



SUBMISSION

Submission to the Department of  
Prime Minister and Cabinet on the  
Indigenous Business Sector  
Strategy Consultation Paper

JUNE 2017

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The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

## About this submission

This Business Council submission responds to the Department of Prime Minister and Cabinet's Indigenous Business Sector Strategy Consultation Paper.

The Business Council facilitates the contribution of more than 100 of Australia's most successful business leaders to the development of public policy supporting long-term economic growth for the benefit of all Australians. Our members believe Indigenous social and economic inclusion is critical to national prosperity and that a thriving, growing Indigenous business sector is good for our communities, economy and our future.

As the Consultation Paper notes, the Indigenous business sector has grown rapidly in the last decade, spurred by increasing demand from the private and public sectors. This presents challenges and opportunities that require a coordinated and careful response.

This submission identifies ways in which the proposed strategy can support the sustainable growth of the Indigenous business sector.

## Key recommendations

To support the sustainable growth of the Indigenous business sector the Business Council recommends the Indigenous Business Sector Strategy (IBSS) include actions to:

1. Establish a permanent cross-sector working group dedicated to overseeing the implementation of the Indigenous Business Sector Strategy.
2. Develop an annual Indigenous business and procurement summit attached to Supply Nation's Connect conference and tradeshow.
3. Broaden Supply Nation's certification and quality assurance practices to extend to 50:50 joint ventures and other forms of partnership between Indigenous and non-Indigenous enterprises.
4. As part of the IBSS, the Commonwealth Government investigate options for improving the collection of data to better measure the activity of Indigenous businesses, including total expenditure, numbers of contracts awarded, numbers of Indigenous businesses and their industry composition.
5. Promote adoption of the Business Council's *Australian Supplier Payment Code* so that more Indigenous businesses can receive prompt and on time payment.

## Business and Indigenous procurement

The Business Council has a keen interest in the health and sustainability of the Indigenous business sector, with a majority of our member companies involved in Indigenous procurement activity.

Along with Indigenous employment, supplier diversity has become the most significant area in which the corporate sector can impact Indigenous economic participation.

The Business Council has been tracking Indigenous procurement among member companies since 2009. The data shows growth over the last 8 years in the number of Business Council members engaging Indigenous businesses, the value of contracts awarded and the number of Business Council companies that are members of Supply Nation.

In 2016, our Indigenous engagement survey of member companies found:

- Between 2015 and 2016 \$355,776,619 was spent with Indigenous enterprises and joint ventures.
- 72 percent of companies used Indigenous businesses in their supply chains.
- 67 per cent of companies reported an increasing spend in the last 12 months.
- 65 per cent of companies reported increasing the number of Indigenous businesses they were working with.
- 71 per cent of companies reported encouraging their non-Indigenous contractors to procure from Indigenous businesses.
- 55 companies were members of Supply Nation.

In order to support improved supplier diversity practice and impact, in 2014 the Business Council signed a Memorandum of Understanding with Supply Nation. In 2017 the focus of our work with members and Supply Nation is helping to strengthen the ability of our members to set and measure Indigenous procurement targets.

While this submission emphasises and supports the ongoing role of Supply Nation, it must be noted that many Indigenous businesses are not registered with Supply Nation, and not all Business Council members who procure from Indigenous businesses are Supply Nation members.

This means that the government, in the development and implantation of the Strategy, needs to include and account for all active participants in this sector.

### **Why is an Indigenous Business Sector Strategy needed?**

The increase in demand for Indigenous businesses and the nascent state of the Indigenous business sector means a concerted strategy is required to ensure the sector grows sustainably.

Business Council members report that there are several challenges facing their supplier diversity approaches. The top challenges reported<sup>1</sup> are:

- not enough Indigenous businesses in the areas companies are wanting to procure from
- lack of capacity among existing Indigenous businesses to support the needs of large businesses
- lack of internal procurement capacity, including having the right systems and processes to support a robust Indigenous procurement strategy.

