a mechanism by which they can effectively collaborate to enhance economy-wide outcomes.

The AIPS provides a coherent engaged program focused on building Australia's capacity for sustained high-quality, increased-paced economic and public value-creation. Within this program Australia's leading organisations can collaborate on a range of issues including, but not limited to responsive regulation, adaptive trade institutions, cyber resilience, and effective governance of technology. Within this collaboration agreed solutions can be built into the Governance of Value Creation model for industry standardisation, dissemination and adoption.

Enhancing the quality and pace of economic performance to compete successfully in the global economy is the only thing that will maintain the high standards of living that the Australian populace expects to enjoy into the future.

We are delighted to be able to inform the Committee of new knowledge and new perspectives arising from breakthrough Australian research. And also, to recommend how this knowledge provides new pathways for action to enhance Australia's future economic wellbeing, and to address the inquiry of the Joint Standing Committee on Trade and Investment Growth looking at:

*The responsiveness of Australia's trade architecture and regulatory system to the contemporary needs of the digital economy and disruptive technology; and*

*Measures to improve the cyber resilience of Australia's trade-focused business sector.*

We recommend that the Commonwealth Government engage in its role as a community and economic leader to support the actionable thought leadership recommended here for the benefit of the social and economic futures of Australia.

The AIPS in this submission presents both a new perspective and specific new pathways for action.

### **Summary of Key AIPS Recommendations** (see full list on page 6)

- REC 1.** It is recommended that Government take exemplar action as a Foundation Participant supporting the formation of the cross-industry Australian Institute of Performance Sciences collaboration in line with its scale as a major participant within the Australian economy.
- REC 2.** It is recommended that Government commission the development of a report "Opportunities for Sustained High Performance Value Creation in the Public and Community Sectors: effectiveness, innovation, stewardship and leadership for a new era".
- REC 3.** It is recommended that Government commission the development of a report "Opportunities for Sustained High Performance Value Creation in Commercial and Investment Markets: enhancing Australia's future economic success".
- REC 4.** It is recommended that government support the creation of an independent apolitical standing forum for collaborative early stage development of a) options for agile regulatory responses and b) innovation in Public and Community sectors and systems.

## Terms of Reference 1:

*TOR 1. The responsiveness of Australia's trade architecture and regulatory system to the contemporary needs of the digital economy and disruptive technology; and*

### AIPS COMMENTARY TO TOR1:

- We are moving inexorably towards a world of universal online commerce, internet design libraries, digital printing and digital manufacture. In this future, even the most simple retail businesses will be indistinguishable from globally trading knowledge-economy service organisations.
- To survive Australian business will need to differentiate through knowledge, convenience, personal engagement, customisation and other forms of innovative services value-add.

*“New is not risk. Risk is thinking things will remain as they are. We need to re-imagine value when the product you sell, and the product you make, has zero value. Where is your value in data? Where is your value in virtual?”* DANNY DAVIS, “VALUE IN VIRTUAL”, KEYNOTE SPEECH TO AUSTRALIAN MANUFACTURING CONFERENCE., 2015

- To remain viable, Australian business will need to provide digitally-connected innovative services that compete successfully with global online competition. These businesses, and their global counterparts accessing local markets, will challenge and stretch Australia’s existing suite of regulations and regulators.
- Australian regulation is going to need to be increasingly agile within a global online business environment.

*“Further major innovation-driven change is coming in financial services. Joint, concerted action is needed to enable the system to reap the benefits of innovation. Managing systemic risks introduced by this wave of innovation poses challenges.”* BALANCING FINANCIAL STABILITY, INNOVATION, AND ECONOMIC GROWTH, WORLD ECONOMIC FORUM, 2017

- Regulation will need to strike a balance, ensuring Australian business have a level playing field with internationally based competition, and ensuring Australian consumers are given appropriate protections.
- The speed, and complexity of technology enabled change will make the formulation of effective regulation more challenging. The breadth of trade, in number of businesses involved, the types of service being delivered, and the number of international trading partners will make the job move complex still. The digital economy will challenge the capacity of existing regulatory development practices.

**CONCLUSION 1: The necessary nimbleness of regulation, and of business’ compliance to regulated and non-regulated challenges will only be achieved through integrated governance frameworks. Achieving this will require economy-wide, non-siloed collaboration between Government, businesses and their collective customers.**

**An enhanced capacity for responsive Australian regulation developed and matured in collaboration with industry and community will have a significant influence on the performance of the Australian SME sector, the services sector and the knowledge economy.**

## Terms of Reference 2:

TOR 2. *Measures to improve the cyber resilience of Australia's trade-focused business sector.*