These barriers indicate that, to be effective, the IBSS needs to address both the capacity of the Indigenous business sector (supply) and the capabilities required in procuring organisations (demand).

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<sup>1</sup> Top barriers cited in the Business Council of Australia's 2014 and 2016 Indigenous Engagement Surveys

A thriving Indigenous business sector should drive stronger economic outcomes including in employment. This must still be complemented by more effective deployment of policies to lift employment outcomes – with opportunities to improve the operation of government programs such as the Employment Parity Initiative and the Community Development Programme.

## Cross sector collaboration

The consultation paper calls for greater cross-sector collaboration and co-design in supporting the growth of the Indigenous business sector, including:

- building better connectivity between active stakeholders in the sector
- holding an annual Indigenous business summit, potentially in line with Supply Nation's Connect conference.

The Business Council supports the concept of greater collaboration among active stakeholders in the Indigenous business and supplier diversity sector.

In order to ensure this collaboration is coordinated and effective, we recommend that it is formalised as a working group which, among other tasks, oversees the implementation of the IBSS.

**Recommendation 1:** Establish a permanent cross-sector working group dedicated to overseeing the implementation of the Indigenous Business Sector Strategy.

This group would bring together representatives from state and federal government, Indigenous Business Australia, the Business Council of Australia, Supply Nation, state and regional Indigenous chambers of commerce, Land Councils and Indigenous entrepreneurs.

The group should include existing and new contributors who can play a long term role in growing the sector.

The purpose of the group would be to:

- share, collate and analyse data and information about supplier diversity activity
- provide advice on market opportunities
- provide advice on strengthening demand and procurement capability
- investigate incentives to drive demand
- investigate the commercial potential of Indigenous corporations and not-for-profits
- monitor the performance of the proposed Indigenous business hubs and project hubs
- collect and promote examples of best practice.

The group would be supported by the Department of Prime Minister and Cabinet.

To ensure the wider network of stakeholders can feed into and engage with the work of the working group and the overall progress of the sector and the IBSS, the Business Council supports the consultation paper's proposal of having an annual summit.

To ensure the focus is on Indigenous procurement practice and strategy as well as the Indigenous business sector, the Business Council recommends this summit be an Indigenous business and procurement summit.

To reduce duplication and overlap, this summit should be aligned with the annual Supply Nation Connect conference and tradeshow.

**Recommendation 2:** Develop an annual Indigenous business and procurement summit attached to Supply Nation's Connect conference and tradeshow.

## Quality assurance and certification

### *Joint venturing*

The rapid growth of the Indigenous sector has seen an increase in part-Indigenous joint ventures. Joint venturing is an important way for the sector to meet the increase in demand and for Indigenous businesses to access important resources, networks and capability.

Because joint ventures invariably involve a non-Indigenous business partner, it's important that the requisite due diligence is conducted by a certifying authority to ensure the Indigenous partner is actively involved in the management of the business.

Currently, Supply Nation offer a registration classification for joint ventures or 50 per cent Indigenous owned businesses, however this process does not include the same rigour as the certification process.

To safeguard the reputation of the sector, joint ventures need to be scrutinised with rigour, applying the same checklist as certified organisations, to assure potential customers they are legitimate. To this end, the Business Council recommends Supply Nation is properly resourced and authorised to certify 50:50 joint ventures between indigenous and non-indigenous partners.

**Recommendation 3:** Broaden Supply Nation's certification and quality assurance practices to extend to 50:50 joint ventures and other forms of partnership between Indigenous and non-Indigenous partners.

The IBSS should also look at how it supports and encourages a spectrum of joint venture and mentor-protégé arrangements to encourage the growth of Indigenous businesses and incentivise non-Indigenous businesses to partner with them.

In some regions there are insufficient Indigenous businesses of the requisite scale to take on large contracts, or they can't afford to take on the insurance policies required to qualify to bid. In these cases mentor-protégé models can be established, where a non-Indigenous business takes on the risk and initially has a greater ownership stake (e.g. 65:35) with a plan to build capability and reduce the stake over time.

There needs to be a sophisticated certification system able to recognise a variety of joint-venture types.

### ***Activating the commercial potential of Indigenous corporations and not-for-profits***

In order to build supply, particularly in regional and remote areas, the strategy should have a focus on how Indigenous organisations, particularly land and asset-holding organisations like land councils, can better support business development and access business opportunities like infrastructure contracts.

This component of the sector has significant potential. Indigenous land title is held over at least 30 per cent of the Australian continent. Estimates vary, but there is understood to be over \$1 billion in current investible native title funds, and projections estimate the total value of the market, by 2020 as somewhere between \$2.7 billion and \$4.9 billion.

The Business Council suggests this matter be within the remit of the IBSS cross-sector working group and also be a stated focus of the proposed Indigenous Business and Project Hubs.

### **Data and information sharing**

The collection and effective use of data is critical to the sustainable growth of the Indigenous business sector and realistic goal-setting for its future.

Currently, there is no clear and reliable information on total expenditure, numbers of contracts awarded, numbers of Indigenous businesses and their industry composition.

The Business Council captures the annual spend and other supplier diversity data of its members through the Indigenous Engagement survey, however it should be noted that the majority of member companies do not yet capture and report their Indigenous spend. The recorded \$355 million spend of Business Council members in 2016 is derived from 39 companies. While it is useful as indicative data, it does not provide the full picture. The Business Council is committed to improving the coverage across our members over time.

Similarly, Supply Nation records the spending of its members, however not all members reliably report and not all organisations procuring from Indigenous businesses are Supply Nation members.

The reporting and capture of spending in the Commonwealth government has improved since the introduction of the Indigenous Procurement Policy (IPP), and as state governments implement target policies (like Victoria's 1 per cent procurement target) their reporting is set to improve also.

We recommend that, as part of the IBSS, the Commonwealth Government investigate options for improving the collection of data to better measure the activity of Indigenous businesses, including total expenditure, numbers of contracts awarded, numbers of Indigenous businesses and their industry composition. This would require active Indigenous businesses to report annually on turnover, numbers of contracts, employee numbers and other indicators as decided. Indigenous Business Australia could be tasked with this role, working with Supply Nation, state and territory Indigenous chambers of commerce and state and commonwealth governments to gather the requisite data.

The public output of this activity could be an annual Indigenous business sector report that would be the key instrument for measuring the progress of the sector and the effectiveness of the IBSS.

Other active stakeholders like the Business Council could share their data to provide supplementary information for the report.

**Recommendation 4:** As part of the IBSS, the Commonwealth Government investigate options for improving the collection of data to better measure the activity of Indigenous businesses, including total expenditure, numbers of contracts awarded, numbers of Indigenous businesses and their industry composition.

### ***Targets or goals for the sector***

The consultation paper asks whether there should be targets applied to the strategy, including “doubling the number of Indigenous businesses by 2027” (p22).

The aim of the strategy should be a focus on ensuring the sector’s sustainability and quality, and getting the right infrastructure in place to more comprehensively collect data and measure the sector’s activity. For example, there is no current clear number of Indigenous businesses (estimates are between 8,000 – 16,000, based on Census data of self-employed people identifying as Aboriginal and/or Torres Strait Islander).

We therefore caution against the adoption of quantity targets at this stage. A measure of the sector’s health and community impact could be better generated through the recommended annual Indigenous business sector report. This could measure the change in activity levels over time for metrics such as:

- profits and turnover
- number, size and source of contracts
- overall number of employees
- proportion and number of Indigenous employees.

Another measure could be the number of business still operating in 1, 3, 5 and 10 years.

### **Two-way capability building**

The draft IBSS proposes a suite of programs to support the capability of ‘supply’ (Indigenous businesses) without directly addressing the importance of the need to strengthen the capability of ‘demand’ (governments, service delivery organisations, business).