### AIPS COMMENTARY TO TOR2:

- Australia's largest organisations are failing to keep pace with increasing technology and cyber resilience threats. State actors, in addition to criminal networks, are posing increasingly significant, sophisticated and potentially wide reaching cyber threat. At the same time organisations' reliance on technology infrastructure is undergoing a step-change increase in complexity and high-speed continuous change.
- Insufficient IT Management and IT Governance practices are resulting in managers and executives having inappropriate visibility of risk exposure, resulting in failures to adequately engage mitigation of vulnerabilities.
- Existing Corporate Governance practices, as they are currently applied, provide directors with insufficient visibility of technology and cyber resilience exposures despite an emerging awareness of organisational risk and potential liabilities. Leaders are unable to act effectively in the absence of appropriate insight.
- **The practices and governance-oversight of technology risk, including cyber security risk, in Australia are insufficient to the scope of technology's application in business, the scale of the risk and the severity of the consequence.**

*"The Commonwealth Bank has blamed a coding error in its intelligent ATMs for 53,700 alleged breaches of money laundering and terrorism financing laws."* IT NEWS, 2017.

- **Research indicates that only a comprehensive governance model approach can enable leaders to engage appropriately with the complexity and volatility of this issue in large scale Australian organisation.**

### **CONCLUSION 2: Australia's capacity to engage technology risk and cyber resilience is best achieved through the economy-wide adoption of enhanced, fit-for-purpose, comprehensively applied Governance practices.**

- Regulated compliance regimes for technology risk and cyber resilience are an impractical approach. The domain is too complex, too fast moving to define in practical enforceable terms, and too wide-spread to police. Government would be well advised to develop an approach that activates market mechanisms wherever possible taking a regulatory approach only a) in support of market mechanisms, or b) where gaps cannot be addressed by other mechanisms.
- Self-interest and market forces are the most effective motivators, delivering greater sustained impact, and at lower cost, as compared to regulatory compliance or incentives based approaches.
- Technology risk and cyber security are increasingly an inherent part of every corporate decision. Separate streams of governance creates silo-barriers that are counterproductive to effective operation. Research has identified this finding applies to a wide range of issues in the 'modern corporation' and has identified that a 'fully integrated governance' mechanism is fundamental to viable application for high-performance outcomes.

Attempts to run an independent stream of governance over cyber issues runs counter to effective corporate governance outcomes.

- Breakthrough Australian research has identified Governance of Value Creation as an integrated multi-disciplinary governance model for sustained value creation in large scale organisations. It demonstrates the mechanisms and approaches by which large, mature-stage, Australian-cultured organisations can achieve sustained high-performance value-creation.
- Governance of Value Creation demonstrates an integrated multi-disciplinary approach that can give management, executive and boards appropriate oversight and control of technology risk and cyber resilience issues alongside, and in appropriate balance with other considerations.

**CONCLUSION 3: Uptake of appropriate Governance practices to engage technology risk and cyber resilience is best achieved through promotion of an effective integrated model that at-the-same-time enhances effective leadership and high-performance achievement of a wide range of interrelated future outcomes.**

- **Research reports that a model to assess the suitability of existing governance practice, or to guide the implementation of more appropriate governance practices is not yet available to most Australian leaders.**
- The Australian Institute of Performance Sciences recommends Governance of Value Creation as a coherent integrated practice appropriate to achieve highly effective performance in Volatile, Uncertain, Complex and Ambiguous (VUCA) contexts.
- In this approach, cybersecurity and other technology risks are dealt with alongside of, as part of, and fundamentally inseparable from the management and governance of the daily activities of the organisation. Governance of Value Creation is a practice for integrated quality assurance and accounting-for the ongoing planning, development and achievement of future outcomes.
- The AIPS recommends that cyber resilience for Australia's trade-focused business sector is most effectively achieved as an inseparable integral facet of urgent activity to develop Australia's overall digital economy capacity.
- It is recommended that Government's collaborative participation is best framed for both its role as a participant in the economy working alongside its peers, and for its role in stewardship of Australia's communal outcomes.

**CONCLUSION 4: Development and adoption of appropriate governance practices is best achieved through cross-industry collaboration involving industry, investor and government participants.**

**The AIPS is borne from, and is resourcing to continue to curate integrated collaboration, across a wide range of specialist technical and professional disciplines implicated in the expert achievement of digital and cyber governance outcomes.**

### **Recommended Actions for Government and Parliament:**

**REC 1.** It is recommended that government assists in the creation of a cross-industry forum for the ongoing collaborative development, dissemination and application of Governance of Value Creation practices.

To achieve this, it is recommended that Government take exemplar action as a Foundation Participant in the cross-industry AIPS collaboration in line with its scale as a major participant within the Australian economy.

**REC 2.** It is recommended that both the executive and administrative arms of Government consider and engage the benefits available to them, and to the effectiveness of Public and Community Sector outcomes, from adoption of Governance of Value Creation approaches.

To achieve this, it is recommended that government commission a report “Opportunities for Sustained High Performance Value Creation in the Public and Community Sectors: effectiveness, innovation, stewardship and leadership for a new era”.