In terms of building Indigenous business capability, the proposals laid out in the IBSS are sound. The Business Council supports the proposed measures aimed at supporting Indigenous business development including access to capital, advice and support, and welcomes the renewed focus on Indigenous Business Australia playing this role.

The capability of ‘demand’ organisations is critical to the success of the Indigenous business sector. For Business Council members, the key challenge is to enhance the ability of those tasked with procurement responsibilities to adapt to new ways of working, including understanding how to bring Indigenous businesses into the supply chain and how to apply Indigenous procurement targets.



### ***Building demand***

Demand creates opportunities and drives entrepreneurship, procurement targets alone won't drive sufficient demand. This means many procurement teams in both the private and public sectors will need assistance in understanding how to connect with the emerging Indigenous business market.

An example of how the private sector has built demand capability is through investing in specialist positions to drive Indigenous procurement activity. Many Business Council companies now have Indigenous procurement experts working across the businesses to identify opportunities, provide advice and create linkages with Indigenous businesses.

Through the IBSS the government could consider creating specialist roles in leading departments to identify opportunities and link them with Indigenous businesses, acting as catalysers to build relationships between non-Indigenous and Indigenous businesses.

### ***Sharing and promoting effective Indigenous procurement practice***

The Business Council's Business Indigenous Network offers a forum for businesses to share and learn effective practice. Similarly, Supply Nation's member training and annual knowledge forum and trade show provide spaces for procurement staff to engage with and better understand the 'how to' of Indigenous businesses and supplier diversity.

In late 2017 the Business Council (in partnership with Supply Nation) plans to commence a series of capability building workshops for member companies opting to set an Indigenous procurement target. These workshops will bring in local and international supplier diversity experts to help build skill in areas required for procurement teams setting and implementing Indigenous procurement targets.

Given the intensification of the Commonwealth's Indigenous procurement activity brought on by the IPP, it would be beneficial to have more opportunities for business and government to share effective practice lessons.

The recommended **cross-sector working group** and **annual Indigenous business and procurement summit** would help to formalise better cross-sector sharing and promoting of effective practice.

### ***The importance of prompt payment in Indigenous business capability***

One important issue not addressed by the draft IBSS but nonetheless critical to the operation and growth of Indigenous businesses is prompt payment of invoices. Small Indigenous businesses are particularly vulnerable to late or delayed payment and cashflow can be more critical to their survival than access to capital.

For this reason, the Business Council recommends that organisations with a focus on supplier diversity – including governments – become signatories to the Business Council's new *Australian Supplier Payment Code*. The Code is a voluntary, industry-led initiative that enshrines the importance of prompt and on-time payment for small business suppliers through compliance with a set of best-practice standards. For example, signatories commit to pay all small business suppliers within 30 days of receipt of a correct invoice.

More information about the code is available at <http://www.bca.com.au/policy-agenda/australian-supplier-payment-code>

**Recommendation 5:** Promote adoption of the Business Council's Australian Supplier Payment Code so that more Indigenous businesses can receive prompt and on time payment.

The Code commits signatory companies to pay eligible Australian small business suppliers on-time and within 30 days of receiving a correct invoice, and to help suppliers implement new technologies and practices to speed up invoicing. In some cases this will more than halve payment times and help improve the viability and vitality of small business and enhance the ability of business to create jobs.

Any business or government entity can sign up to the code at any time.

The code is not just about paying small business bills within 30 days of receiving a correct invoice. It also obliges big businesses to give a helping hand to smaller ones to implement new technologies and practices to improve their systems to have more efficient and faster invoicing and payment. The code also requires companies to pay on time and includes a clear and fair process for dealing with complaints and disputes about payment times.

Promoting widespread adoption of this code, along with other supporting measures outlined in the IBSS will assist Indigenous businesses to take better advantage of new opportunities as they arise.

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