**REC 3.** It is recommended that Government uses its leadership capital alongside its exemplar behaviour to encourage maximum cross-economic participation in the AIPS initiative.

To achieve this, it is recommended that government commission the development of a report “Opportunities for Sustained High Performance Value Creation in Commercial and Investment Markets: enhancing Australia’s future economic success” to develop a range of previously uncanvassed options made possible through the new perspective of Australian research.

**REC 4.** It is recommended that government support the creation of an independent apolitical standing forum able to bring government, community and commercial sectors together for agile and collaborative development of early stage:

- options for potential regulatory responses to emerging technology disrupted business trends, and
- options for innovation (bridging the ‘ideas valley-of-death’) in Public and Community sectors and systems.

### **Further General Recommendations:**

**REC 5.** Organisations identified as responsible for critical infrastructure could, where necessary, attract additional reporting requirements as part of explicit or implicit licence to operate. Governance of Value Creation has an open extensible design that would readily accommodate any such additional requirements.

## Breakthrough Australian Research.

New knowledge arises from breakthrough Australian Doctoral research that has demonstrated the causal hallmarks of sustained high-performance value creation in large-scale organisations, systems and networks. This research engaged directors at nine of the ASX10 (seven at Chair), amongst 60 corporate, large-scale investor, government and academic leaders.

## The Australian Institute of Performance Sciences.

The Australian Institute of Performance Sciences (“AIPS”) is a collaborative vehicle to bring this new knowledge to broad economic impact. The Institute’s development has engaged this same research cohort, along with their peers at relevant Agencies (RBA, PC, ASIC, APRA, ISA et al), Federal and State Departments and additional corporate and investment leaders.

**The AIPS expects to stimulate \$100bn in additional annual corporate investment focused on innovation, productivity and export growth. It requires no corporate welfare, no blank-cheque programs, no new policy, and no legislative change.** New knowledge and collaborative action will influence economy-wide highly-effective value creation.

As such, the Australian Institute of Performance Sciences presents as an alternative approach to economic development, enterprise productivity, public sector reform and the competitive transformation of the Australian economy.

## The AIPS Approach to Achieve Impact

Building towards Australia’s optimised future-value performance, the AIPS can be thought of somewhere between the collaborative development of Accounting Standards and the Australian Institute of Sport; it facilitates the ongoing collaborative development of leading-edge practices... and delivers coaching for high-performance use by elite practitioners.

Applied knowledge empowers existing leaders to achieve more effective innovation investment outcomes.

There is precedent for the sustainable, impactful, influencing economic role that the AIPS seeks to achieve in standardised treatment of future prospects. This can be seen in the success of the industry based Joint Ore Resources Council (JORC) in their ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’, and its long-standing collaborative relationship with ASIC and the ASX.

The AIPS aims to deliver major increases in effective innovation performance in the top-500, equivalent to 65% of GDP, made up of large corporates, government jurisdictions and large-scale investors. It is a for-industry-by-industry organisation, to be funded by industry subscription commensurate with scale, across the top 500 participants in the Australian economy.

The AIPS is independent, not-for-profit, led by an independent expert board. It is not a lobbyist for special interests. It promotes enhanced collaborative innovation practice for evidence based decision-making across all sectors of the economy.

## Assistance to Full Operation of the Institute

**We recommend the “BREAKING THE DEADLOCK program” to the Committee.** This series of five specialist roundtables to be held at Parliament; ‘Enhancing Investor Performance’, ‘Enhancing Corporate Performance’, ‘Enhancing Economic Performance’, ‘Enhancing Public Performance’, and ‘Evidence Based Performance’, builds towards a cross-sector launch conference to be held at Parliament House, later in the year.

Leadership endorsement of the value of the proposed outcomes, and the value of participation in collaborative action, is vital to the success of this program. With no-one in corporate or public Australia currently accountable for increasing value-creation effectiveness, there is still the risk that this could be dismissed as “someone else’s problem” without adequate leadership focus.

**We call on the Committee to exercise its influencing leadership capacity to assist this unique, cross-industry, cross-sector, collaborative action come to fruition.** Specifically, we request assistance in bringing the various arms of executive and administrative government together in an appropriate form to subscribe to, and participate in, this broad collaboration.

The Committee’s broader leadership in support of the Institute and development of an appropriate ongoing collaborative relationship would also be most welcome.

## Further Reading

We recommend further reading on this topic through the Institute’s white-paper series:

- Australian Prosperity (Jobs and Wage Growth)
- Sustained Value Creation (Organisational Performance)
- Enhanced Stewardship (Public and Social Performance)
- The Executive Epidemic (Unsustainable Overload)
- Active Value (Superannuation Performance)

and the material outlining the operation of the BREAKING THE DEADLOCK program building to the full operational launch of the Institute.

We are happy to make further presentations to the Committee, its members, and such other executive and administrative government forums as may be appropriate.